

**NATIONAL BANK
OF THE REPUBLIC OF
KAZAKHSTAN**

**CONSOLIDATED FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2016**

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NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank of the Republic of Kazakhstan (the “NBK”) and its subsidiaries (the NBK and its subsidiaries together – the “National Bank”) as at 31 December 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Basis of Preparation described in the Note 2 to the consolidated financial statements (the “Basis of Preparation”).

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- following requirements of the Basis of Preparation; and
- preparing the consolidated financial statements on a going concern basis.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the National Bank;
- maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the National Bank and which enable them to ensure that the consolidated financial statements of the Bank comply with the requirements of the Basis of Preparation;
- maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the National Bank; and
- preventing and detecting fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2016 were authorised for issuance by the National Bank's Management Board on 15 March 2017.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

15 March 2017
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

15 March 2017
Almaty, Kazakhstan



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Independent Auditors' Report

To the Management Board of the National Bank of the Republic of Kazakhstan

Qualified Opinion

We have audited the consolidated financial statements of the National Bank of the Republic of Kazakhstan and its subsidiaries (the "National Bank"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, 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, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the National Bank as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Basis of Preparation described in Note 2 to the consolidated financial statements (the "Basis of Preparation").

Basis for Qualified Opinion

The National Bank has measured unquoted equity securities stated at KZT 750,000,000 thousand as at 31 December 2016 and 31 December 2015 at cost on the basis that it was unable to obtain a reliable measure of their fair value. A reliable measure of fair value could have been obtained, and therefore such investments should have been stated at fair value in accordance with the Basis of Preparation. The effects of this departure from the Basis of Preparation on available-for-sale financial assets, total comprehensive income, retained earnings and revaluation reserve for available-for-sale financial assets, which would have resulted from using fair values, as at and for the year ended 31 December 2015 and on the current year's figures have not been determined.

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the National Bank 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 qualified 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. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік; Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Valuation of financial instruments (securities with no active market)	
Please refer to the Note 21 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The fair value of financial instruments is determined through the application of valuation techniques which often involve the exercise of judgement by the management and the use of assumptions and estimates.</p> <p>Due to inherent estimation uncertainty and the significance of financial instruments, this is considered a key audit risk.</p> <p>We focused on the valuation of financial instruments included in Level 2 of the valuation hierarchy comprising available-for-sale financial assets.</p>	<p>We assessed the appropriateness of the models and inputs used in the valuation techniques applied by management. We compared observable inputs against independent sources and externally available market data.</p> <p>For a sample of instruments consisting of the items with the most significant fair values, we critically assessed the assumptions used or reperformed a fair value valuation, by reference to what we considered to be available alternative methods and sensitivities to key factors.</p> <p>Additionally, we assessed whether the financial statement disclosures appropriately reflect the National Bank's exposure to market risk.</p>

Other Information

Management is responsible for the other information. The other information comprises the Annual report of the National bank to the President of the Republic of Kazakhstan for the year 2016 (the "Annual report"). 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 the Basis of Preparation, 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 National Bank'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 National Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the National Bank'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 National Bank'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 National Bank'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 National Bank 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the National Bank 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 Irmatov
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. MΦ-0000053 dated 6 January 2012

KPMG Audit LLC

State License to conduct audit No.0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan



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

15 March 2017

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR
ENDED 31 DECEMBER 2016

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	Note	2016 KZT'000	2015 KZT'000
Interest income	4	148,533,396	147,805,914
Interest expense	4	(275,512,973)	(15,699,507)
Net interest (expense) income		(126,979,577)	132,106,407
Fee and commission income	5	17,511,976	31,146,370
Fee and commission expense	6	(2,337,162)	(881,062)
Net fee and commission income		15,174,814	30,265,308
Net gain (loss) on financial instruments at fair value through profit or loss	7	29,998,604	(24,226,098)
Net gain on available-for-sale financial assets	8	3,490,361	5,147,677
Share of gain of associates		1,223	2,532
Other operating income (expenses), net	9	8,325,125	(152,445,975)
Operating loss		(69,989,450)	(9,150,149)
Reversal of (charge for) impairment losses	10	2,897,682	(6,746,770)
Banknotes and coins production expenses	11	(4,502,150)	(8,494,765)
Funding of third parties	12	(194,150)	(190,327)
Personnel expenses	13	(24,298,232)	(22,955,052)
Depreciation and amortisation		(3,322,682)	(3,779,843)
Other general and administrative expenses	14	(19,395,201)	(7,035,756)
Loss before income tax		(118,804,183)	(58,352,662)
Income tax (expense) benefit	15	(5,451,445)	9,793,268
Loss for the year		(124,255,628)	(48,559,394)
Loss attributable to:			
- Equity holders of the National Bank		(124,687,371)	(49,108,126)
- Non-controlling interest		431,743	548,732
Loss for the year		(124,255,628)	(48,559,394)

**On behalf of the Management Board of the National Bank of the Republic of
Kazakhstan:**

Akishev D.T.
Governor

15 March 2017
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

15 March 2017
Almaty, Kazakhstan

The notes on pages 20-125 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR
THE YEAR ENDED 31 DECEMBER 2016

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	2016 KZT'000	2015 KZT'000
Loss for the year	(124,255,628)	(48,559,394)
Other comprehensive income, 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	(39,722,793)	(45,223,583)
- Net change in fair value transferred to profit or loss	2,397,662	(2,037,233)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<u>(37,325,131)</u>	<u>(47,260,816)</u>
<i>Items that will not be reclassified to profit or loss:</i>		
Net (loss) gain on foreign currency revaluation	(100,989,057)	362,204,278
Net gain on precious metals revaluation	132,365,318	976,047,771
Revaluation of property, plant and equipment	1,136,514	6,689,480
<i>Total items that will not be reclassified to profit or loss</i>	<u>32,512,775</u>	<u>1,344,941,529</u>
Other comprehensive (loss) income for the year, net of income tax	(4,812,356)	1,297,680,713
Total comprehensive (loss) income for the year	<u>(129,067,984)</u>	<u>1,249,121,319</u>
Total comprehensive (loss) income attributable to:		
- Equity holders of the National Bank	(129,499,590)	1,248,553,278
- Non-controlling interest	431,606	568,041
Total comprehensive (loss) income for the year	<u>(129,067,984)</u>	<u>1,249,121,319</u>

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

15 March 2017
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

15 March 2017
Almaty, Kazakhstan

The notes on pages 20-125 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

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	Note	2016 KZT'000	2015 KZT'000
ASSETS			
Cash on hand in foreign currency	16	133,165,880	211,082,236
Gold	17	3,205,211,023	2,576,195,433
Placements with banks and other financial institutions	18	4,085,779,352	5,331,626,307
Financial instruments at fair value through profit or loss	19	856,098,778	811,866,055
Reverse repurchase agreements	20	399,178,190	101,851,332
Available-for-sale financial assets	21	4,456,823,099	3,995,190,373
Held-to-maturity investments	22	98,977,873	98,113,672
Investments in associates		302,710	301,487
Property, equipment and intangible assets	23	55,266,393	61,573,716
Current tax asset		3,320,437	1,154,864
Deferred tax assets	15	30,278,026	31,412,330
Other assets	24	15,951,886	16,110,369
Total assets		13,340,353,647	13,236,478,174
LIABILITIES			
Currency in circulation	25	2,050,536,444	1,495,353,817
Deposits and balances from banks and other financial institutions	26	4,426,155,970	5,928,265,855
Financial instruments at fair value through profit or loss	19	2,453,250	2,326,043
Repurchase agreements	27	35,074,130	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	28	128,194,582	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	29	505,678,909	883,702,465
Customer accounts	30	595,636,761	148,879,519
Debt securities issued	31	2,506,039,966	355,052,275
Reserves of guarantee fund	32	258,617,223	209,142,651
Current tax liability		986,170	677,884
Deferred tax liabilities	15	2,274,178	2,080,794
Other liabilities	33	12,519,559	13,542,696
Total liabilities		10,524,167,142	10,291,213,868

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

12

	Note	2016 KZT'000	2015 KZT'000
EQUITY			
Charter capital	34	20,000,000	20,000,000
Capital reserve	34	331,691,233	346,420,494
Other reserves		3,430,633	3,253,536
Revaluation reserve for property and equipment		19,958,118	20,699,162
Revaluation reserve for available-for-sale financial assets		(84,368,398)	(47,043,404)
Revaluation reserve for foreign currency and precious metals		2,368,114,148	2,336,737,887
Accumulated losses		(161,990,514)	(53,708,859)
Total equity attributable to equity holders of the National Bank		2,496,835,220	2,626,358,816
Non-controlling interest	34	319,351,285	318,905,490
Total equity		2,816,186,505	2,945,264,306
Total liabilities and equity		13,340,353,647	13,236,478,174

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

15 March 2017
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

15 March 2017
Almaty, Kazakhstan

The notes on pages 20-125 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

13

	2016	2015
	KZT'000	KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(118,804,183)	(58,352,662)
<i>Adjustments for:</i>		
Depreciation and amortisation	5,436,242	5,694,106
Expenses on replenishment of reserve on deposits guarantee	13,400,000	10,500,000
(Gain) loss on compensation on deposits of individuals	(23,788,202)	77,642,305
Loss on non-market terms transactions	5,428,504	70,031,958
(Reversal of) charge for impairment losses on financial instruments	(3,021,097)	6,569,427
Charge for impairment losses on other assets and inventories	70,621	98,560
Loss (gain) on property and equipment	6,108,879	(1,311,659)
Amortisation of discount on debt securities issued	207,521,343	7,521,183
Amortisation of premium and discount on financial assets	(2,146,819)	1,963,556
Unrealised loss (gain) on financial instruments at fair value through profit or loss	364,472	(936,734)
Share of gain of associates	(1,223)	(2,532)
Loss from gratuitous assignment of property	5,650,000	-
Cash flows from operating activities before changes in operating assets and liabilities	96,218,537	119,417,508
(Increase) decrease in operating assets		
Gold	(496,650,272)	(251,597,646)
Placements with banks and other financial institutions	279,185,571	176,531,073
Financial instruments at fair value through profit or loss	(63,192,665)	298,497,775
Reverse repurchase agreements	(297,326,858)	612,522,686
Available-for-sale financial assets	(585,425,280)	331,953,561
Other assets	1,979,467	2,274,673

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

14

	2016	2015
	KZT'000	KZT'000
Increase (decrease) in operating liabilities		
Currency in circulation	555,182,627	112,775,865
Deposits and balances from banks and other financial institutions	(1,406,218,018)	(530,981,955)
Financial instruments at fair value through profit or loss	(516,699)	2,438,807
Repurchase agreements	33,973,767	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	(1,122,894,924)	23,947,653
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(378,993,671)	116,666,392
Customer accounts	443,417,839	(185,758,975)
Reserves of guarantee fund	32,436,438	25,180,257
Other liabilities	(4,878,458)	(28,533,829)
Net cash from operating activities before income tax paid	(2,913,702,599)	826,434,208
Income tax paid	(6,046,898)	(2,339,546)
Cash flows (used in) from operating activities	(2,919,749,497)	824,094,662
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	(864,201)	(39,318,747)
Purchases of property and equipment and intangible assets	(4,186,731)	(5,677,627)
Sales of property and equipment and intangible assets	141,484	796,786
Cash flows used in investing activities	(4,909,448)	(44,199,588)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

15

	2016	2015
	KZT'000	KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	41,045,104,282	1,126,496,949
Repayment of debt securities issued	(39,101,637,934)	(805,980,638)
Investments of non-controlling interest	-	250,000,000
Cash flows from financing activities	1,943,466,348	570,516,311
Net (decrease) increase in cash and cash equivalents	(981,192,597)	1,350,411,385
Effect of changes in exchange rates on cash and cash equivalents	12,816,492	1,126,296,034
Reversal of (charge for) impairment losses	6,573,319	(6,573,319)
Cash and cash equivalents at the beginning of the year	3,520,889,320	1,050,755,220
Cash and cash equivalents at the end of the year (Note 16)	2,559,086,534	3,520,889,320

Amounts of interest paid and received during the year ended 31 December 2016, are KZT 275,225,018 thousand and KZT 121,669,756 thousand, respectively, (31 December 2015: KZT 15,595,675 thousand and KZT 140,445,060 thousand, respectively).

Amounts of dividends paid and received during the year ended 31 December 2016, are nil and KZT 13,660 thousand, respectively, (31 December 2015: KZT 28,234,846 thousand and KZT 50,425 thousand, respectively).

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

15 March 2017
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

15 March 2017
Almaty, Kazakhstan

The notes on pages 20-125 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

16

KZT'000	Attributable to equity holders of the National Bank							Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses			
Balance as at 1 January 2016	20,000,000	346,420,494	3,253,536	20,699,162	(47,043,404)	2,336,737,887	(53,708,859)	2,626,358,816	318,905,490	2,945,264,306
Total comprehensive loss										
Loss for the year	-	-	-	-	-	-	(124,687,371)	(124,687,371)	431,743	(124,255,628)
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	-	-	-	-	(39,722,656)	-	-	(39,722,656)	(137)	(39,722,793)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	2,397,662	-	-	2,397,662	-	2,397,662
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	(37,324,994)	-	-	(37,324,994)	(137)	(37,325,131)
<i>Items that will not be reclassified to profit or loss:</i>										
Net loss on foreign currency revaluation	-	-	-	-	-	(100,989,057)	-	(100,989,057)	-	(100,989,057)
Net gain on precious metals revaluation	-	-	-	-	-	132,365,318	-	132,365,318	-	132,365,318
Revaluation of property and equipment	-	-	-	1,136,514	-	-	-	1,136,514	-	1,136,514
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	1,136,514	-	31,376,261	-	32,512,775	-	32,512,775
Total other comprehensive loss	-	-	-	1,136,514	(37,324,994)	31,376,261	-	(4,812,219)	(137)	(4,812,356)
Total comprehensive loss for the year	-	-	-	1,136,514	(37,324,994)	31,376,261	(124,687,371)	(129,499,590)	431,606	(129,067,984)
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	(1,873,820)	-	-	1,864,003	(9,817)	-	(9,817)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

17

	Attributable to equity holders of the National Bank							Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses			
KZT'000										
Transactions with owners recorded directly in equity:										
Addition to capital reserve and other reserves (Note 34)	-	3,960,946	177,156	-	-	-	(4,138,102)	-	-	-
Compensation for loss from reserve	-	(18,690,207)	-	-	-	-	18,690,207	-	-	-
Change in investments in subsidiaries	-	-	(59)	(3,738)	-	-	(10,392)	(14,189)	14,189	-
Total transactions with owners	-	(14,729,261)	177,097	(3,738)	-	-	14,541,713	(14,189)	14,189	-
Balance as at 31 December 2016	20,000,000	331,691,233	3,430,633	19,958,118	(84,368,398)	2,368,114,148	(161,990,514)	2,496,835,220	319,351,285	2,816,186,505

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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KZT'000	Attributable to equity holders of the National Bank							Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses			
Balance as at 1 January 2015	20,000,000	260,191,879	3,073,004	16,097,528	236,721	998,485,838	151,829,992	1,449,914,962	3,287,590	1,453,202,552
Total comprehensive income										
Loss for the year	-	-	-	-	-	-	(49,108,126)	(49,108,126)	548,732	(48,559,394)
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	-	-	-	-	(45,242,892)	-	-	(45,242,892)	19,309	(45,223,583)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(2,037,233)	-	-	(2,037,233)	-	(2,037,233)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	(47,280,125)	-	-	(47,280,125)	19,309	(47,260,816)
<i>Items that will not be reclassified to profit or loss:</i>										
Net gain on foreign currency revaluation	-	-	-	-	-	362,204,278	-	362,204,278	-	362,204,278
Net gain on precious metals revaluation	-	-	-	-	-	976,047,771	-	976,047,771	-	976,047,771
Revaluation of property and equipment	-	-	-	6,689,480	-	-	-	6,689,480	-	6,689,480
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	6,689,480	-	1,338,252,049	-	1,344,941,529	-	1,344,941,529
Total other comprehensive income	-	-	-	6,689,480	(47,280,125)	1,338,252,049	-	1,297,661,404	19,309	1,297,680,713
Total comprehensive income for the year	-	-	-	6,689,480	(47,280,125)	1,338,252,049	(49,108,126)	1,248,553,278	568,041	1,249,121,319
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	(2,087,846)	-	-	2,087,846	-	-	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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	Attributable to equity holders of the National Bank							Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses			
KZT'000										
Transactions with owners recorded directly in equity:										
Addition to capital reserve and other reserves (Note 34)	-	86,228,615	188,664	-	-	-	(86,444,665)	(27,386)	27,386	-
Loss on transactions on non-market terms, net of tax of KZT 17,927,161 thousand (Note 1)	-	-	-	-	-	-	(71,708,642)	(71,708,642)	-	(71,708,642)
Non-controlling interest in "Fund of Problem Loans" JSC (Note 34)	-	-	-	-	-	-	-	-	314,946,333	314,946,333
Change in investments in subsidiaries	-	-	(8,132)	-	-	-	(365,264)	(373,396)	76,140	(297,256)
Total transactions with owners	-	86,228,615	180,532	-	-	-	(158,518,571)	(72,109,424)	315,049,859	242,940,435
Balance as at 31 December 2015	20,000,000	346,420,494	3,253,536	20,699,162	(47,043,404)	2,336,737,887	(53,708,859)	2,626,358,816	318,905,490	2,945,264,306

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

15 March 2017
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

15 March 2017
Almaty, Kazakhstan

The notes on pages 20-125 form an integral part of these consolidated financial statements.

1. BACKGROUND

Principal activities

These consolidated financial statements comprise the consolidated financial statements of the National Bank of the Republic of Kazakhstan (the “NBK”) and its subsidiaries (together referred to as the “National Bank”).

The NBK was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary role of the NBK is ensuring price stability in the Republic of Kazakhstan. The NBK has the following goals: development and implementation of the monetary policy of the state; ensuring functioning of payment systems; exchange regulation and exchange control; ensuring stability of the financial system, regulation; control and monitoring of the financial market and financial organizations and other parties within its competency; maintaining proper level of protection of the rights and legitimate interests of the consumers of financial services; accomplishment of statistical activities in the field of monetary statistics and external sector statistics; other tasks in accordance with the laws of the Republic of Kazakhstan and the acts of the President of the Republic of Kazakhstan.

According to its mission, the National Bank exercises the following main functions: developing and implementation of the monetary policy in the Republic of Kazakhstan; acts as the only issuer of banknotes and coins in the Republic of Kazakhstan and organizes currency circulation on the territory of the Republic of Kazakhstan; currency regulation and currency control in the Republic of Kazakhstan; performs management of the gold and currency reserves of the NBK; regulates the activity of the financial market and financial organizations and other entities within its competence; performs regulation, control and supervision of the financial market and financial organisations, as well as other entities in accordance with the Laws of the Republic of Kazakhstan; performs trust management of the National Fund the Republic of Kazakhstan based on the agreement between the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan; performs trust management of the pension assets of JSC “Unified National Pension Fund” (“UNPF”) based on the agreement between the National Bank and the unified pension fund; exercises other functions and authorities stated in the Law “On the National Bank of the Republic of Kazakhstan”, other laws of the Republic of Kazakhstan and Resolutions of the President of the Republic of Kazakhstan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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1. BACKGROUND, CONTUNUED

Principal activities, continued

The address of the NBK's registered office is 21, Micro District Koktem-3, Almaty 050040. As at 31 December 2016 the NBK has 17 branches and 15 subsidiaries located in the Republic of Kazakhstan and 1 representative office in Moscow, Russian Federation.

All the subsidiaries are registered in the Republic of Kazakhstan. The subsidiaries are as follows:

Name	Year of establish ment	Principal activities	Ownership, %	
			2016	2015
“Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” RSE	1994	Coins manufacturing	100.00	100.00
“Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan” RSE	1996	Electronic cash transfers	100.00	100.00
“Banking Service Bureau of the National Bank of the Republic of Kazakhstan” JSC	1996	Software maintenance and development	100.00	100.00
“Kazakhstan Deposit Insurance Fund” JSC	1999	Individual deposit guarantee	100.00	100.00
“Banknote Factory of National Bank of the Republic of Kazakhstan” RSE	2004	Banknote manufacturing	100.00	100.00
“Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO” JSC	2007	Ensuring the smooth functions of IT of the NBK	100.00	100.00

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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Name	Year of establish ment	Principal activities	Ownership, %	
			2016	2015
"The Academy of the Regional Financial Center of Almaty city" JSC	2007	Delivering professional training programmes of postgraduate education	100.00	100.00
"Activity Support Center of the National Bank of the Republic of Kazakhstan" JSC	2011	Transportation services, economic activity on property management	100.00	100.00
"Fund of Problem Loans" JSC	2011	Promotion of measures on quality improvement for credit portfolios of second-tier banks	100.00	100.00
"National Investment Corporation of the National Bank of Kazakhstan" JSC	2012	Management of assets of the National Fund of the Republic of Kazakhstan and gold and foreign currency assets of the NBK, management of pension assets	100.00	100.00
"State Credit Bureau" JSC	2012	Forming of credit histories and credit reports	100.00	100.00
"Integrated Securities Registrar" JSC	2012	Maintaining a registry system for securities holders	98.97	98.50
"Central Securities Depository" JSC	1996	Depository activity	72.36	72.40
"Rating Agency "Regional Financial Center of Almaty city" JSC	2007	Assigning and indexation of credit ratings	58.76	57.00
"Kazakhstan Stock Exchange" JSC	1993	Organisation and maintenance of financial markets	50.10	50.21

1. BACKGROUND, CONTUNUED

Principal activities, continued

In November 2016, according to the Articles 50 and 51 of the Civil Code of the Republic of Kazakhstan, sub-point 2) of point 1, Article 36 and Articles 88 and 89 of the Law of the Republic of Kazakhstan “On Joint-Stock-Companies”, sub-point 3) of point 43 of the Charter of Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC approved by the Resolution of the Shareholder of Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC dated 19 October 2015 No.2, NBK made a decision to liquidate Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC and approved an action plan on liquidation of Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC.

In 2015 in accordance with the laws of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” of 30 March 1995, "On Joint Stock Companies" of 13 May 2003, “On State Property” of 1 March 2011 and subclause 37 of clause 23 of the "Statute of the National Bank of the Republic of Kazakhstan" approved by the Decree of the President of the Republic of Kazakhstan of 31 December 2003, the Management Board of the NBK enacted to reorganise the republican state enterprise operating on the basis of the right of economic management RSE “Banking Service Bureau of the National Bank of the Republic of Kazakhstan” into joint stock company “Banking Service Bureau of the National Bank of the Republic of Kazakhstan” (the "Banking Service Bureau of the NBRK” JSC). The sole founder and shareholder of "Banking Service Bureau of the NBRK” JSC is the NBK.

In 2015, in accordance with the Law of the Republic of Kazakhstan dated 28 November 2014 “On the National Budget for 2015 – 2017”, the Government of the Republic of Kazakhstan, on the basis of its Decree dated 25 April 2015, No.325 “On approval of the Rules of utilisation of reserves of the Government of the Republic of Kazakhstan and local executive bodies and declaring invalid certain decisions of the Government of the Republic of Kazakhstan”, resolved to allocate KZT 64,946,332 thousand to the Ministry of Finance of the Republic of Kazakhstan from the reserve of the Government of the Republic of Kazakhstan budgeted in 2015 for the emergency needs, to increase the share capital of “Fund of Problem Loans” JSC with the purpose to support the lending of economy in tenge by the banks whose assets deteriorated under the new conditions. The allocated funds are utilised under direct control of the Ministry of Finance of the Republic of Kazakhstan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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1. BACKGROUND, CONTUNUED

Kazakhstan business environment

The National Bank's operations are primarily located in Kazakhstan. Consequently, the National Bank 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 financial position of the National Bank. The future business environment may differ from management's assessment.

2. BASIS OF PREPARATION

Statement of compliance

In accordance with the Law of the Republic of Kazakhstan No. 2155 dated 30 March 1995 "On the National Bank of the Republic of Kazakhstan" the NBK determines its accounting policies for itself based on International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been designed to present fairly the financial position of the NBK and the results of its operations and have been prepared in accordance with the accounting policy of the NBK which was approved by the Board of Directors of the National Bank on 27 June 2013 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with principal modifications as described below.

2. BASIS OF PREPARATION, CONTINUED

Statement of compliance, continued

- Gold and gold deposits are revalued based on market value of gold; gains resulting from the mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income.
- Contributions received from the participating banks and expenses on replenishment of reserve on deposits guarantee in accordance with the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” with amendments as at 24 November 2015 are recognised as reserves of guarantee fund within liabilities.
- Deals concluded for the purpose of executing monetary policy and ensuring stability of the financial system are recognised at either nominal or amortised cost, or at cost depending on their content and economic nature and/or goals and objectives of the National Bank. In these consolidated financial statements such deals include swap deals with second-tier banks and other financial institutions that represent derivatives but are presented as “placements with banks and other financial institutions” and “deposits and balances from banks and other financial institutions” (Notes 18 and 26).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that gold, financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, and buildings, constructions, land plots and vehicles are stated at revalued amounts.

2. BASIS OF PREPARATION, CONTINUED

Functional and presentation currency for the purposes of consolidated financial statements

The functional currency of the National Bank and of its subsidiaries is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may 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:

- statement of compliance - Note 2;
- financial assets and liabilities: fair values and accounting classifications - Note 41.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

Subsidiaries

Subsidiaries are investees controlled by the NBK. The National Bank 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 National Bank 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.

Funds management

The National Bank manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the National Bank controls the entity.

Acquisitions and disposals of non-controlling interests

The National Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the National Bank.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of consolidation, continued

Associates

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

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 gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investments in the associate. 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.

Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the NBK.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the NBK. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of income and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Gold

Gold comprises gold deposits with foreign banks and gold bullion in depositories. Gold is measured at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gains on revaluation of gold are recorded directly in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of gold is not transferred to profit or loss.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the National Bank 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 translated to the functional currency at the exchange rate at the date that the fair value was determined. 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 of the transaction.

Gain on foreign currency differences arising on retranslation are recognised in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of foreign currency is not transferred to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 National Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification of financial instruments

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 National Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Classification of financial instruments, continued

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 at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the National Bank has an intention and ability to hold them for the foreseeable future or until maturity.

Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

- 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 National Bank has the positive intention and ability to hold to maturity, other than those that:

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Classification of financial instruments, continued

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.

Recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Measurement, continued

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.

Amortised cost

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

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on the origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the losses on origination and the related income is recorded in interest income within profit or loss using the effective interest method.

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 National Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Fair value measurement principles, continued

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the National Bank 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 National Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price. Where the National Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the National Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the National Bank believes a third-party market participant would take them into account in pricing a transaction.

The National Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Gains and losses on subsequent measurement

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

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

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

Derecognition

The National Bank 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 National Bank 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 National Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Derecognition, continued

In transactions where the National Bank 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. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised

In transfers where control over the asset is retained, the Bank 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 National Bank 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 National Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

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

Derivatives

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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Derivatives, continued

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.

Although the National Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Forward, futures, option and swap deals concluded for the purpose of the monetary policy execution are recognized at either nominal or amortized cost, or at cost depending on their content and economic nature.

Offsetting

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Currency in circulation

Currency in circulation is recorded in the consolidated statement of financial position at nominal value.

Currency in circulation is recorded as a liability when cash is issued by the National Bank to commercial banks. Banknotes and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

Reserves of guarantee fund

According to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 24 November 2014) the subsidiary of the National Bank – “Kazakhstan Deposit Insurance Fund” JSC is due to compensate the participating banks’ depositors amounts up to a certain level in case of forced liquidation of a participating bank. The National Bank establishes a reserve of guarantee funds to accumulate contributions of the banks that participate in the deposit guarantee scheme. In accordance with the National Bank’s accounting policy reserves of guarantee funds are formed at the expense of the accumulated contributions received from the participating banks and expenses of the National Bank.

Fiduciary assets

The National Bank provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank. Commissions received from such business are shown within fee and commission income in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and equipment

Owned assets

Items of property and equipment are stated in the consolidated financial statements at cost less accumulated depreciation and impairment losses, except for buildings, constructions, land plots and vehicles, which are stated at revalued amounts as described below.

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.

Revaluation

Buildings, constructions, land plots and motor vehicles are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings, constructions, land plots and vehicles being revalued. A revaluation increase on buildings, constructions, land plots and vehicles is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A revaluation decrease on buildings, constructions, land plots and vehicles is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and equipment, continued

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a unit of production method over the expected output 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:

Buildings and constructions	7 to 50 years
Furniture and equipment	5 to 10 years
Computer equipment	3 to 6 years
Motor vehicles	5 to 25 years.

Intangible assets

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

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

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

Impairment

The National Bank 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 National Bank determines the amount of any impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Impairment, continued

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 National Bank 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.

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks and other financial institutions, reverse repurchase agreements, held-to-maturity investments and other financial assets (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis.

The National Bank 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 National Bank 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

Impairment, continued

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 National Bank 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 uncollectable, it is written off against the related allowance for loan impairment. The National Bank 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Impairment, continued

Financial assets carried at cost, continued

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

Available-for-sale financial assets

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

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

Non financial assets

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Impairment, continued

Non financial assets, continued

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. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the National Bank 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.

Credit related commitments

In the normal course of business, the National Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the National Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised, less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

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 National Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

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 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.

Segment reporting

An operating segment is a component of a National Bank that engages in the activities from which it may earn revenues and incur the expenses (including revenues and expenses relating to transactions with other components of the National Bank); 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.

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 Basis of Preparation. The National Bank plans to adopt these pronouncements when they become effective. The National Bank of Kazakhstan has not assessed the possible impact of these new standards on its consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New standards and interpretations not yet adopted, continued

IFRS 9 Financial instruments

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

(i) Classification and measurement

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

(ii) Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New standards and interpretations not yet adopted, continued

IFRS 9 Financial instruments, continued

(ii) Impairment, continued

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.

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.

(iii) Hedge accounting

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New standards and interpretations not yet adopted, continued

IFRS 9 Financial instruments, continued

(iv) Transition

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

As a part of preparation to the process of implementation of IFRS 9, the National Bank has started a formal assessment of potential impact on its consolidated financial statements. Currently the National Bank is developing a plan for transition to IFRS 9, which implies certain actions aimed at realisation of the arrangements for IFRS 9 implementation. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the National Bank's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The National Bank does not intend to adopt this standard early. The National Bank is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New standards and interpretations not yet adopted, continued

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

Other amendments

The following new or amended standards are not expected to have a significant impact of the National Bank'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*)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-Based Payment*).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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4. NET INTEREST (EXPENSE) INCOME

	2016	2015
	KZT'000	KZT'000
Interest income		
Placements with banks and other financial institutions	73,722,845	62,110,240
Available-for-sale financial assets	57,687,425	57,829,642
Reverse repurchase agreements	10,722,513	21,926,709
Held-to-maturity investments	6,373,740	5,908,559
Other	26,873	30,764
	148,533,396	147,805,914
Interest expense		
Debt securities issued	(207,521,343)	(7,521,183)
Deposits and balances from banks and other financial institutions	(48,238,515)	(6,132,507)
Repurchase agreements	(18,944,430)	(1,270,386)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(808,685)	(775,431)
	(275,512,973)	(15,699,507)
	(126,979,577)	132,106,407

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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5. FEE AND COMMISSION INCOME

	2016	2015
	KZT'000	KZT'000
Asset management fee	11,971,583	9,921,658
Pension asset management fee	3,438,866	19,223,069
Depository operations and servicing of financial markets and transfer operations	2,101,527	2,001,643
	17,511,976	31,146,370

Fee and commission income on asset management operations consists of income for asset management services provided to the National Fund of the Republic of Kazakhstan and JSC “State Social Insurance Fund”. The National Bank manages the assets of these organisations investing funds received in various financial instruments in accordance with customers’ instructions.

Fee and commission income on pension asset management was received from “UNPF” JSC. In 2015 the pension asset management commission included a fee for exceeding the target rate of return in the amount of KZT 16,172,374 thousand (2016: nil).

Income on depository operations and servicing of financial markets consists of income from core activities of “Central Securities Depository” JSC, “Kazakhstan Stock Exchange” JSC.

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of “Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan” RSE.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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6. FEE AND COMISSION EXPENSE

	2016	2015
	KZT'000	KZT'000
Asset management services	1,552,330	655,134
Custodian services	466,419	31,226
Broker operations	312,509	184,814
Other	5,904	9,888
	2,337,162	881,062

7. NET GAIN (LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	KZT'000	KZT'000
Net gain (loss) on assets under external management	33,046,578	(26,205,267)
Net (loss) gain on operations with other derivative financial instruments	(3,047,974)	1,979,169
	29,998,604	(24,226,098)

8. NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	KZT'000	KZT'000
Dividends	5,974,690	3,110,444
Sale of debt instruments	(2,397,662)	2,037,233
Sale of equity investments	(86,667)	-
	3,490,361	5,147,677

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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9. OTHER OPERATING INCOME (EXPENSES), NET

	2016	2015
	KZT'000	KZT'000
Compensation on deposits of individuals (Note 26)	23,788,202	(77,642,305)
Sale of coins for collection	2,682,110	2,184,729
Loss on non-market terms transactions	(5,428,504)	(70,031,958)
Sale of printed products	1,003,124	3,188,528
Sale of medals, badges and jewellery	211,850	67,838
Rent of property and equipment	310	(1,167)
Replenishment of reserve on deposits guarantee	(13,400,000)	(10,500,000)
Other (expenses) income, net	(531,967)	288,360
	<u>8,325,125</u>	<u>(152,445,975)</u>

To carry out activity for protection of the interests of the participating bank's depositors, in accordance with the Law "On obligatory guaranteeing of deposits placed with second-tier banks of the Republic of Kazakhstan", during 2016 "Kazakhstan Deposit Insurance Fund" JSC contributed KZT 13,400,000 thousand (2015: KZT 10,500,000 thousand) to a special reserve at the expense of its costs.

Pursuant to the Action Plan for implementation of the orders of the Head of the State given at the extended meeting of the Government of the Republic of Kazakhstan held on 11 February 2015, and given the measures of the "special period" policy approved by the Protocol of the meeting of the Government of the Republic of Kazakhstan dated 20 February 2015 No.10, and Program of refinancing of the mortgage housing loans dated 24 April 2015 No.69, the National Bank increased the charter capital of the "Fund of Problem Loans" JSC. "Fund of Problem Loans" JSC ensured the purposeful placement of the funds received with the second-tier banks, in accordance with the limits of primary placement of funds established for the second-tier banks. The National Bank recognised these long-term deposits at the fair value at initial recognition determined using the market rates of 8.71% to 10.44% at the date of settlement of the deposits.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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9. OTHER OPERATING INCOME (EXPENSES), NET, CONTINUED

The difference between the nominal value and the fair value at the initial recognition in the amount of KZT 70,031,958 thousand was recognised in 2015 within profit or loss as the decision on distribution of long-term deposit and its key parameters was made by the NBK. In 2016 KZT 5,428,504 thousand related to such transactions was recognised as part of profit and loss.

10. REVERSAL OF (CHARGE FOR) IMPAIRMENT LOSSES

	2016	2015
	KZT'000	KZT'000
Nostro accounts with foreign banks	6,573,319	(6,573,319)
Placements with banks in tenge	(3,552,222)	-
Inventories	(47,516)	(20,865)
Negative revaluation of property and equipment	(26,988)	(78,783)
Assets held for sale	(25,806)	-
Other assets	(23,105)	(77,695)
Investments held-to-maturity	-	3,892
	2,897,682	(6,746,770)

11. BANKNOTES AND COINS PRODUCTION EXPENSES

	2016	2015
	KZT'000	KZT'000
Banknotes production	2,451,785	6,904,890
Coins production	1,902,538	1,484,766
Other	147,827	105,109
	4,502,150	8,494,765

Banknotes and coins production expenses for 2016 include depreciation charge of equipment of KZT 1,149,654 thousand (2015: KZT 1,722,630 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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12. FUNDING OF THIRD PARTIES

	2016	2015
	KZT'000	KZT'000
Funding of “Universitet Narkhoz” JSC - Master’s Program of the National Bank of the Republic of Kazakhstan	194,150	190,327
	194,150	190,327

13. PERSONNEL EXPENSES

	2016	2015
	KZT'000	KZT'000
Payroll	11,866,048	11,936,015
Bonuses	10,029,327	8,612,602
Social tax	1,598,072	1,498,812
Insurance	439,186	550,831
Training	147,218	164,698
Other	218,381	192,094
	24,298,232	22,955,052

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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14. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
	KZT'000	KZT'000
Gratuitous assignment of property	11,799,318	199,653
Information and other services	1,765,846	1,697,303
Communication	1,004,956	693,106
Taxes other than income tax	965,782	1,085,281
Repair and maintenance of property and equipment	703,864	596,830
Inventory	622,571	335,251
Business trip expenses	534,718	672,060
Security	308,612	286,333
Representative expenses	298,990	212,927
Transportation	281,872	237,618
Utilities	208,663	175,058
Rent	179,058	318,879
Insurance of property and equipment	40,682	36,045
Advertising, announcements and presentations in mass media	655	57,257
Other	679,614	432,155
	<u>19,395,201</u>	<u>7,035,756</u>

Gratuitous assignment of property includes disposal in property, equipment and intangible assets for the amount of KZT 5,981,446 thousand and write-off from other assets for the amount of KZT 5,650,000 thousand.

During 2016, in accordance with the Resolution of the Management Board of the National Bank No.106 dated 16 July 2014, an administrative building with carrying amount of KZT 5,981,446 thousand was transferred, free of charge, from the National Bank into the public ownership of the Committee of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan.

In accordance with the Resolution of the Management Board of the National Bank No.295 dated 26 December 2016, investments in IFCA Administration JSC in the amount of KZT 5,650,000 thousand which include the investments in the amount of KZT 1,745,000 thousand related to 2015 year and KZT 3,905,000 thousand related to 2016 year were recognised as expenses incurred in 2016 by the National Bank.

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15. INCOME TAX (EXPENSE) BENEFIT

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

	2016	2015
	KZT'000	KZT'000
Current tax expense	<u>(4,133,574)</u>	<u>(3,380,544)</u>
Movement in deferred tax assets/liabilities due to origination and reversal of temporary differences	<u>(1,317,871)</u>	<u>13,173,812</u>
Total income tax (expense) benefit	<u>(5,451,445)</u>	<u>9,793,268</u>

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		2015	
	KZT'000	%	KZT'000	%
Loss before income tax	<u>118,804,183</u>	<u>100.00</u>	<u>58,352,662</u>	<u>100.00</u>
Income tax at the applicable tax rate	23,760,837	20.00	11,670,532	20.00
Effect of non-deductible operations of the NBK	(31,610,448)	(26.61)	(3,721,517)	(6.38)
Non-taxable income on securities	2,573,729	2.17	2,509,761	4.30
Non-deductible expenses on activities of “Kazakhstan Deposit Insurance Fund” JSC	(974,217)	(0.82)	(238,191)	(0.41)
Other non-deductible expenses	-	-	(427,317)	(0.73)
Other non-taxable income	798,654	0.67	-	-
	<u>(5,451,445)</u>	<u>(4.59)</u>	<u>9,793,268</u>	<u>16.78</u>

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15. INCOME TAX (EXPENSE) BENEFIT, CONTINUED

Deferred tax assets and liabilities

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

The deductible temporary differences do not expire under current tax legislation.

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

KZT'000	Balance 1 January 2016	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2016
Placements with banks and other financial institutions	31,256,477	(1,250,723)	-	30,005,754
Property, equipment and intangible assets	(1,888,672)	(111,936)	(9,817)	(2,010,425)
Other assets	19,010	(40,129)	-	(21,119)
Other liabilities	(51,139)	56,322	-	5,183
Tax loss carry-forwards	21,480	3,921	-	25,401
	29,357,156	(1,342,545)	(9,817)	28,004,794
Unrecognised deferred tax assets	(25,620)	24,674	-	(946)
Recognised deferred tax assets	29,331,536	(1,317,871)	(9,817)	28,003,848
Deferred tax assets	31,412,330	(1,132,876)	(1,428)	30,278,026
Deferred tax liabilities	(2,080,794)	(184,995)	(8,389)	(2,274,178)

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15. INCOME TAX (EXPENSE) BENEFIT, CONTINUED

Deferred tax assets and liabilities, continued

KZT'000	Balance 1 January 2015	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2015
Placements with banks and other financial institutions	-	13,329,316	17,927,161	31,256,477
Property, equipment and intangible assets	(1,898,567)	(232,206)	242,101	(1,888,672)
Other assets	13,751	5,257	2	19,010
Other liabilities	90,985	75,737	(217,861)	(51,139)
Tax loss carry-forwards	174,275	(131,104)	(21,691)	21,480
	(1,619,556)	13,047,000	17,929,712	29,357,156
Unrecognised deferred tax assets	(157,048)	126,812	4,616	(25,620)
Recognised deferred tax assets	(1,776,604)	13,173,812	17,934,328	29,331,536
Deferred tax assets	73,196	13,396,788	17,942,346	31,412,330
Deferred tax liabilities	(1,849,800)	(222,976)	(8,018)	(2,080,794)

As at 31 December 2016 deferred tax assets in the amount of KZT 30,036,672 thousand (2015: KZT 31,262,391 thousand) was recognised by the subsidiary of NBK, “Fund of Problem Loans” JSC. Management of the company assessed the recoverability of deferred tax assets and concluded that the company will have sufficient taxable income after taking into account deductible temporary differences and it is appropriate to recognise deferred tax assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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16. CASH AND CASH EQUIVALENTS

	2016 KZT'000	2015 KZT'000
Deposits in foreign banks with the original maturity of less than three months	2,207,930,106	2,970,731,078
Nostro accounts in foreign banks	212,954,502	338,521,983
Cash on hand in foreign currency	133,165,880	211,082,236
Nostro accounts in Kazakhstan banks	2,629,768	2,193,962
Tenge denominated deposits with Kazakhstan banks with the original maturity of less than three months	1,525,439	4,038,277
Accounts with the Bank for International Settlements	880,839	895,103
Total cash and cash equivalents	2,559,086,534	3,527,462,639
Impairment allowance	-	(6,573,319)
Cash and cash equivalents less impairment allowance in the consolidated statement of cash flows	2,559,086,534	3,520,889,320

As at 31 December 2016 nostro accounts in foreign banks included restricted for use uninvested cash under management of “National Investment Corporation of the National Bank of Kazakhstan” JSC (the “NIC NBK” JSC) and NICK Master Fund Ltd in the amount of KZT 2,495,564 thousand (31 December 2015: KZT 3,527,676 thousand) that was not included in cash equivalents.

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17. GOLD

	2016	2015
	KZT'000	KZT'000
Gold deposits with foreign banks:		
- rated from A to A+	712,939,726	403,099,606
- rated from AA- to AA	103,023,444	443,862,308
- rated from BBB- to BBB+	91,360,011	-
	907,323,181	846,961,914
Gold bullion in NBK depository	1,949,561,070	1,403,575,261
Gold bullion in foreign bank depositories		
- rated AAA	348,326,772	325,658,258
	3,205,211,023	2,576,195,433

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18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 KZT'000	2015 KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts		
- rated A- to AAA	169,559,497	258,130,291
- rated BBB- to BBB+	45,317,633	79,536,513
- rated BB- to BB+	-	465,318
- rated B- to B+	81,060	64,594
- not rated	512,160	3,852,943
Total nostro accounts	215,470,350	342,049,659
Impairment allowance	-	(6,573,319)
Nostro accounts less impairment allowance	215,470,350	335,476,340
Deposits in bank rated AA+	2,207,930,106	2,970,731,078
Placements with other financial institutions		
- rated A+ to AAA	14,167,226	84,249,484
Total placements with other financial institutions	14,167,226	84,249,484
Other accounts and deposits		
Non-invested cash under external management (Note 19)		
- rated AA-	-	83,340
- rated A- to A+	18,423,102	4,131,957
- rated BBB+	1,101,537	9,892,024
	19,524,639	14,107,321
Accounts with International Monetary Fund	517,387,776	201,733,368
Receivables on foreign currencies transactions	11,282,618	3,707,332
Accounts with Bank of International Settlements	880,839	895,103
Total other accounts and deposits	549,075,872	220,443,124
Total accounts and deposits in foreign banks and other financial institutions	2,986,643,554	3,610,900,026
Accounts, bank deposits and receivables from Kazakhstan banks and other financial institutions		
Nostro accounts of subsidiaries with second tier banks		
- rated BBB-	-	104,359
- rated BB- to BB+	1,621,175	1,639,244
- rated B- to B+	931,746	432,870
- not rated	76,847	17,489
Total nostro accounts	2,629,768	2,193,962
Deposits in banks*		
- rated BBB- to BBB	59,188,849	60,781,794
- rated BB- to BB+	256,688,831	490,962,589
- rated B- to B+	685,289,695	1,078,419,223
- rated CCC	17,464,859	-
- not rated	13,716,252	2,345,376
Total deposits in banks	1,032,348,486	1,632,508,982
Impairment allowance	(3,552,222)	-
Deposits in banks less impairment allowance	1,028,796,264	1,632,508,982
Funds of "Fund of Problem Loans" JSC held with Ministry of Finance of the Republic of Kazakhstan (Note 1)	64,946,332	64,946,332
Receivables from "UAPF" JSC	313,197	16,469,539
Receivables from Ministry of Finance of the Republic of Kazakhstan	2,450,237	4,607,466
Total accounts, bank deposits and receivables from Kazakhstan banks and other financial institutions	1,099,135,798	1,720,726,281
	4,085,779,352	5,331,626,307

* include the asset part of the swap deals in the amount of KZT 601,208,182 thousand (31 December 2015: KZT 1,450,736,514 thousand) that is accounted for not as derivatives, but as deposits in banks and is measured at nominal in accordance with the Basis of Preparation (Note 2)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

As at 31 December 2016 the National Bank has placements and deposits in one bank-counterparty (31 December 2015: one), in the amount exceeding 10% of equity. The total amount of that balance is KZT 2,207,930,106 thousand (31 December 2015: KZT 2,970,731,078 thousand).

As at 31 December 2016 the “nostro” accounts opened in local banks in the amounts of KZT 2,629,768 thousand (31 December 2015: KZT 2,193,962 thousand), belong to subsidiary companies of the National Bank.

19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss consisted of the following at 31 December 2016 and 31 December 2015:

	2016	2015
	KZT'000	KZT'000
Assets		
Assets under external management		
Government bonds	427,396,896	365,547,146
Corporate bonds	413,550,254	431,438,090
Agency bonds	14,764,429	13,391,063
Forwards	113,176	696,808
Futures	39,406	12,853
Corporate shares	19,595	17,615
Assets under own management		
Futures	133,436	15,939
Swap	59,000	731,090
Forwards	22,586	15,451
Total financial instruments at fair value through profit or loss	<u>856,098,778</u>	<u>811,866,055</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR
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19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT
OR LOSS, CONTINUED

	2016	2015
	KZT'000	KZT'000
Liabilities		
Liabilities under external management		
Futures	(262,901)	(28,238)
Forwards	(203,134)	(10,106)
Liabilities under own management		
Swap	(1,966,694)	(2,285,996)
Forwards	(20,521)	(1,703)
Total financial instruments at fair value through profit or loss	<u>(2,453,250)</u>	<u>(2,326,043)</u>

As at 31 December 2016 a portion of financial instruments at fair value through profit and loss was under the management of five (31 December 2015: five) foreign asset management organisations. Depending on the mandate the managers invest into fixed income and equity instruments and are also allowed to use derivative instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The portfolios under external management pursue the following investment strategies:

<u>External manager</u>	<u>2016 KZT'000</u>	<u>2015 KZT'000</u>	<u>Strategy</u>	<u>Index</u>
Nomura Asset Management U.K. Limited	396,544,276	393,105,409	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs(G5BC)
Aviva Investors Global Services Limited	248,556,629	215,624,698	Global developing markets	ML Emerging Customised Index
Deutsche Asset Management International GmbH	210,297,222	202,317,509	Global developing markets	ML Emerging Customised Index
SSB	18,728	16,614	Transit management	Not available
Amundi	866	1,001	Global shares	MSCI World Index (MXWO)
Total net assets under external management	<u>855,417,721</u>	<u>811,065,231</u>		

As at 31 December 2016 uninvested balances equivalent to KZT 19,524,639 thousand (31 December 2015: KZT 14,107,321 thousand), related to portfolios under external management are presented within "placements with banks and other financial institutions" (Note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The schedule below summarises credit quality of these portfolio's underlying fixed income assets:

	2016	2015
	KZT'000	KZT'000
Government bonds		
- rated A- to AAA	134,993,164	73,315,940
- rated BBB- to BBB+	238,151,000	198,565,399
- rated BB- to BB+	54,252,732	93,665,807
	427,396,896	365,547,146
Corporate bonds		
- rated A- to AAA	173,298,584	201,018,826
- rated BBB- to BBB+	229,646,193	206,054,775
- rated BB- to BB+	7,489,279	23,229,888
- rated B- to B+	-	617,026
- Not rated	3,116,198	517,575
	413,550,254	431,438,090
Agency bonds		
- rated A- to AAA	12,587,967	7,199,698
- rated BBB- to BBB+	2,176,462	1,973,843
- rated BB- to BB+	-	4,217,522
	14,764,429	13,391,063
Total debt instruments under external management	855,711,579	810,376,299

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19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The tables below summarises, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions, excluding portfolios under external management, as at 31 December 2016 and 31 December 2015 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/ notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2016	2015	2016	2015
Swap				
For the period less than 3 months				
Buy USD to KZT	146,480,955	-	333.27	-
Buy USD to KZT	85,988,820	-	333.21	-
Buy USD to KZT	69,490,965	-	333.15	-
Buy KZT to USD	-	66,641,960	-	343.74
For the period more than 3 months				
Buy KZT to USD	3,666,190	-	180.87	-
For the period more than 1 year				
Buy KZT to USD	-	3,740,110	-	164.59
Forwards				
For the period less than 3 months				
Buy EUR sell USD	6,851,608	784,772	1.05	1.09
Buy JPY sell USD	6,160,257	-	116.84	-
Buy JPY sell USD	5,989,367	-	116.75	-
Buy GBP sell USD	1,327,266	850,229	1.23	1.48
Buy AUD sell CAD	868,007	-	0.97	-
Buy AUD sell USD	500,457	-	0.72	-
Buy EUR sell AUD	-	3,489,830	-	1.49
Buy CAD sell USD	-	1,698,279	-	1.39
Buy EUR sell JPY	-	425,267	-	131.02
Futures				
For the period more than 3 months				
Sell US treasury bonds	<u>(49,094,726)</u>	<u>(22,158,558)</u>	<u>116,747.84</u>	<u>73,861,861.70</u>
	<u>278,229,166</u>	<u>55,471,889</u>		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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20. REVERSE REPURCHASE AGREEMENTS

International financial institutions and Kazakhstan banks:	2016 KZT'000	2015 KZT'000
- rated AAA	140,612,913	85,799,326
- rated BBB-	16,880,747	-
- not rated	241,684,530	16,052,006
	<u>399,178,190</u>	<u>101,851,332</u>

As at 31 December 2016 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 434,462,725 thousand (31 December 2015: KZT 109,864,338 thousand).

As at 31 December 2016 not rated reverse repo transactions of KZT 241,684,530 thousand (31 December 2015: KZT 16,052,006 thousand) were entered in the auto repo market of Kazakhstan Stock Exchange JSC.

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21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	KZT'000	KZT'000
Debt instruments		
Investments in foreign securities		
Government bonds		
US Government Treasury bills	1,970,787,948	1,380,424,845
British Government Treasury bills	102,491,522	108,936,732
French Government bonds	86,074,162	91,898,934
Japanese Government Treasury bills	76,517,603	95,972,359
Australian Government Treasury bills	59,777,110	69,808,685
Korean Government Treasury bills	61,218,099	62,095,137
Canadian Government Treasury bills	55,494,437	50,294,283
China Government bonds	31,170,914	33,768,114
Netherlands Government Treasury bills	12,736,217	13,564,055
Austrian Government Treasury bills	5,813,193	14,121,706
German Government Treasury bills	-	51,690,133
Finnish Government Treasury bills	-	16,974,880
Denmark Government Treasury bills	-	8,497,679
Total government bonds	2,462,081,205	1,998,047,542
Debt securities of international governmental and nongovernmental financial institutions		
- rated AAA	174,355,073	160,253,554
- rated AA+	8,237,776	17,015,109
- rated AA	30,756,448	64,389,545
- rated AA-	33,878,500	22,246,805
- rated A+	14,037,007	10,248,067
- rated A	820,652	3,413,381
- not rated	8,397,003	27,015,917
Total investments in debt securities of international governmental and nongovernmental financial institutions	270,482,459	304,582,378
Corporate bonds of international companies		
- rated A- to AAA	226,513,436	174,100,397
- rated BBB+ to BBB-	104,075,831	1,724,135
- rated BB+ to BB-	1,293,068	530,350
- rated B-	2,846,830	8,797,265
- not rated	10,185,254	18,922,269
Total investments in corporate bonds of international companies	344,914,419	204,074,416

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21. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

	2016 KZT'000	2015 KZT'000
Investments in hedge fund	44,424,045	48,600,689
Total investments in foreign securities	3,121,902,128	2,555,305,025
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	560,962,164	683,962,958
Debt securities of financial organisations	1,936,124	1,778,843
Total Kazakhstan investments	562,898,288	685,741,801
Impairment allowance	(75,829)	(75,829)
Total Kazakhstan investments net of impairment allowance	562,822,459	685,665,972
Total investments in debt instruments	3,684,724,587	3,240,970,997
Equity investments		
Shares of "NC "KazMunaiGaz" JSC	750,000,000	753,110,444
Investments in private equity fund	22,018,658	1,029,078
Corporate shares	79,854	79,854
Total equity investments	772,098,512	754,219,376
Total available-for-sale financial assets under own management	4,456,823,099	3,995,190,373

Investments in private equity funds comprise of the investments made in accordance with GFCA Investment Strategy and Investment Strategy for Management of Portfolio of Alternative Investments of GFCA of the National Bank approved by the Resolution of the Management Board of the National Bank dated 25 February 2013, No.66, and in accordance with the terms and conditions of the Trust Investment Management Agreement No. 122NB/10 dated 29 March 2013 which was concluded between the National Bank and "NIC NBK" JSC, "NIC NBK" JSC invests a part of the gold and foreign currency assets of the National Bank in the alternative classes of assets through a special purpose vehicle - NICK Master Fund Ltd established on 18 June 2015. Limited liability company Singularity Ltd. was opened with the purpose of investing in hedge funds. Limited liability partnership Tarragon LP was opened with the purpose of investing in private equity funds.

Analysis of movements in the impairment allowance

Movements in the impairment allowance on available-for-sale financial assets for the 2016 and 2015 are as follows:

	2016 KZT'000	2015 KZT'000
Balance at the beginning of the year	75,829	75,829
Write-offs	-	-
Balance at the end of the year	75,829	75,829

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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21. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

Unquoted equity instruments

Available for sale financial assets stated at cost comprise unquoted ordinary shares of “NC “KazMunaiGaz” JSC for KZT 750,000,000 thousand (2015: KZT 753,110,444 thousand), the fair value of which cannot be reliably determined. There is no market for this equity instrument and there have not been any recent transactions that provide evidence of the current fair value.

22. HELD-TO-MATURITY INVESTMENTS

	2016	2015
	KZT'000	KZT'000
Bonds of JSC Sovereign Wealth Fund “Samruk-Kazyna” - rated BBB- (2015: BBB)	59,024,916	57,974,628
Bonds of the Ministry of Finance of Republic of Kazakhstan - rated BBB- (2015: BBB)	39,930,905	40,116,992
Securities of second-tier banks and other organisations	22,052	22,052
Total held-to-maturity investments	98,977,873	98,113,672

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23. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
<i>Historical/revalued cost</i>							
Balance at 1 January 2016	38,712,614	29,269,291	3,446,992	1,350,665	835,915	4,175,254	77,790,731
Additions	451,238	806,295	93,542	88,695	1,826,154	920,807	4,186,731
Disposals	(6,266,673)	(374,774)	(282,818)	(120,191)	(487,254)	(13,618)	(7,545,328)
Write-offs	(1,868,594)	(415,085)	(237,011)	(362,798)	-	(110,906)	(2,994,394)
Revaluation	705,488	-	-	431,026	-	-	1,136,514
Impairment loss	-	-	(190)	(26,798)	-	-	(26,988)
Balance at 31 December 2016	31,734,073	29,285,727	3,020,515	1,360,599	2,174,815	4,971,537	72,547,266
Depreciation and amortisation and impairment losses							
Balance at 1 January 2016	1,756,824	8,458,739	3,093,902	360,264	-	2,547,286	16,217,015
Depreciation and amortisation for the year	1,773,937	2,682,553	261,194	250,256	-	468,302	5,436,242
Disposals	(268,591)	(316,093)	(876,386)	(97,589)	-	(11,443)	(1,570,102)
Write-offs	(1,868,594)	(415,085)	(21,548)	(386,149)	-	(110,906)	(2,802,282)
Balance at 31 December 2016	1,393,576	10,410,114	2,457,162	126,782	-	2,893,239	17,280,873
Carrying amount							
As at 31 December 2016	30,340,497	18,875,613	563,353	1,233,817	2,174,815	2,078,298	55,266,393

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23. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
<i>Historical/revalued cost</i>							
Balance at 1 January 2015	33,885,802	27,182,306	3,041,351	1,313,169	719,581	3,814,615	69,956,824
Additions	1,846,414	3,360,735	443,620	50,808	736,355	551,355	6,989,287
Disposals	(216,194)	(1,273,750)	(37,979)	(13,312)	(620,021)	(190,716)	(2,351,972)
Write-offs	(3,414,105)	-	-	-	-	-	(3,414,105)
Revaluation	6,689,480	-	-	-	-	-	6,689,480
Impairment loss	(78,783)	-	-	-	-	-	(78,783)
Balance at 31 December 2015	38,712,614	29,269,291	3,446,992	1,350,665	835,915	4,175,254	77,790,731
Depreciation and amortisation and impairment losses							
Balance at 1 January 2015	2,797,579	7,512,823	2,848,021	147,498	-	2,265,061	15,570,982
Depreciation and amortisation for the year	2,534,527	2,195,638	280,198	225,639	-	458,104	5,694,106
Disposals	(161,177)	(1,249,722)	(34,317)	(12,873)	-	(175,879)	(1,633,968)
Write-offs	(3,414,105)	-	-	-	-	-	(3,414,105)
Balance at 31 December 2015	1,756,824	8,458,739	3,093,902	360,264	-	2,547,286	16,217,015
Carrying amount							
As at 31 December 2015	36,955,790	20,810,552	353,090	990,401	835,915	1,627,968	61,573,716

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2016 and 2015.

**23. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS,
CONTINUED**

Revalued assets

The fair values of the National Bank's land, buildings, and vehicles are categorised into Level 3 of the fair value hierarchy.

As at 31 December 2016 buildings and construction owned by the National Bank were not revalued, revaluation of vehicles were performed.

The revaluation procedures were performed by independent appraisers of movable property: "Senimdi Zhol" LLC; "Prestizh Ocenka" LLC; "Ocenka Biss" LLP; "Atyrai City" LLC; The Center of Valuation "Expert" LLC; "The Center of Assets Valuation" LLC; "NOK "Alfa Expert"" LLC; "Alyans Valuation" IE; "Aulie-Ata Saraptama" LLC; "Aidabulov A.E." IE; "Vorobyev V.V." IE; "KazBusinessProject" LLC; "OBI-Kom" LLP; "Arepag Consulting" LLC; "B&E Consulting" LLP; "Independent Judicial Valuation Center" LLC. Revaluation was performed based on requirements of international standards, accepted by International Committee for standards of property revaluation, union of appraisers of the Republic of Kazakhstan and appraiser's Code of Ethics. Comparative approach has been used in calculations; weight coefficients have not been assigned and outcomes obtained as a part of the comparative approach have been used as the final value of the evaluation target.

At 31 December 2015 property and equipment owned by the National Bank were recorded at revalued amount. The revaluation procedures were performed by independent appraisers: "Otsenka i Expertiza" LLC, "Nezavisimiy otsenочно-yuridicheskiy tsentr" LLC and "MARKET-Consulting" LLC. The income approach with the method of realisation as income capitalisation and the comparative approach with application of market information were used to identify the fair value of buildings and construction in terms of an active market for items that were subject to revaluation. The cost approach was used when there was no active market for items that were subject to revaluation.

As at 31 December 2016 the carrying amount of land, buildings, and vehicles would have amounted to KZT 12,827,702 thousand, if it had not been revalued (31 December 2015: KZT 17,283,013 thousand).

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24. OTHER ASSETS

	2016	2015
	KZT'000	KZT'000
Other receivables	9,518,228	8,314,679
Impairment allowance	(175,266)	(158,733)
Total other financial assets	9,342,962	8,155,946
Inventories	4,743,994	4,939,173
Refined and non-refined precious metals and stones	1,235,427	636,795
Investments in IFCA Administration JSC (Note 14)	-	1,745,000
Prepayments for property and equipment	180,620	329,624
Other	448,883	303,831
Total other non-financial assets	6,608,924	7,954,423
Total other assets	15,951,886	16,110,369

Analysis of movements in the impairment allowance

Movements in the impairment allowance on other financial assets for 2016 and 2015 are as follows:

	2016	2015
	KZT'000	KZT'000
Balance at the beginning of the year	158,733	114,225
Net charge	23,105	77,695
Write-offs	(6,572)	(33,187)
Balance at the end of the year	175,266	158,733

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24. OTHER ASSETS, CONTINUED

As at 31 December 2016, included in other assets are overdue receivables of KZT 378,828 thousand (31 December 2015: KZT 2,142,195 thousand), of which KZT 16,348 thousand (31 December 2015: KZT 1,798,869 thousand) are overdue for more than 30 days, but less than 90 days, KZT 3,700 thousand (31 December 2015: KZT 3,152 thousand) are overdue for more than 90 days, but less than 180 days and KZT 358,780 thousand (31 December 2015: KZT 340,174 thousand) are overdue for more than 180 days.

25. CURRENCY IN CIRCULATION

	2016	2015
	KZT'000	KZT'000
Banknotes and coins in circulation	2,051,830,518	1,496,560,585
Less banknotes and coins on hand and in reserve funds	(1,294,074)	(1,206,768)
	<u>2,050,536,444</u>	<u>1,495,353,817</u>

26. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	2015
	KZT'000	KZT'000
Deposits and balances from foreign banks and other financial institutions		
Current accounts of international financial organisations	428,881,736	194,419,240
OECD based banks	62,332,594	4,208,797
Other foreign banks	329,992	336,331
Total deposits and balances from foreign banks and other financial institutions	491,544,322	198,964,368
Deposits and balances from Kazakhstan banks and other financial institutions		
Loro accounts		
Largest 10 Kazakhstan banks*	1,433,731,885	1,807,416,945
Other Kazakhstan banks	998,982,711	1,187,747,930
Deposits**		
Largest 10 Kazakhstan banks*	1,055,313,323	2,072,687,360
Other Kazakhstan banks	446,583,729	583,806,947
Total deposits and balances from banks and other financial institutions	<u>3,934,611,648</u>	<u>5,651,659,182</u>
Compensation on deposits of individuals	-	77,642,305
	<u>4,426,155,970</u>	<u>5,928,265,855</u>

* based on total assets as at 31 December 2016

** include the liability part of the swap deals in the amount of KZT 1,067,904,376 thousand (31 December 2015: KZT 2,522,081,310 thousand) that is accounted for not as derivatives, but as deposits from banks and is measured at nominal in accordance with the Basis of Preparation (Note 2)

**26. DEPOSITS AND BALANCES FROM BANKS AND OTHER
FINANCIAL INSTITUTIONS, CONTINUED**

As at 31 December 2016 the National Bank has two counterparties (31 December 2015: six counterparties), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2016 is KZT 1,286,707,577 thousand (31 December 2015: KZT 3,215,432,204 thousand).

As at 31 December 2016 current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the “IMF”) in the amount of KZT 428,874,894 thousand (31 December 2015: KZT 194,412,399 thousand). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 365,700 thousand).

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, with a view to fulfil an order concerning development and implementation of the mechanism of compensation of the tenge denominated term deposits of the individual, due to change of the foreign exchange rate, and to pay compensation to the individuals holding tenge-denominated deposits, in conformity with the Procedure of paying compensation on the individuals’ deposits opened in the national currency (tenge), due to transition to the freely floating foreign exchange rate, which was approved by the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan dated 9 September 2015, No.157, the Management Board of the National Bank of the Republic of Kazakhstan resolved to approve paying the compensation on the individuals deposits opened in second-tier banks in tenge and that are in compliance with stated requirements, due to transition to the freely floating foreign exchange rate, at the expense of the funds used for the monetary operations of the National Bank. The assurance of payment of compensation and procedure and terms of payment were published in the mass media and communicated to the second-tier banks, which accepted the applications for compensation from their depositors before 1 December 2015. In view of the above, and based on the data provided by the second-tier banks concerning the balances on special accounts of individuals as at 31 December 2015, a constructive liability of KZT 77,642,305 thousand has been recognised.

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26. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

In 2016 the National Bank of Kazakhstan accomplished transfer in the amount of KZT 53,854,103 thousand to the second tier banks, designated for realising payment of compensation for deposits of individuals, on the basis of register provided by second tier banks. The difference between the initially assessed and actually paid amounts was recognised in profit or loss.

27. REPURCHASE AGREEMENTS

In December 2016, the National Bank concluded repurchase agreements in the auto repo market of “Kazakhstan Stock Exchange” JSC in the amount of KZT 35,074,130 thousand (31 December 2015: KZT 1,100,363 thousand).

As at 31 December 2016, the fair value of financial assets collateralising repurchase agreements is KZT 34,947,236 thousand (31 December 2015: KZT 1,177,936 thousand).

28. CURRENT ACCOUNTS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

Current accounts of the National Fund of the Republic of Kazakhstan (“the National Fund”) amounted to KZT 128,194,582 thousand as at 31 December 2016 (31 December 2015: KZT 1,251,089,506 thousand).

During 2016 and 2015 the National Bank conducted trust management activities over the assets of the National Fund. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for deposits of the National Fund in NBK.

29. CURRENT ACCOUNTS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN

	2016	2015
	KZT'000	KZT'000
In national currency	503,995,332	543,124,564
In foreign currency	1,683,577	340,577,901
	<u>505,678,909</u>	<u>883,702,465</u>

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30. CUSTOMER ACCOUNTS

	2016	2015
	KZT'000	KZT'000
In foreign currency	403,381,479	100,012
In national currency	192,255,282	148,779,507
	<u>595,636,761</u>	<u>148,879,519</u>

During 2016 and 2015 the National Bank maintained customer accounts in foreign and national currencies. NBK customers' industry is state management, and NBK's subsidiaries' customers' industries are financial agency services, insurance and liquidation of banks.

As at 31 December 2016 customer accounts included accounts of two customers (31 December 2015: one customer) with a balance exceeding 4% (31 December 2015: 3%) of NBK's equity. These balances as at 31 December 2016 are KZT 270,758,982 thousand (31 December 2015: KZT 111,217,732 thousand).

31. DEBT SECURITIES ISSUED

As at 31 December 2016 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KM066630	158,667,299	22/07/2016	20/01/2017	11.46
KZW1KM066895	156,156,842	19/08/2016	17/02/2017	12.08
KZW1KY017010	46,419,627	02/09/2016	01/09/2017	11.49
KZW1KM067265	114,508,217	30/09/2016	31/03/2017	11.89
KZW1KY017333	51,180,803	07/10/2016	06/10/2017	11.08
KZW1KD917402	76,175,183	14/10/2016	13/01/2017	10.77
KZW1KM067539	71,230,776	28/10/2016	28/04/2017	11.48
KZW1KY017663	50,469,325	11/11/2016	10/11/2017	11.15
KZW1KD917733	112,529,874	18/11/2016	17/02/2017	11.00
KZW1KM067802	82,269,372	25/11/2016	26/05/2017	11.04
KZW1KD287897	155,849,405	07/12/2016	04/01/2017	8.70
KZW1KY017929	42,957,384	09/12/2016	08/12/2017	10.79
KZW1KD287962	131,285,701	14/12/2016	11/01/2017	10.33
KZW1KD927989	133,251,811	15/12/2016	17/03/2017	10.69
KZW1KD288010	25,362,314	21/12/2016	18/01/2017	10.86
KZW1KD098047	32,968,024	26/12/2016	04/01/2017	8.73
KZW1KD088055	414,580,004	27/12/2016	04/01/2017	8.74
KZW1KD288077	191,869,468	28/12/2016	25/01/2017	11.04
KZW1KD078064	73,397,371	28/12/2016	04/01/2017	8.77
KZW1KD078080	220,412,989	29/12/2016	05/01/2017	9.38
KZW1KD078098	96,406,092	30/12/2016	06/01/2017	9.76
KZW1KM068107	68,092,085	30/12/2016	30/06/2017	11.07
	<u>2,506,039,966</u>			

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31. DEBT SECURITIES ISSUED, CONTINUED

As at 31 December 2015 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KD285396	60,413,361	11/12/2015	08/01/2016	10.26
KZW1KD285412	70,321,425	18/12/2015	15/01/2016	10.97
KZW1KD285438	124,284,691	25/12/2015	22/01/2016	11.24
KZW1KD285453	100,032,798	31/12/2015	28/01/2016	11.38
	355,052,275			

32. RESERVES OF GUARANTEE FUND

As at 31 December 2016 reserves of guarantee fund for deposits of individuals were KZT 258,617,223 thousand (31 December 2015: KZT 209,142,651 thousand).

33. OTHER LIABILITIES

	2016	2015
	KZT'000	KZT'000
Other creditors on non-banking activity	1,454,508	3,439,587
Other creditors on banking activity	1,423,353	1,746,649
General and administrative expenses payable	304,972	135,430
Total other financial liabilities	3,182,833	5,321,666
Salaries payable	6,791,747	5,704,688
Other prepayments received	1,490,065	1,591,050
Tax payable (except for corporate income tax)	970,093	831,252
Payables on purchase of property and equipment	84,821	94,040
Total other non-financial liabilities	9,336,726	8,221,030
Total other liabilities	12,519,559	13,542,696

34. CHARTER CAPITAL

Charter capital

The charter capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments and alterations. The share capital of the NBK is owned by the state and comprises not less than KZT 20,000,000 thousand formed by appropriations of the net income.

34. CHARTER CAPITAL, CONTINUED

As at 31 December 2016 and 31 December 2015 the charter capital of the National Bank amounted to KZT 20,000,000 thousand.

Dividends and reserve capital

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” the Management Board of the National Bank decreed to reimburse the loss of KZT 18,690,207 thousand incurred by the NBK in 2015 from the NBK reserve capital (Resolution of the Management Board No. 280 dated 28 November 2016). A part of the net income of KZT 3,960,946 thousand received from the NBK subsidiaries will be included in the NBK reserve capital.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should establish a capital reserve in the amount of not less than its share capital. Reserve capital is increased by the retained earnings and assigned exclusively for compensation and reimbursement of losses on conducted operations in accordance with the requirements set by the Management Board of the National Bank of Kazakhstan. As at 31 December 2016, the capital reserve amounted to KZT 331,691,233 thousand (31 December 2015: KZT 346,420,494 thousand).

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34. CHARTER CAPITAL, CONTINUED

Non-controlling interest

As at 31 December 2016 the non-controlling interest in the amount of KZT 319,351,285 thousand (31 December 2015: KZT 318,905,490 thousand) refers to the shareholders of the preference shares issued by “Fund of Problem Loans” JSC in the amount of KZT 314,946,332 thousand (31 December 2015: KZT 314,946,333 thousand) (Note 1).

	2016	2015
	KZT'000	KZT'000
Placements with banks	227,479,650	226,363,221
Other assets	118,517,291	106,070,506
Other liabilities	2,361,967	802,241
Net assets	343,634,974	331,631,486
Carrying amount of NCI	319,351,285	318,905,490
Interest income	25,607,933	12,818,807
Profit	12,088,878	9,726,765
Total comprehensive income	12,003,488	9,485,774
Profit (loss) allocated to NCI	-	-
Cash flows from operating activities	11,637,650	5,549,703
Cash flows (used in) from investment activities	(534,713)	35,043
Cash flows from financing activities, before dividends to NCI	-	-
Cash flows from financing activities – cash dividends to NCI	-	-
Net increase in cash and cash equivalents	11,102,937	5,584,746

The “Fund of Problem Loans” JSC has its principal place of business in the Republic of Kazakhstan.

34. CHARTER CAPITAL, CONTINUED

Capital management

Retained earnings are transferred to the share and/or reserve capital in the amount determined by the Management Board. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one year.

In case if reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank's disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year the deficiency is compensated by the State budget with a deferral of one year.

35. ANALYSIS BY SEGMENT

The National Bank's operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

36. RISK MANAGEMENT

Risk management policies and procedures

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank during its operations, 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.

36. RISK MANAGEMENT, CONTINUED

Risk management policies and procedures, continued

The management 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, Board of Directors, committees, commissions and related working groups review regularly matters related to the monetary, investment and currency policies of the National Bank and set up limits on the scope of management over its assets and customers' assets, as well as requirements for the assessment of the NBK's counterparties.

In accordance with Investment Strategy on gold and foreign currency assets management of the NBK approved by the decision of the Board on 17 June 2015 № 112 (the "GFCA Investment Strategy"), the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, and profitability growth in the medium and long-term perspective.

In accordance with these goals, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, investment portfolio, strategic portfolio, gold portfolio, developing market portfolio and portfolio of alternative investments.

In accordance with GFCA Investment Strategy "NIC NBK" JSC manages the portfolio of alternative instruments.

In accordance with GFCA Investment Strategy and Investment Strategy for Management of Portfolio of Alternative Investments of GFCA of the National Bank approved by the Resolution of the Management Board of the National Bank dated 25 February 2013 No.66, and in accordance with the terms and conditions of the Trust Investment Management Agreement No. 122NB/10 dated 29 March 2013 which was concluded between the National Bank and "NIC NBK" JSC, "NIC NBK" JSC invests a part of the gold and foreign currency assets of the National Bank in the alternative classes of assets through a special purpose vehicle - NICK Master Fund Ltd established on 18 June 2015.

The operations of the NBK's subsidiaries are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of the subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' boards of directors and internal control departments.

36. RISK MANAGEMENT, CONTINUED

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 and foreign currency exchange rates.

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

The National Bank manages its market risk mainly by conducting regular assessment of all open positions and 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.

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. The estimated tracking error of the investment portfolio of gold and foreign currency assets including derivatives does not exceed 2 (two) percent per annum as at the last working day of each month.

Tracking Error can be used only when the investor manages a portfolio against the benchmark portfolio on comparative basis.

As at 31 December 2016 and as at 31 December 2015 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

- 45 % - ML US Treasuries, 0-3 Yrs (G1QA);
- 20 % - ML 0-3 Year All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF);
- 10 % - ML UK Gilts, 0-3 Yrs (GBL0);
- 10 % - ML Japanese Governments, 0-3 Yrs (G1YA);
- 5 % - ML Australian Government Index, 0-3 Yrs (GJBT);
- 5 % - ML Canadian Government Index, 0-3 Yrs (GBCJ);
- 5 % - ML South Korean Government Index, 0-3 Yrs (GBSK).

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 National Bank 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.

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

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 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 on hand in foreign currency	-	-	-	-	-	133,165,880	133,165,880
Gold	881,890,662	25,432,519	-	-	-	2,297,887,842	3,205,211,023
Placements with banks and other financial institutions	2,496,189,668	52,131,763	332,353,915	166,256,867	226,687,647	812,159,492	4,085,779,352
Financial instruments at fair value through profit or loss	13,940,063	11,871,114	6,657,626	545,747,104	277,495,672	387,199	856,098,778
Reverse repurchase agreements	382,297,443	-	16,880,747	-	-	-	399,178,190
Available-for-sale financial assets	1,024,828,076	347,118,407	809,971,800	1,202,079,068	300,727,236	772,098,512	4,456,823,099
Held-to-maturity investments	-	55,833	217,372	1,056,958	97,647,710	-	98,977,873
Investments in associates	-	-	-	-	-	302,710	302,710
Other financial assets	43	-	1,734	69,268	1,267,886	8,004,031	9,342,962
	4,799,145,955	436,609,636	1,166,083,194	1,915,209,265	903,826,151	4,024,005,666	13,244,879,867
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	541,379,874	91,120,921	605,522,783	266,141,357	-	2,921,991,035	4,426,155,970
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,453,250	2,453,250
Repurchase agreements	35,074,130	-	-	-	-	-	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	505,678,909	505,678,909
Customer accounts	-	-	-	-	-	595,636,761	595,636,761
Debt securities issued	2,102,292,595	212,720,232	191,027,139	-	-	-	2,506,039,966
Reserves of guarantee fund	-	-	-	-	-	258,617,223	258,617,223
Other financial liabilities	-	-	-	-	-	3,182,833	3,182,833
	2,678,746,599	303,841,153	796,549,922	266,141,357	-	6,466,291,037	10,511,570,068
	2,120,399,356	132,768,483	369,533,272	1,649,067,908	903,826,151	(2,442,285,371)	2,733,309,799

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	<u>Less than 3 months</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Non-interest bearing</u>	<u>Carrying amount</u>
31 December 2015							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	211,082,236	211,082,236
Gold	846,961,914	-	-	-	-	1,729,233,519	2,576,195,433
Placements with banks and other financial institutions	3,430,237,947	150,023,427	376,421,160	597,156,609	225,797,265	551,989,899	5,331,626,307
Financial instruments at fair value through profit or loss	9,644,366	10,517,254	19,897,657	486,225,568	284,091,454	1,489,756	811,866,055
Reverse repurchase agreements	101,851,332	-	-	-	-	-	101,851,332
Available-for-sale financial assets	620,494,787	621,601,528	366,249,936	1,323,088,917	309,535,829	754,219,376	3,995,190,373
Held-to-maturity investments	-	56,437	136,279	970,058	96,950,898	-	98,113,672
Investments in associates	-	-	-	-	-	301,487	301,487
Other financial assets	57	240	1,157	74,949	974,730	7,104,813	8,155,946
	5,009,190,403	782,198,886	762,706,189	2,407,516,101	917,350,176	3,255,421,086	13,134,382,841
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	716,836,743	191,651,290	663,112,320	1,084,880,570	-	3,271,784,932	5,928,265,855
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,326,043	2,326,043
Repurchase agreements	1,100,363	-	-	-	-	-	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	883,702,465	883,702,465
Customer accounts	-	-	-	-	-	148,879,519	148,879,519
Debt securities issued	355,052,275	-	-	-	-	-	355,052,275
Reserves of guarantee fund	-	-	-	-	-	209,142,651	209,142,651
Other financial liabilities	-	-	-	-	-	5,321,666	5,321,666
	1,072,989,381	191,651,290	663,112,320	1,084,880,570	-	7,267,600,599	10,280,234,160
	3,936,201,022	590,547,596	99,593,869	1,322,635,531	917,350,176	(4,012,179,513)	2,854,148,681

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average interest rates

The table below summarises the National Bank's average interest rates on interest bearing assets and liabilities as at 31 December 2016 and 31 December 2015. These interest rates are an approximation of the yields to maturity of appropriate assets and liabilities.

	2016 KZT'000 Book value	Weighted average effective interest rate, %	2015 KZT'000 Book value	Weighted average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	907,323,181	0.09	846,961,914	0.27
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- USD	3,671,481	0.14	1,869,820	0.21
- KRW	321,315	0.10	16,111	0.13
- GBP	200,493	-	212,846	0.18
- RUB	89,145	1.90	13,147,087	0.15
- KZT	40,213	5.00	117,861	2.44
- JPY	-	-	40,315,116	0.05
- EUR	-	-	36,076,433	0.45
- Other currency	18,403,617	0.68	391,590	0.77
<i>Deposits in banks</i>				
- USD	2,207,930,106	0.51	2,970,731,078	0.36
- KZT	1,042,963,490	5.37	1,716,758,466	3.42
Financial instruments at fair value through profit or loss				
- USD	720,652,834	4.16	673,271,164	5.76
- EUR	99,351,722	2.33	91,660,190	2.82
- CAD	16,387,195	3.50	17,020,891	3.68
- GBP	13,040,997	3.51	21,924,716	4.69
- AUD	5,415,019	4.61	5,357,045	5.09
- JPY	863,812	0.30	1,142,293	0.69
Reverse repurchase agreements				
- KZT	399,178,190	10.62	101,851,332	16.47

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average interest rates, continued

	2016 KZT'000 Book value	Weighted average effective interest rate , %	2015 KZT'000 Book value	Weighted average effective interest rate , %
Available-for-sale financial assets				
- USD	2,411,084,853	0.57	1,829,977,148	0.52
- KZT	629,683,174	5.31	685,213,169	5.92
- EUR	192,917,374	1.83	244,178,875	2.16
- GBP	134,519,842	1.65	136,745,558	1.61
- JPY	83,256,731	0.34	99,935,154	0.40
- AUD	67,014,447	4.40	72,528,868	4.85
- KRW	64,013,825	2.97	70,934,785	3.19
- CAD	71,063,427	0.90	67,689,326	1.08
- CNY	31,170,914	2.63	33,768,114	2.72
Held-to-maturity investments				
- KZT	98,872,596	5.56	98,113,672	5.59
- USD	105,277	3.23	-	-
Other assets				
- KZT	1,338,931	2.73	1,051,133	2.71
Interest liabilities				
Due to banks and other financial institutions				
<i>Term deposits</i>				
- USD	1,067,904,376	-	2,498,929,506	-
- KZT	433,992,676	10.33	134,399,613	9.64
- CNY	-	-	23,151,804	-
Repurchase agreements				
- KZT	35,074,130	11.00	1,100,363	12.00
Debt securities issued				
- KZT	2,506,039,966	10.30	355,052,275	11.06

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate 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 to changes in interest rate repricing risk based on a simplified scenario of a 300 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 31 December 2015 is as follows:

	2016		2015	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	60,921,392	60,921,392	115,144,998	115,144,998
300 bp parallel fall	(60,921,392)	(60,921,392)	(115,144,998)	(115,144,998)

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 31 December 2015 and a simplified scenario of a 50 bp symmetrical fall or rise in all yield curves is as follows.

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate sensitivity analysis, continued

	2016		2015	
	Net profit or loss KZT'000	Equity KZT'000	Net profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	16,954,802	34,701,064	16,142,165	39,746,439
50 bp parallel rise	(17,087,109)	(43,916,685)	(15,758,951)	(42,270,022)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2016 is presented in the table below:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	130,048,589	3,082,120	6,278	-	2,729	26,164	133,165,880
Gold	-	3,205,211,023	-	-	-	-	-	-	3,205,211,023
Placements with banks and other financial institutions	1,113,105,215	-	2,248,209,346	129,766,588	48,572,622	517,815,994	6,179,919	22,129,668	4,085,779,352
Financial instruments at fair value through profit or loss	59,000	-	720,826,380	99,435,895	863,812	-	13,090,685	21,823,006	856,098,778
Reverse repurchase agreements	399,178,190	-	-	-	-	-	-	-	399,178,190
Available-for-sale financial assets	1,379,763,027	-	2,433,103,512	192,917,374	83,256,731	-	134,519,842	233,262,613	4,456,823,099
Held-to-maturity investments	98,872,596	-	105,277	-	-	-	-	-	98,977,873
Investments in associates	302,710	-	-	-	-	-	-	-	302,710
Other financial assets	9,342,962	-	-	-	-	-	-	-	9,342,962
Total assets	3,000,623,700	3,205,211,023	5,532,293,104	425,201,977	132,699,443	517,815,994	153,793,175	277,241,451	13,244,879,867

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	2,050,536,444	-	-	-	-	-	-	-	2,050,536,444
Deposits and balances from banks and other financial institutions	813,514,334	-	3,140,636,679	39,617,428	-	428,874,894	2,483,890	1,028,745	4,426,155,970
Financial instruments at fair value through profit or loss	1,966,694	-	13,930	226,320	217,793	-	28,513	-	2,453,250
Repurchase agreements	35,074,130	-	-	-	-	-	-	-	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	128,194,582	-	-	-	-	-	-	-	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	503,995,332	-	432,160	-	-	-	-	1,251,417	505,678,909
Customer accounts	192,255,282	-	403,380,953	78	-	-	-	448	595,636,761
Debt securities issued	2,506,039,966	-	-	-	-	-	-	-	2,506,039,966
Reserves of guarantee fund	258,617,223	-	-	-	-	-	-	-	258,617,223
Other financial liabilities	1,624,254	-	1,423,352	-	-	-	135,227	-	3,182,833
Total liabilities	6,491,818,241	-	3,545,887,074	39,843,826	217,793	428,874,894	2,647,630	2,280,610	10,511,570,068
Net position	(3,491,194,541)	3,205,211,023	1,986,406,030	385,358,151	132,481,650	88,941,100	151,145,545	274,960,841	2,733,309,799
The effect of derivatives held for risk management	(299,912,170)	-	277,463,925	6,851,608	12,149,625	-	1,327,266	502,843	(1,616,903)
Net position after derivatives held for risk management purposes	(3,791,106,711)	3,205,211,023	2,263,869,955	392,209,759	144,631,275	88,941,100	152,472,811	275,463,684	2,731,692,896

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

The following table shows the currency structure of assets and liabilities at 31 December 2015:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	209,284,635	1,760,751	7,140	-	3,357	26,353	211,082,236
Gold	-	2,576,195,433	-	-	-	-	-	-	2,576,195,433
Placements with banks and other financial institutions	1,798,271,810	-	3,023,541,981	118,466,422	77,696,941	202,159,635	42,959,336	68,530,182	5,331,626,307
Financial instruments at fair value through profit or loss	731,090	-	673,284,883	91,824,965	1,479,307	-	22,116,300	22,429,510	811,866,055
Reverse repurchase agreements	101,851,332	-	-	-	-	-	-	-	101,851,332
Available-for-sale financial assets	1,438,401,212	-	1,831,006,227	244,178,875	99,935,154	-	136,745,558	244,923,347	3,995,190,373
Held-to-maturity investments	98,113,672	-	-	-	-	-	-	-	98,113,672
Investments in associates	301,487	-	-	-	-	-	-	-	301,487
Other financial assets	8,155,946	-	-	-	-	-	-	-	8,155,946
Total assets	3,445,826,549	2,576,195,433	5,737,117,726	456,231,013	179,118,542	202,159,635	201,824,551	335,909,392	13,134,382,841

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,495,353,817	-	-	-	-	-	-	-	1,495,353,817
Deposits and balances from banks and other financial institutions	489,799,760	-	5,131,420,281	56,230,515	3,963,687	194,412,399	12,702,597	39,736,616	5,928,265,855
Financial instruments at fair value through profit or loss	2,285,996	-	38,344	-	-	-	-	1,703	2,326,043
Repurchase agreements	1,100,363	-	-	-	-	-	-	-	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	1,251,089,506	-	-	-	-	-	-	-	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	543,124,564	-	340,039,221	-	-	-	-	538,680	883,702,465
Customer accounts	148,779,507	-	99,603	409	-	-	-	-	148,879,519
Debt securities issued	355,052,275	-	-	-	-	-	-	-	355,052,275
Reserves of guarantee fund	209,142,651	-	-	-	-	-	-	-	209,142,651
Other financial liabilities	3,611,488	-	1,710,178	-	-	-	-	-	5,321,666
Total liabilities	4,499,339,927	-	5,473,307,627	56,230,924	3,963,687	194,412,399	12,702,597	40,276,999	10,280,234,160
Net position	(1,053,513,378)	2,576,195,433	263,810,099	400,000,089	175,154,855	7,747,236	189,121,954	295,632,393	2,854,148,681
The effect of derivatives held for risk management	69,362,620	-	(73,714,168)	4,699,868	(424,500)	-	850,229	(1,781,421)	(1,007,372)
Net position after derivatives held for risk management purposes	(984,150,758)	2,576,195,433	190,095,931	404,699,957	174,730,355	7,747,236	189,972,183	293,850,972	2,853,141,309

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

Management of the National Bank believes that, as at 31 December 2016 given the current economic conditions in Kazakhstan, increase and decrease of exchange rate by 20% is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only amounts in foreign currency as at 31 December 2015 and adjusts their translation for appreciation and depreciation in currency rates as at 31 December 2016.

A weakening of the KZT, as indicated below, against the following currencies as at 31 December 2016 and 31 December 2015, would have increased (decreased) equity by the amounts shown below. The analysis is based on foreign currency exchange rate variances that the National Bank considered to be reasonably possible at the end of the reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	Equity, KZT'000	Equity, KZT'000
	2016	2015
	(+20% -20%)	(+20% -20%)
Appreciation of USD against KZT	452,773,991	38,019,186
Depreciation of USD against KZT	(452,773,991)	(38,019,186)
Appreciation of EUR against KZT	78,441,952	80,939,991
Depreciation of EUR against KZT	(78,441,952)	(80,939,991)
Appreciation of Troy ounce of gold against KZT	641,042,205	515,239,087
Depreciation of Troy ounce of gold against KZT	(641,042,205)	(515,239,087)
Appreciation of JPY against KZT	28,926,255	34,946,071
Depreciation of JPY against KZT	(28,926,255)	(34,946,071)
Appreciation of GBP against KZT	30,494,562	37,994,437
Depreciation of GBP against KZT	(30,494,562)	(37,994,437)
Appreciation of SDR against KZT	17,788,220	1,549,447
Depreciation of SDR against KZT	(17,788,220)	(1,549,447)
Appreciation of other currencies against KZT	55,092,737	58,770,194
Depreciation of other currencies against KZT	(55,092,737)	(58,770,194)

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations of the sensitivity analysis include application of hypothetical movements in the market with the purpose of disclosure of the potential risks, which represent only expectations of the National Bank of the future changes in the market which cannot be predicted with sufficient level of assurance. A further limitation is the assumption that all interest rates change identically.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2016 and 2015 and a simplified scenario of a 10% change in all securities prices is as follows:

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36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Other price risk, continued

	2016		2015	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	1,960	77,211,812	1,762	75,423,700
10% decrease in securities prices	(1,960)	(77,211,812)	(1,762)	(75,423,700)

Credit risk

Credit risk the risk of financial loss to the National Bank if a borrower or counterparty fails to meet its contractual obligations. The National Bank 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 an Investment Committee, a Risk Committee, which actively monitor credit risk. The credit risk management policy is reviewed and approved by the Board.

The National Bank's credit risk management policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- Procedures for ongoing monitoring and review of the risk limit of the National Bank's counterparties.

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36. RISK MANAGEMENT, CONTINUED

Credit risk, continued

The Monetary Operations Division, based on a financial performance and financial position ratios analysis with use of international rating agencies' data, prepares information about new counterparties proposed to be included in the list of approved counterparties of the National Bank. The Investment Committee approves a new counterparty on the basis of this report.

The Department of Monetary Operations of the National Bank conduct daily monitoring of compliance with limits imposed on each individual counterparty. In addition to individual counterparty analysis, the Department of Monetary Operations monitors compliance of the credit ratings of financial instruments with the established limits.

The maximum exposure to credit risk is generally reflected in the values of financial assets on 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		
Gold	907,323,181	846,961,914
Placements with banks and other financial institutions	4,085,779,352	5,331,626,307
Financial instruments at fair value through profit or loss	856,079,183	811,848,440
Reverse repurchase agreements	399,178,190	101,851,332
Available-for-sale financial assets	3,684,724,587	3,240,970,997
Held-to-maturity investments	98,977,873	98,113,672
Other financial assets	9,342,962	8,155,946
Total maximum exposure	10,041,405,328	10,439,528,608

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 37.

36. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities

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

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

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

The National Bank's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The National Bank's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the National Bank or the counterparties. In addition, the National Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The National Bank receives and accepts collateral in the form of marketable securities in respect of the sales and repurchase agreements, reverse sale and repurchase agreements.

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36. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

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

KZT'000

Types of financial assets/financial liabilities	Full amounts of recognized financial assets/financial liabilities	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements with banks and other financial institutions	601,208,182	-	601,208,182	(601,208,182)	-	-
Reverse repurchase agreements	399,178,190	-	399,178,190	(399,178,190)	-	-
Available-for-sale financial assets	34,947,236	-	34,947,236	(35,074,130)	-	(126,894)
Total financial assets	1,035,333,608	-	1,035,333,608	(1,035,460,502)	-	(126,894)
Deposits and balances from banks and other financial institutions	(1,067,904,376)	-	(1,067,904,376)	601,208,182	-	(466,696,194)
Repurchase agreements	(35,074,130)	-	(35,074,130)	35,074,130	-	-
Total financial liabilities	1,102,978,506	-	1,102,978,506	636,282,312	-	(466,696,194)

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

KZT'000

Types of financial assets/financial liabilities	Full amounts of recognized financial assets/financial liabilities	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements with banks and other financial institutions	1,450,736,514	-	1,450,736,514	(1,450,736,514)	-	-
Reverse repurchase agreements	101,851,332	-	101,851,332	(101,851,332)	-	-
Available-for-sale financial assets	1,177,936	-	1,177,936	(1,100,363)	-	77,573
Total financial assets	1,553,765,782	-	1,553,765,782	(1,553,688,209)	-	77,573
Deposits and balances from banks and other financial institutions	(2,522,081,310)	-	(2,522,081,310)	1,450,736,514	-	(1,071,344,796)
Repurchase agreements	(1,100,363)	-	(1,100,363)	1,100,363	-	-
Total financial liabilities	(2,523,181,673)	-	(2,523,181,673)	1,451,836,877	-	(1,071,344,796)

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36. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2016.

KZT'000

Types of financial assets/financial liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Placements with banks and other financial institutions	601,208,182	Placements with banks and other financial institutions	4,085,779,352	3,484,571,170	18
Reverse repurchase agreements	399,178,190	Reverse repurchase agreements	399,178,190	-	20
Available-for-sale financial assets	34,947,236	Available-for-sale financial assets	4,456,823,099	4,421,875,863	21
Deposits and balances from banks and other financial institutions	(1,067,904,376)	Deposits and balances from banks and other financial institutions	(4,426,155,970)	(3,358,251,594)	26
Repurchase agreements	(35,074,130)	Repurchase agreements	(35,074,130)	-	27

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36. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2015.

KZT'000

<u>Types of financial assets/financial liabilities</u>	<u>Net amount</u>	<u>Line item in the consolidated statement of financial position</u>	<u>Carrying amount in the consolidated statement of financial position</u>	<u>Financial asset/liability not in the scope of offsetting disclosure</u>	<u>Note</u>
Placements with banks and other financial institutions	1,450,736,514	Placements with banks and other financial institutions	5,331,626,307	3,880,889,793	18
Reverse repurchase agreements	101,851,332	Reverse repurchase agreements	101,851,332	-	20
Available-for-sale financial assets	1,177,936	Available-for-sale financial assets	3,995,190,373	3,994,012,437	21
Deposits and balances from banks and other financial institutions	(2,522,081,310)	Deposits and balances from banks and other financial institutions	(5,928,265,855)	(3,406,184,545)	26
Repurchase agreements	(1,100,363)	Repurchase agreements	(1,100,363)	-	27

36. RISK MANAGEMENT, CONTINUED

Liquidity risk

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

The National Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfilment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The National Bank's liquidity management policy 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;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow (the “liquidity portfolio”);
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The Department of Monetary Operations based on information of the asset and liability liquidity performs analysis of the liquidity position. Afterwards, the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold as soon as it possible if required.

According to the Investment Strategy of Gold and Foreign Exchange Reserves of the National Bank the liquidity portfolio has to comply with the following parameters:

- duration of the liquidity portfolio should not exceed 1 year;
- base currency of the liquidity portfolio is USD;
- volume of liquidity portfolio should not fall below USD 1 billion inclusive of current liabilities with maturities of less than 5 (five) working days;
- volume of liquidity portfolio should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the tenth working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, it is replenished within fifteen working days after the observance of non-compliance.

The assets of the liquidity portfolio can be invested in cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 Moody's, agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A1 (Standard & Poor's) or P1 (Moody's). The maximum term for the deposit should not exceed one month.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

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36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2016 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Without maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	3,031,996,918	64,991,550	91,120,921	605,522,783	266,141,357	429,204,577	4,488,978,106	4,426,155,970
Repurchase agreements	35,105,821	-	-	-	-	-	35,105,821	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	128,194,582	-	-	-	-	-	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	505,678,909	-	-	-	-	-	505,678,909	505,678,909
Customer accounts	595,636,761	-	-	-	-	-	595,636,761	595,636,761
Debt securities issued	1,590,272,084	527,024,704	234,693,079	195,811,911	-	-	2,547,801,778	2,506,039,966
Reserves of guarantee fund	258,617,223	-	-	-	-	-	258,617,223	258,617,223
Other financial liabilities	3,182,833	-	-	-	-	-	3,182,833	3,182,833
Derivative liabilities								
- Inflow	(23,795,452)	-	-	(1,989,570)	-	-	(25,785,022)	-
- Outflow	23,613,673	262,901	-	3,666,190	-	-	27,542,764	2,453,250
Total liabilities	<u>6,148,503,352</u>	<u>592,279,155</u>	<u>325,814,000</u>	<u>803,011,314</u>	<u>266,141,357</u>	<u>429,204,577</u>	<u>8,564,953,755</u>	<u>8,461,033,624</u>
Credit related commitments	<u>274,445,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>274,445,137</u>	<u>274,445,137</u>

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36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Without maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	3,254,994,369	461,393,570	191,651,290	740,754,625	1,084,880,570	194,748,730	5,928,423,154	5,928,265,855
Repurchase agreements	1,101,810	-	-	-	-	-	1,101,810	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	1,251,089,506	-	-	-	-	-	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	883,702,465	-	-	-	-	-	883,702,465	883,702,465
Customer accounts	148,879,519	-	-	-	-	-	148,879,519	148,879,519
Debt securities issued	357,251,084	-	-	-	-	-	357,251,084	355,052,275
Reserves of guarantee fund	209,142,651	-	-	-	-	-	209,142,651	209,142,651
Other financial liabilities	5,321,666	-	-	-	-	-	5,321,666	5,321,666
Derivative liabilities								
- Inflow	(1,945,545)	-	-	-	(3,740,110)	-	(5,685,655)	-
- Outflow	1,957,422	28,238	-	-	1,989,570	-	3,975,230	2,326,043
Total liabilities	6,111,494,947	461,421,808	191,651,290	740,754,625	1,083,130,030	194,748,730	8,783,201,430	8,784,880,343
Credit related commitments	214,883,000	-	-	-	-	-	214,883,000	214,883,000

Management expects that the cash flows from certain financial liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

The gross nominal inflow/(outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivative liabilities that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

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36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at 31 December 2016:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash on hand in foreign currency	133,165,880	-	-	-	-	-	133,165,880
Gold	198,177,613	683,713,049	25,432,519	-	-	2,297,887,842	3,205,211,023
Placements with banks and other financial institutions	3,068,334,170	240,016,420	384,484,248	166,256,867	226,687,647	-	4,085,779,352
Financial instruments at fair value through profit or loss	3,251,960	1,741,710	3,890,097	543,868,601	296,593,886	6,752,524	856,098,778
Reverse repurchase agreements	276,981,625	105,315,817	16,880,748	-	-	-	399,178,190
Available-for-sale financial assets	51,799,522	796,032,185	1,169,832,534	1,324,140,574	298,497,980	816,520,304	4,456,823,099
Held-to-maturity investments	-	-	202,856	1,093,526	97,681,491	-	98,977,873
Investments in associates	-	-	-	-	-	302,710	302,710
Other financial assets	8,004,030	44	1,734	69,268	1,267,886	-	9,342,962
Total assets	3,739,714,800	1,826,819,225	1,600,724,736	2,035,428,836	920,728,890	3,121,463,380	13,244,879,867
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	2,969,174,782	64,991,550	696,643,704	266,141,357	-	429,204,577	4,426,155,970
Financial instruments at fair value through profit or loss	223,655	262,901	1,966,694	-	-	-	2,453,250
Repurchase agreements	35,074,130	-	-	-	-	-	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	128,194,582	-	-	-	-	-	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	505,678,909	-	-	-	-	-	505,678,909
Customer accounts	595,636,761	-	-	-	-	-	595,636,761
Debt securities issued	1,585,845,850	516,446,745	403,747,371	-	-	-	2,506,039,966
Reserves of guarantee fund	258,617,223	-	-	-	-	-	258,617,223
Other financial liabilities	3,182,833	-	-	-	-	-	3,182,833
Total liabilities	6,081,628,725	581,701,196	1,102,357,769	266,141,357	-	2,479,741,021	10,511,570,068
Net position	(2,341,913,925)	1,245,118,029	498,366,967	1,769,287,479	920,728,890	641,722,359	2,733,309,799

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36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at 31 December 2015:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash on hand in foreign currency	211,082,236	-	-	-	-	-	211,082,236
Gold	546,258,737	300,703,177	-	-	-	1,729,233,519	2,576,195,433
Placements with banks and other financial institutions	3,695,139,266	287,088,581	526,444,586	597,156,609	225,797,265	-	5,331,626,307
Financial instruments at fair value through profit or loss	1,960,924	3,751,317	17,700,616	486,225,568	294,371,931	7,855,699	811,866,055
Reverse repurchase agreements	48,535,882	53,315,450	-	-	-	-	101,851,332
Available-for-sale financial assets	124,437,086	301,173,027	1,096,259,353	1,409,567,957	260,935,140	802,817,810	3,995,190,373
Held-to-maturity investments	-	-	121,673	1,006,717	39,010,655	57,974,627	98,113,672
Investments in associates	-	-	-	-	-	301,487	301,487
Other financial assets	7,104,813	57	1,397	74,949	974,730	-	8,155,946
Total assets	4,634,518,944	946,031,609	1,640,527,625	2,494,031,800	821,089,721	2,598,183,142	13,134,382,841
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	3,322,839,071	393,391,570	932,351,209	1,084,935,275	-	194,748,730	5,928,265,855
Financial instruments at fair value through profit or loss	11,809	28,238	-	2,285,996	-	-	2,326,043
Repurchase agreements	1,100,363	-	-	-	-	-	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	1,251,089,506	-	-	-	-	-	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	883,702,465	-	-	-	-	-	883,702,465
Customer accounts	148,879,519	-	-	-	-	-	148,879,519
Debt securities issued	355,052,275	-	-	-	-	-	355,052,275
Reserves of guarantee fund	209,142,651	-	-	-	-	-	209,142,651
Other financial liabilities	5,321,666	-	-	-	-	-	5,321,666
Total liabilities	6,177,139,325	393,419,808	932,351,209	1,087,221,271	-	1,690,102,547	10,280,234,160
Net position	(1,542,620,381)	552,611,801	708,176,416	1,406,810,529	821,089,721	908,080,595	2,854,148,681

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37. CREDIT RELATED COMMITMENTS

The National Bank has outstanding credit related commitments to extend loans. These commitments take the form of approved loans and overdraft facilities.

The National Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2016	2015
	KZT'000	KZT'000
Contracted amount		
Loan and credit line commitments	207,067,262	181,396,607
Investment commitments	67,165,673	33,052,423
Guarantees and letters of credit	212,202	433,970
	<u>274,445,137</u>	<u>214,883,000</u>

“NIC NBK” JSC implements the program of investments in alternative classes of assets through a special purpose vehicle NICK Master Fund Ltd. As at 31 December 2016, NICK Master Fund Ltd. has payment liabilities of KZT 67,165,673 thousand (2015: KZT 33,052,423 thousand) to its partner Tarragon LP. Investments are made in sub-funds selected by NICK Master Fund Ltd. These confirmed liabilities can be changed.

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

38. CONTINGENCIES

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 National Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to National Bank's operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the National Bank's operations and financial position.

Litigation

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

Taxation contingencies

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

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

39. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES

Funds management and trust services

The National Bank provides trust and asset management services to trust companies, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2016, the total amount of assets that the National Bank holds and manages for outside organisations is KZT 1,084,254,559 thousand (31 December 2015: KZT 896,318,489 thousand).

As at 31 December 2016, the total amount of assets that the National Bank holds and manages for the National Fund is KZT 21,390,553,673 thousand (31 December 2015: KZT 23,589,921,384 thousand). A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

Custody activities

During 2016 and 2015 the National Bank provided custody services to “UNPF” JSC. As at 31 December 2016, the total amount of assets of UNPF JSC under the custodial service of the National Bank equals KZT 6,680,136,950 thousand (31 December 2015: KZT 5,831,460,254 thousand).

Assets of depositors

On 26 November 2012 the NBK acquired shares of “Central Securities Depository” JSC (the “Central Depository”), which performs the accounting of financial instruments and money of their clients. Accounting for financial instruments and money of the Central Depository’s clients is performed separately from its own financial instruments and money on off balance sheet accounts.

**39. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES,
CONTINUED**

Assets of depositors, continued

As at 31 December 2016, the total amount of financial instruments and money in nominal holding and bank accounts of depositors in the Central Depository is KZT 17,830,127,027 thousand (31 December 2015: KZT 21,332,839,377 thousand).

40. RELATED PARTY TRANSACTIONS

**Transactions with the members of the Board of Directors and the
Management Board**

The remuneration to the members of the National Bank's Management Board and the Board of Directors for the year ended 31 December 2016, comprised KZT 597,337 thousand (2015: KZT 561,204 thousand). The remuneration consists of salary and other payments.

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40. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2016 and 31 December 2015 and related profit or loss amounts of transactions for the years then ended with other related parties are as follows.

	State companies and organisations			
	31 December 2016		31 December 2015	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Consolidated statement of financial position ASSETS				
Placements with banks and other financial institutions	282,470,941	1.34	157,452,917	1.44
Available-for-sale financial assets	1,312,361,899	2.49	1,438,323,613	2.84
Held-to-maturity investments	97,424,036	5.18	98,091,620	4.82
Current tax asset	3,320,437	-	1,154,864	-
Deferred tax assets	30,278,026	-	31,412,330	-
Other assets	6,542,242	-	3,436,686	-

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40. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2016		31 December 2015	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
LIABILITIES				
Deposits and balances from banks and other financial institutions	207,949,955	5.02	403,370,386	2.92
Current accounts of the National Fund of the Republic of Kazakhstan	128,194,582	-	1,251,089,506	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	505,678,909	-	883,702,465	-
Customer accounts	192,197,587	-	148,830,700	-
Current tax liability	986,170	-	677,884	-
Deferred tax liabilities	2,274,178	-	2,080,794	-
Other liabilities	1,165,584	-	466,980	-
Consolidated Statement of Profit or Loss				
Interest income	43,135,614	-	28,203,215	-
Interest expense	(14,097,616)	-	(991,326)	-
Fee and commission income	17,141,027	-	25,904,571	-
Fee and commission expense	(1,193,912)	-	(442)	-
Net gain on available-for-sale financial assets	3,815,784	-	2,904,386	-
Other operating income, net	166,564	-	4,148,098	-
Banknotes and coins production expenses	(45,200)	-	(40,387)	-
Funding of third parties	(194,150)	-	(190,327)	-
Personnel expenses	(1,594,029)	-	(1,666,112)	-
Other general and administrative expenses	(15,209,972)	-	(1,113,181)	-
Income tax (expense) benefit	(5,451,445)	-	9,793,268	-

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41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

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	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for- sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	133,165,880	-	-	133,165,880	133,165,880
Gold	3,205,211,023	-	-	-	-	3,205,211,023	3,205,211,023
Placements with banks and other financial institutions	-	-	4,085,779,352	-	-	4,085,779,352	4,085,779,352
Financial instruments at fair value through profit or loss	856,098,778	-	-	-	-	856,098,778	856,098,778
Reverse repurchase agreements	-	-	399,178,190	-	-	399,178,190	434,462,725
Available-for-sale financial assets	-	-	-	3,706,823,099	-	3,706,823,099	3,706,823,099
Held-to-maturity investments	-	98,977,873	-	-	-	98,977,873	79,299,774
Other financial assets	-	-	9,342,962	-	-	9,342,962	9,342,962
	4,061,309,801	98,977,873	4,627,466,384	3,706,823,099	-	12,494,577,157	12,510,183,593
Currency in circulation	-	-	-	-	2,050,536,444	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	-	-	-	-	4,426,155,970	4,426,155,970	4,426,155,970
Financial instruments at fair value through profit or loss	2,453,250	-	-	-	-	2,453,250	2,453,250
Repurchase agreements	-	-	-	-	35,074,130	35,074,130	34,947,236
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	128,194,582	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	505,678,909	505,678,909	505,678,909
Customer accounts	-	-	-	-	595,636,761	595,636,761	595,636,761
Debt securities issued	-	-	-	-	2,506,039,966	2,506,039,966	2,506,039,966
Reserves of guarantee fund	-	-	-	-	258,617,223	258,617,223	258,617,223
Other financial liabilities	-	-	-	-	3,182,833	3,182,833	3,182,833
	2,453,250	-	-	-	10,509,116,818	10,511,570,068	10,511,443,174

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41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

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	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for- sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	211,082,236	-	-	211,082,236	211,082,236
Gold	2,576,195,433	-	-	-	-	2,576,195,433	2,576,195,433
Placements with banks and other financial institutions	-	-	5,331,626,307	-	-	5,331,626,307	5,331,626,307
Financial instruments at fair value through profit or loss	811,866,055	-	-	-	-	811,866,055	811,866,055
Reverse repurchase agreements	-	-	101,851,332	-	-	101,851,332	109,864,338
Available-for-sale financial assets	-	-	-	3,242,079,929	-	3,242,079,929	3,242,079,929
Held-to-maturity investments	-	98,113,672	-	-	-	98,113,672	86,069,920
Other financial assets	-	-	8,155,946	-	-	8,155,946	8,155,946
	3,388,061,488	98,113,672	5,652,715,821	3,242,079,929	-	12,380,970,910	12,376,940,164
Currency in circulation	-	-	-	-	1,495,353,817	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	-	-	-	-	5,928,265,855	5,928,265,855	5,928,265,855
Financial instruments at fair value through profit or loss	2,326,043	-	-	-	-	2,326,043	2,326,043
Repurchase agreements	-	-	-	-	1,100,363	1,100,363	1,177,936
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	1,251,089,506	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	883,702,465	883,702,465	883,702,465
Customer accounts	-	-	-	-	148,879,519	148,879,519	148,879,519
Debt securities issued	-	-	-	-	355,052,275	355,052,275	355,052,275
Reserves of guarantee fund	-	-	-	-	209,142,651	209,142,651	209,142,651
Other financial liabilities	-	-	-	-	5,321,666	5,321,666	5,321,666
	2,326,043	-	-	-	10,277,908,117	10,280,234,160	10,280,311,733

41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

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 National Bank 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 premia 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 National Bank 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 judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

**41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND
ACCOUNTING CLASSIFICATIONS, CONTINUED**

Accounting classifications and fair values, continued, continued

As disclosed in Note 21, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 750,000,000 thousand (2015: KZT 753,110,444 thousand) cannot be determined.

Fair value hierarchy

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: unobservable inputs. 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 difference between the instruments.

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41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

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:

31 December 2016

KZT'000

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	855,731,174	-	855,731,174
- Derivative assets	152,582	215,022	367,604
- Derivative liabilities	(466,035)	(1,987,215)	(2,453,250)
Available-for-sale financial assets			
- Debt and other fixed income instruments	3,054,580,852	630,143,735	3,684,724,587
- Equity investments	22,018,658	79,854	22,098,512
	<u>3,932,017,231</u>	<u>628,451,396</u>	<u>4,560,468,627</u>

31 December 2015

KZT'000

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	810,393,914	-	810,393,914
- Derivative assets	725,600	746,541	1,472,141
- Derivative liabilities	(38,344)	(2,287,699)	(2,326,043)
Available-for-sale financial assets			
- Debt and other fixed income instruments	2,505,677,511	735,293,486	3,240,970,997
- Equity investments	1,029,078	79,854	1,108,932
	<u>3,317,787,759</u>	<u>733,832,182</u>	<u>4,051,619,941</u>

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41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

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

KZT'000	Level 1	Level 2	Total fair values	Total carrying amounts
ASSETS				
Cash on hand in foreign currency	-	133,165,880	133,165,880	133,165,880
Gold	-	3,205,211,023	3,205,211,023	3,205,211,023
Placements with banks and other financial institutions	-	4,085,779,352	4,085,779,352	4,085,779,352
Reverse repurchase agreements	-	399,178,190	399,178,190	399,178,190
Held-to-maturity investments	-	79,299,774	79,299,774	98,977,873
Other financial assets	-	9,342,962	9,342,962	9,342,962
LIABILITIES				
Currency in circulation	-	2,050,536,444	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	-	4,426,155,970	4,426,155,970	4,426,155,970
Repurchase agreements	-	34,947,236	34,947,236	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	-	128,194,582	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	505,678,909	505,678,909	505,678,909
Customer accounts	-	595,636,761	595,636,761	595,636,761
Debt securities issued	-	2,506,039,966	2,506,039,966	2,506,039,966
Reserves of guarantee fund	-	258,617,223	258,617,223	258,617,223
Other financial liabilities	-	3,182,833	3,182,833	3,182,833

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41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

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 1	Level 2	Total fair values	Total carrying amounts
ASSETS				
Cash on hand in foreign currency	-	211,082,236	211,082,236	211,082,236
Gold	-	2,576,195,433	2,576,195,433	2,576,195,433
Placements with banks and other financial institutions	-	5,331,626,307	5,331,626,307	5,331,626,307
Reverse repurchase agreements	92,607,978	17,256,360	109,864,338	101,851,332
Held-to-maturity investments	-	86,069,920	86,069,920	98,113,672
Other financial assets	-	8,155,946	8,155,946	8,155,946
LIABILITIES				
Currency in circulation	-	1,495,353,817	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	-	5,928,265,855	5,928,265,855	5,928,265,855
Repurchase agreements	-	1,177,936	1,177,936	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	-	1,251,089,506	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	883,702,465	883,702,465	883,702,465
Customer accounts	-	148,879,519	148,879,519	148,879,519
Debt securities issued	-	355,052,275	355,052,275	355,052,275
Reserves of guarantee fund	-	209,142,651	209,142,651	209,142,651
Other financial liabilities	-	5,321,666	5,321,666	5,321,666

42. EVENTS AFTER THE REPORTING PERIOD

In accordance with point 4 of the Anti-Crisis Action Plan of the Government of the Republic of Kazakhstan and National Bank of the Republic of Kazakhstan to Ensure the Economic and Social Stability for 2016-2018 approved by the Government of the Republic of Kazakhstan, and the third priority - “Macroeconomic Stability” of the Message of the Head of the State to the people of Kazakhstan dated 31 January 2017, the Management Board of the National Bank decreed on 21 February 2017 to transfer the ordinary shares of the Fund of Problem Loans JSC, free of charge, to the Government of the Republic of Kazakhstan represented by the Committee of Public Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan.