

Kazakhstan Stock Exchange JSC

Consolidated financial statements

For the year ended 31 December 2016

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Independent auditor's report

To the Shareholders and Board of Directors of
Kazakhstan Stock Exchange JSC

Opinion

We have audited the consolidated financial statements of Kazakhstan Stock Exchange Joint Stock Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 IFRSs, and for such internal control as management determines is necessary to enable preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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



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Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young LLP



Bakhtiyor Eshonkulov
Auditor / Audit partner

Auditor's qualification certificate
No. МФ-0000099 dated 27 August 2012

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

10 April 2017



Gulmira Turmagambetova
General director
Ernst & Young LLP

State audit license for audit activities on
the territory of the Republic of Kazakhstan:
series МФЮ-2 No. 0000003 issued by
the Ministry of Finance of the Republic of
Kazakhstan on 15 July 2005

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016


In thousands of Kazakhstan tenge, except for Earnings per Share, which are in Tenge

	Note	Year ended	
		31 December 2016	31 December 2015
Fee and commission income	4	1,506,977	1,651,641
Interest income	5	649,894	421,673
Charge of allowance for impairment of interest bearing assets and other assets	6	(8,472)	(3,529)
Net losses from available-for-sale investment securities		-	(77,219)
Net (loss)/gain from foreign exchange operations	7	(4,306)	536,774
Share of profit of associate	16	612	1,266
Other income		10,085	16,341
Operating income		2,154,790	2,546,947
Operating expenses	8	(1,286,814)	(1,299,676)
Profit before tax		867,976	1,247,271
Corporate income tax expense	9	(146,201)	(268,111)
Net profit		721,775	979,160
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in the current or subsequent periods</i>			
Net realized gain from sale of available-for-sale investment securities		-	84,649
Net unrealised loss from revaluation of available-for-sale investment securities		(45)	(45,253)
<i>Other comprehensive income not to be reclassified to profit or loss in the current or subsequent periods</i>			
Revaluation of property and equipment, net		213,902	-
Revaluation of property and equipment	17	218,846	-
Income tax effect	9	(4,944)	-
Other comprehensive income		213,857	39,396
Total comprehensive income		935,632	1,018,556
Earnings per share			
Basic and diluted (KZT)	10	766.20	1,039.43

On behalf of the Management




Aldambergen A.O.
Chairman of the Management Board



Kapanova I.B.
Chief accountant

10 April 2017
Almaty, Kazakhstan

The notes on pages 6-37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2016

(In thousands of tenge)


	<i>Note</i>	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	11	110,159	63,294
Restricted cash	12	426,636	1,889,081
Amounts due from banks	13	2,635,126	4,590,794
Available-for-sale investment securities	14	21,053	21,053
Held-to-maturity investments	15	2,547,064	22,054
Investments in associate	16	140,464	139,852
Advances paid		3,844	6,097
Property and equipment	17	1,475,191	1,262,635
Intangible assets	18	208,231	185,861
Current corporate income tax prepaid		157,764	67,902
Deferred corporate tax asset		-	615
Other assets	19	83,464	82,054
Total assets		7,808,996	8,331,292
Liabilities and equity			
Liabilities			
Payables to trade members on restricted cash	12	426,636	1,889,101
Advances received		41,310	48,203
Current corporate income tax liabilities		2,786	3,214
Deferred corporate income tax liabilities	9	35,541	24,773
Other liabilities	20	57,935	56,845
Total liabilities		564,208	2,022,136
Equity			
Share capital	21	2,366,256	2,366,256
Revaluation reserve on available-for-sale investment securities		145	190
Revaluation reserve for property and equipment	17	213,770	-
Other reserves		225,000	225,000
Retained earnings		4,439,617	3,717,710
Total equity		7,244,788	6,309,156
Total liabilities and equity		7,808,996	8,331,292

On behalf of the Management




Aldamergen A.O.
Chairman of the Management Board

10 April 2017
Almaty, Kazakhstan



Kapanova I.B.
Chief accountant

The notes on pages 6-37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

(thousands of tenge)

	Share capital	Revaluation reserve on available-for-sale investment securities	Property and equipment revaluation reserve	Other reserves	Retained earnings	Total capital
At 31 December 2014	2,366,256	(39,206)	–	170,000	2,793,550	5,290,600
Other comprehensive income	–	39,396	–	–	–	39,396
Increase in reserves	–	–	–	55,000	(55,000)	–
Net profit for the year	–	–	–	–	979,160	979,160
Total comprehensive income	–	39,396	–	55,000	924,160	1,018,556
At 31 December 2015	2,366,256	190	–	225,000	3,717,710	6,309,156
Other comprehensive income	–	(45)	–	–	–	(45)
Revaluation of property and equipment, net of income tax (Note 17)	–	–	213,902	–	–	213,902
Amortisation of revaluation reserve	–	–	(132)	–	132	–
Net profit for the year	–	–	–	–	721,775	721,775
Total comprehensive income	–	(45)	213,770	–	721,907	935,632
At 31 December 2016	2,366,256	145	213,770	225,000	4,439,617	7,244,788

On behalf of the Management




Aldambergen A.O.
Chairman of the Management Board

10 April 2017
Almaty, Kazakhstan



Kapanova I.B.
Chief accountant

The notes on pages 6-37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

(thousands of tenge)

	<i>Note</i>	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit before tax		867,976	1,247,271
Adjustments of non-monetary items			
Allowance charge for impairment of assets	6	8,472	3,529
Loss from revaluation of property and equipment	17	4,796	-
Share of profit of associate	16	(612)	(1,266)
Net change in fair value of available-for-sale investment securities		(45)	-
Loss on disposal of property and equipment		1,618	602
Loss from dealing		-	195
Accrued interest income	5	(649,894)	(421,673)
Depreciation and amortization	8	75,217	66,156
Cash flows from operating activities before changes in operating assets and liabilities		307,528	894,814
Changes in operating assets and liabilities			
<i>(Increase)/decrease in operating assets</i>			
Restricted cash		1,462,445	(1,666,068)
Amounts due from banks		1,962,512	(1,699,345)
Advances paid		2,253	(2,504)
Other assets		(9,498)	20,030
<i>Increase /(decrease) in operating liabilities</i>			
Payables to trade members on restricted cash		(1,462,465)	1,666,088
Advances received		(6,893)	(1,160)
Other liabilities		1,090	15,769
Cash flows/(outflows) from operating activities before taxes and interest received		2,256,972	(772,376)
Interest received		643,050	563,773
Corporate income tax paid		(230,052)	(318,596)
Net cash flows received from / (used in) operating activities		2,669,970	(527,199)

The notes on pages 6-37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	<i>Note</i>	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
Cash flows from investing activities			
Purchase of property and equipment	17	(58,912)	(7,855)
Purchase of intangible assets	18	(9,518)	(3,477)
Salaries and other costs capitalized to intangible assets		(29,665)	(30,252)
Proceeds from sale of property and equipment		-	77
Acquisition of held-to-maturity investments		(2,525,010)	-
Proceeds from sale of available-for-sale investment securities		-	533,247
Proceeds from redemption of held-to-maturity investment securities		-	25,577
Net cash (used in)/received from investing activities		(2,623,105)	517,317
Net increase/(decrease) in cash and cash equivalents		46,865	(9,882)
Cash and cash equivalents, beginning	11	63,294	73,176
Cash and cash equivalents, ending	11	110,159	63,294

On behalf of the Management




Aldambergen A.O.
Chairman of the Management Board



Kapanova I.B.
Chief accountant

10 April 2017
Almaty, Kazakhstan

(in thousands of Tenge, unless otherwise is stated)

1. ORGANIZATION

Kazakhstan Stock Exchange Joint Stock Company (hereinafter, the "Company" or "Stock Exchange") was established on 17 November 1993 in accordance with the legislation of the Republic of Kazakhstan.

Currently the Company conducts its operations under a certificate on state re-registration of a legal entity No. 1952-1910-01-AO dated 7 January 2004 issued by the department of Justice of Bostandyk district of Almaty city.

The Company carries out its activities on the securities' market based on licenses:

- 1) The license to carry out activities on the securities market dated 19 July 2012 No. 4.2.3 / 1 issued by the Committee of the National Bank of the Republic of Kazakhstan on Control and Supervision of Financial Market and Financial Organizations (the "FMSC"). The license gives the right to carry out the following activities on:
 - management of trading in securities and other financial instruments;
 - clearing activities on transactions with financial instruments on securities' market.
- 2) The license to conduct banking operations in national and foreign currency dated 29 June 2012 No. 5.3.3 issued by the FMSC. The license gives the right to conduct the following banking operations:
 - opening and maintaining correspondent accounts of banks and entities carrying out certain types of banking operations;
 - transfer operations: execution of orders of individuals and legal entities on payments and money transfer;
 - opening and maintaining bank accounts of legal entities.

The Company's registered office is: 050040, Republic of Kazakhstan, Almaty, Baizakov str., 280, North Tower, multifunctional complex "Almaty Towers", 8th floor.

The core activities of the Company and its subsidiaries (hereinafter, the "Group") include organizational support and maintenance of trading in securities and other financial instruments through direct trading using the Company's trade system, providing financial, information and other services not prohibited by the legislation of the Republic of Kazakhstan.

As at 31 December 2016 and 31 December 2015, the Company was owned by the following shareholders, where three of them owning more than 5% of the total placed common shares of the Company:

		31 December 2016, %	31 December 2015, %
Shareholders			
National Bank of the Republic of Kazakhstan SI	1	50.10	50.10
Venture Funds CENTRAS LLP	2	6.88	6.74
Kazkommertsbank JSC	3	6.33	6.33
Others (individually own less than 5%)		36.69	36.83
Total		100.00	100.00

In accordance with the Law of the Republic of Kazakhstan *On Securities Market* ("the Law") paragraph 2 Article 84, the share of each shareholder of the trading organizer jointly with its affiliates may not exceed twenty percent of the total number of placed shares, except for the case when the shareholder is the authorized body, which is, the National Bank of the Republic of Kazakhstan.

As at 31 December 2016, the ultimate controlling party of the Company is the National Bank of the Republic of Kazakhstan ("NBRK").

*(in thousands of Tenge, unless otherwise is stated)***1. ORGANIZATION (continued)**

The Company is the parent of the Group, which includes the following entities consolidated for the purposes of these financial statements as at 31 December 2016 and 2015:

<i>Name</i>	<i>Country of operation</i>	<i>Proportion of voting shares (%)</i>	<i>Contribution to charter capital (KZT thousand)</i>	<i>Type of activities</i>
Information agency on financial markets IRBIS LLP	Kazakhstan	100	8,930	Information services
eTrade.kz LLP	Kazakhstan	100	12,852	Information technologies
			<u>21,782</u>	

On 9 December 2016, the Board of Directors of the Company made a decision to approve commencement of liquidation of Information agency on financial markets IRBIS LLP.

Associate

The Company's associate RTRS LLP operates in the Republic of Kazakhstan and carries out the function of trading reserve and settlement center. Investment in associate is accounted for under the equity method for consolidation purposes.

As at 31 December 2016 and 31 December 2015, the contribution in share capital of associate amounted to 50% of direct participation and there is indirect participation in the share capital of RTRS LLP through the ownership of 34.69% of shares in Central Securities Depository JSC.

The Group does not consolidate the financial statements of RTRS LLP as a subsidiary as the Group has no control. NBRK has effective control of RTRS LLP through the ownership of 54.98% of shares of Central Securities Depository JSC in accordance with the Law *On the Securities Market* and through the ownership of 50.1% of shares of the Stock Exchange. The total indirect contribution of NBRK in the charter capital of RTRS LLP is 52.54%.

2. BASIS OF PREPARATION**Accounting basis**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies. For example, available-for-sale investments, certain group of property and equipment: buildings, land, vehicles were measured at fair value.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in thousands of Kazakhstan Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

Functional currency

The functional currency of the Group's consolidated financial statements is tenge, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group.

Application of new and revised IFRS**Changes in accounting policies**

The adopted accounting policies are consistent with those of the previous financial year, except for the new and revised standards and interpretations effective on 1 January 2015 and changes in estimates enacted on 1 December that are recognized prospectively, and are not a change in accounting policies, and are included in the calculation of net profit in the period when the change occurred, as it affects this and subsequent periods.

(in thousands of Tenge, unless otherwise is stated)

2. BASIS OF PREPARATION (continued)

Application of new and revised IFRS (continued)

Changes in accounting policies (continued)

Significant changes in estimates affected the following sections of the accounting policies:

- 1) Accounting for property and equipment, intangible assets:
 - depreciation rates;
 - subsequent measurement of property and equipment groups: building, land, vehicles (at revalued basis);
 - procedure of write-off of property and equipment and intangible assets.
- 2) Accounting for overdue accounts:
 - procedure of write-off overdue accounts;
 - terms, amount of allowance for doubtful debts.

New and amended standards and interpretations

The Group applied the following IFRS amendments, which became effective for annual periods on or after 1 January 2016:

Annual improvements 2012-2014 cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Company. They include the following amendments:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016. Early application is permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The Company must assess the nature of the fee and arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – Applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. However, the interim disclosure standard, IAS 34, does not reflect this requirement. As a result, it is not clear whether the respective information should be disclosed in the condensed interim financial statements or not.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. These amendment must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

(in thousands of Tenge, unless otherwise is stated)

2. BASIS OF PREPARATION (continued)

Application of new and revised IFRS (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral account balances as separate line items on the statement of financial position and present movements in these account balances as separate line items in the income statement and statement of other comprehensive income. The standard requires disclosures on the nature of activities of the entity subject to rate-regulation, associated risks and the effects of that rate-regulation on its financial statements. IFRS 14 becomes effective for financial years beginning on or after 1 January 2016. The standard has no impact on the Group, since the Group is an existing IFRS preparer.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify one of the principles in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Group does not use revenue based methods to depreciate non-current assets.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments must be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Early application is permitted.

(in thousands of Tenge, unless otherwise is stated)

2. BASIS OF PREPARATION (continued)

Application of new and revised IFRS (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle (continued)

IAS 19 Employee Benefits – discounting rate for regional market

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency, in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendments are effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group plans, if necessary, to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous version of IFRS 9. The standard introduces new requirements to classification and measurement, impairment and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Early application is permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 will have no effect on the classification and measurement of the Group's financial assets.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. Early application is permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

(in thousands of Tenge, unless otherwise is stated)

2. BASIS OF PREPARATION (continued)

Application of new and revised IFRS (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle (continued)

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 becomes effective for financial years beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Group does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group now evaluates the impact of the adoption of these amendments.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. These amendments are not expected to have any impact to the Group.

(in thousands of Tenge, unless otherwise is stated)

2. BASIS OF PREPARATION (continued)

Application of new and revised IFRS (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary relief is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. These amendments are not expected to have any impact to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Financial statements of subsidiaries are consolidated with the financial statements of the Group from the effective date of acquisition (the date at which implementation of effective control from the Group begins) and up to the effective date of disposal (the date at which implementation of effective control from the Group ends). Total comprehensive income of subsidiaries is attributed to the owners of the Group.

The financial statements of the Group's subsidiaries are prepared for the same reporting year as the financial statements of the Company, using consistent accounting policies.

All intra Group transactions, balances, income and expenses are eliminated in full on consolidation.

Recognition of fee and commission income

Fee and commission income is recognized as services are provided. Membership and listing fees are recognized based on the decision on acceptance of the organization as a member of the Stock Exchange and inclusion of securities in the official listing of the Stock Exchange. Income derived by the Company from any organization as monthly membership fees is recognized constantly on a monthly basis whilst the organization is a member of Stock Exchange. Income on annual listing fees is recognized during the twelve month period to which it is related.

Recognition of interest income

Interest income is recognized on an accrual basis using the effective interest method (EIR). The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts the estimated future cash receipts to the net carrying amount of the financial asset or financial liability. In this regard, cash flows are discounted for the period of the expected life of the financial asset or financial liability, or, where appropriate, for a shorter period.

Interest income includes interest on investments in securities, interest on deposits and on cash balances accrued using the effective interest method.

(in thousands of Tenge, unless otherwise is stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of interest income (continued)

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized with consideration of the initial effective interest rate used to discount the future cash flows for the purpose of measuring the impairment losses.

Fair value measurement

The Group measures financial instruments, such as available-for-sale investment securities at the cost approximating their fair value at each balance sheet date. Information on fair value of financial instruments measured at amortized cost is disclosed in Note 23.

The fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial instruments

The Group recognizes financial assets and liabilities in the consolidated statement of financial position when it becomes a party to the contract relating to the respective financial instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are classified into the following specified categories: held-to-maturity investments; available-for-sale investments and receivables.

Held-to-maturity investments

Held-to-maturity investments comprise listing debt securities, which are not derivative instruments with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity.

(in thousands of Tenge, unless otherwise is stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Held-to-maturity investments (continued)

Held-to-maturity investments are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before their maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years. Amortization of held-to-maturity investments is recognised in the statement of comprehensive income.

Available-for-sale investment securities

Investments are classified as available-for-sale investments, if it is held for an indefinite period of time and is realized when favourable market conditions are met, or liquidation requirements to be met on investments.

Available-for-sale investments are recorded at the cost approximating the fair value and changes in their fair value are recognized directly within other comprehensive income of the Group as available for sale investments revaluation reserve. Where the investment is disposed by the Group, the amount previously accumulated in the investments revaluation reserve in other comprehensive income is recognized in the income statement. Interest on corporate bonds classified as AFS calculated using the effective interest method, which is recognised in the statement of comprehensive income as interest income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Accounts receivable

Accounts receivable are carried at amortised cost using the effective interest rate method. Where the accounts receivable bear a short-term nature and the effect of future cash flow discounting is not material, the accounts receivable are carried at cost. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organisation; or
- absence of an active market for that financial asset because of financial difficulties.

Certain categories of financial assets, such as accounts receivable, assets that have not been individually recognized as impaired, in addition, are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

(in thousands of Tenge, unless otherwise is stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such an impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables and held-to-maturity investments where the carrying amount is reduced through the use of an allowance account. Subject to recognition as uncollectible, receivables or held-to-maturity investments are written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date when impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

If an AFS investment is impaired, amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income is transferred from equity to statement of comprehensive income.

Losses from impairment of equity instruments available for sale previously recognized in profit or loss are not reversed. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments available-for-sale revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred substantially all the risks and rewards of the asset;
- the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the separate statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Any gains or losses arising from derecognition of financial assets are recognized in the Company's statement of comprehensive income as other income/(loss) from operating activities.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs.

Subsequently, other financial liabilities are measured at amortized cost. Interest expense is calculated using the effective interest rate method.

(in thousands of Tenge, unless otherwise is stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balance on current accounts and correspondent accounts in banks of the Republic of Kazakhstan and overseas with initial maturity of up to 3 (three) months except for cash restricted in use.

Restricted cash and liabilities to Exchange members on restricted cash

As at reporting date most of the restricted cash represented by cash placements of the foreign currency trade members on correspondent accounts of the Stock Exchange for the transaction on the next trading day. Additionally, in accordance with the Group's internal document "Rules of the clearing activities on transactions with financial instruments" (hereinafter, the "Rules"), each clearing member should maintain a certain level of margin and initial margin on the correspondent account of the Company. Moreover, some of the clearing members leave cash on the correspondent account of the Group at the end of the trading day for the purpose of trading on the next trading day. The Group treats such funds as cash restricted in use and recognizes them as liabilities to the market participants.

Amounts due from banks

In the course of its business, the Group opens current accounts or deposits in banks for a period of more than 3 (three) months. Amounts due from banks with certain maturities are accounted for at amortized cost using the effective interest method. Amounts due from banks are carried net of any allowance for impairment, if any.

Property and equipment

Property and equipment are initially recognized at cost (initial cost), which includes direct costs and non-refundable taxes, which are directly related to the acquisition of fixed assets.

After initial recognition, property and equipment are accounted for:

- 1) using the revaluation model – buildings, land and vehicles;
- 2) using the cost model – all other groups of fixed assets.

In applying the revaluation model, property and equipment are carried at fair value at the date of revaluation, less accumulated depreciation and impairment losses.

The Group capitalizes costs incurred for the modernization and repairs of property and equipment units that extend the useful life of the unit or increase the future economic benefits from its use. Costs of repairs and maintenance of fixed assets not meeting this criterion of capitalization are reflected in the Group's consolidated statement of comprehensive income in the period in which they are incurred.

Depreciation is included in the consolidated statement of comprehensive income of the Group as operating expenses during the periods of assessed useful life using a linear method of depreciation. If the components of any units of property and equipment have different useful lives, they are treated as separate units of property and equipment.

*(in thousands of Tenge, unless otherwise is stated)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property and equipment (continued)**

The Group estimates the following useful lives of property and equipment:

	<i>Life, in years, up to 1 December 2016</i>	<i>Life, in years, after 1 December 2016</i>
Buildings	100	40
Machinery and equipment	6-9	3-15
Vehicles	9	6.7
Other	11	6-10

Land and construction-in-progress are not depreciated.

The carrying amounts of property and equipment, useful life and method of amortization are reviewed at each reporting date.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost. In applying the cost model, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

If the Group internally creates an intangible asset, the cost of developing the intangible asset is included in the cost of the intangible asset and is accounted for as construction-in-progress until the intangible asset is fully ready for its intended use.

The cost of an internally generated intangible asset is the total of the following costs incurred from the date that the intangible asset first becomes eligible for recognition and includes all costs that can be directly allocated or attributed on a reasonable and consistent basis to the development, creation, production and preparation of an asset for its intended use:

- 1) costs of materials and services used or consumed in the creation of an intangible asset;
- 2) salary and other costs associated with employees directly engaged in the creation of the asset (the Company capitalizes the remuneration of employees directly engaged in the finalization of software products on the basis of reports on the work completed, if all such requirements are met);
- 3) any costs that are directly attributable to the asset being created, such as fees for registration of legal rights, patents and licenses used to create the asset.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with indefinite useful lives are not amortised but assessed for impairment on an annual basis.

The estimated useful lives of intangible assets are as follows:

	<i>Life, in years, up to 1 December 2016</i>	<i>Life, in years, after 1 December 2016</i>
Internally developed software	Indefinite	3-9
Other software and licenses	5	5
Other IA	5	5

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Kazakhstan Stock Exchange JSC

(in thousands of Tenge, unless otherwise is stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Foreign currencies

In preparing the financial statements of each individual entity of the Group, transactions in currencies other than the functional currency ("foreign currencies") are recognised at the exchange rates prevailing at the transactions date. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The exchange rates used by the Company in the preparation of the consolidated financial statements as at year-end are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
KZT/1 USD	333.29	340.01
KZT/1 EUR	352.42	371.46
KZT/1 RUR	5.43	4.61

Share capital

Share capital is recognised at historical cost.

Dividends on common shares are recognized in equity as its reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event in accordance with IAS 10 *Subsequent Events* and are appropriately disclosed.

Reserves and funds within equity

The reserves and funds recorded in the equity in the Company's statement of financial position include:

- "Available-for-sale" reserve which comprises changes in fair value of available-for-sale investment securities;
- Reserve for revaluation of property and equipment;
- "Other reserve" which is created to cover losses on possible default of derivative market members.

In 2010 the Company's Stock Exchange Council decided to create a reserve fund in the amount of KZT 170,000 thousand in order to cover the risk of an insolvent participant in the market of derivative contracts. The reserve fund comprises reserve fund of KZT 70,000 thousand for trading with currency futures contracts, and reserve fund of KZT 100,000 thousand for trading with the Company index futures contracts. In 2015, it was decided to set up a clearing reserve fund for the sector "stock" exchange market in the amount of KZT 55,000 thousand. The reserve fund is included within other funds in the consolidated statement of equity flow.

(in thousands of Tenge, unless otherwise is stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity whose financial and operating activities are significantly influenced by the Group and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

The requirements of IAS 36 *Impairment of Assets* are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of investment.

Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Taxation

The corporate income tax expense comprises current and deferred tax and is recognized in the consolidated statement of comprehensive income of the Group, except where the deferred tax relates to transactions recognized directly in other comprehensive income or equity.

The amount of current corporate income tax expense is the expected amount of the tax to be paid for the period, which is estimated based on the current legislation of Kazakhstan as of reporting date taking into account all the adjustments on the tax in arrears of previous years.

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset and reported net in the consolidated statement of financial position if:

- the Group has a legally enforced right to offset current tax assets against current tax liabilities; and
- deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

(in thousands of Tenge, unless otherwise is stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant in the circumstances. Actual outcomes could differ from these estimates.

Estimates and basic judgements are continuously revised. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of accounts receivable

Accounts receivable are included in the consolidated statement of financial position within other assets. The Group regularly reviews its accounts receivables to assess for impairment. Allowance is established by the Group to recognise losses from impairment of receivables. The Group considers accounting estimates related to allowance for impairment of receivables as the key source of estimation uncertainty since (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record allowances which could have a material impact on its financial statements in future periods.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

If the debtor fails repay the outstanding amount within the terms stipulated by the relevant agreement, the outstanding amount is considered overdue and is subject to classification.

Classification of overdue accounts receivable is carried out depending on the number of overdue days in accordance with the following categories:

- 1) category 1 – 30 (inclusive) days' overdue;
- 2) category 2 – over 30 to 180 (inclusive) days' overdue;
- 3) category 3 – over 180 days' overdue.

Depending on the classification of overdue receivables, reserves (allowances) are made through current period expenses as follows:

- 1) category 1 – 0% of the amount of overdue accounts receivable;
- 2) category 2 – 50% of the amount of overdue accounts receivable;
- 3) category 3 – 100% of the amount of overdue accounts receivable.

If prior to expiration of 180 days the Group faces the circumstances that confirm the absence of the Company's right to receive amount due with the corresponding supporting documentation (the final decision of the court, completion of the liquidation of the debtor-legal entity and others), then these receivables are subject to classification under category 3 as of the date of occurrence of the above circumstances.

The Group writes down the accrued and unpaid fees at the expenses of the current reporting period. The Group writes down receivables accrued for the periods preceding the current period using the created reserves (allowances).

*(in thousands of Tenge, unless otherwise is stated)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Critical accounting judgments and key sources of estimation uncertainty***Impairment of accounts receivable*

The Group derecognises the asset only for the outstanding amount classified under category 3 and after taking all measures to recover overdue receivables that did not result in the debtor settling the outstanding amount.

As at 31 December 2016 and 31 December 2015 the receivables were equal to KZT 60,895 thousand and KZT 53,340 thousand, respectively, and the allowance for impairment was equal to KZT 14,542 thousand and KZT 6,629 thousand (Note 19), respectively.

Taxation

Kazakhstan's tax, currency and customs legislation and regulations are subject to ongoing changes and varying interpretations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Tax periods remain open to review by tax authorities for 5 (five) calendar years preceding the years of review.

As at 31 December 2016 and 31 December 2015, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Additional taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have an impact on the Group's reported net profit.

Litigation

In accordance with IFRS the Group recognizes the need to create provisions only if the current liabilities that have arisen as a result of past events that can be reasonably estimated. A contingent liability that does not match the specified criteria may be disclosed in the notes to financial statements. The application of this principle in relation to litigations requires the Group to decide on the various operational and legal issues outside the scope of its control. In the event of litigation the Group will constantly review pending litigations, as well as at each reporting date in order to assess the need for the recognition of provisions. The following factors are taken into account by the Group in making decisions about the creation of provisions: the nature of action, claim or penalty, the sum of the potential damage that may be incurred by the Group as a result of its unfavorable outcome, stage of trial (including the date of performing financial statements, but before its issue); opinion of legal advisers, the previous experience of such proceedings, any decision of the Management of the Group as to how to respond to the lawsuit, claim or fine. As of the date of the issue of these consolidated financial statements the Group was not involved in any litigation.

4. FEE AND COMMISSION INCOME

	<u>2016</u>	<u>2015</u>
Fee and commission income		
Listing fees	570,310	646,320
Commission fees for operations on the Stock exchange	379,871	347,643
Stock exchange membership fees	331,770	457,160
Income from information services	199,578	179,977
Income from remote access services	24,657	20,514
Clearing fees	791	27
Total fee and commission income	<u>1,506,977</u>	<u>1,651,641</u>

*(in thousands of Tenge, unless otherwise is stated)***5. INTEREST INCOME**

	<u>2016</u>	<u>2015</u>
Interest income comprises		
Interest income on non-impaired financial assets	647,853	419,632
Interest income on impaired financial assets	2,041	2,041
Total interest income	<u>649,894</u>	<u>421,673</u>
Interest income on financial assets carried at amortized cost comprises		
Interest income on bank deposits	471,438	273,340
Interest income on held-to-maturity investment securities	136,779	2,808
Interest income on reverse repurchase agreements with securities	39,000	120,421
Interest income on cash and cash equivalents	2,677	1,516
Interest income on financial assets carried at fair value comprises		
Interest income from available-for-sale investment securities	-	23,588
Total interest income from financial assets	<u>649,894</u>	<u>421,673</u>

6. ALLOWANCE FOR IMPAIRMENT OF INTEREST BEARING ASSETS AND OTHER TRANSACTIONS

Movements in the allowance for impairment of assets for which interest income is accrued and other assets are as follows:

	<i>Held-to-maturity investments</i>	<i>Other assets</i>	<i>Total</i>
As at 31 December 2014	39,858	5,288	45,146
Allowance charge	-	3,529	3,529
Write-off	-	(2,188)	(2,188)
As at 31 December 2015	39,858	6,629	46,487
Allowance charge	-	8,472	8,472
Write-off	-	(559)	(559)
As at 31 December 2016	<u>39,858</u>	<u>14,542</u>	<u>54,400</u>

7. NET (LOSS)/GAIN FROM FOREIGN EXCHANGE OPERATIONS

For the year ended 31 December 2016 net loss on foreign exchange operations was equal to KZT 4,306 thousand (2015: net gain on foreign exchange operations in the amount of KZT 536,774 thousand).

8. OPERATING EXPENSES

	<u>2016</u>	<u>2015</u>
Personnel expenses	836,755	888,059
Social tax	81,950	87,003
Depreciation and amortization	75,217	66,156
Property and equipment maintenance	38,009	37,732
Taxes other than corporate income tax	34,581	29,230
Travel expenses	31,758	33,834
Communication and SWIFT maintenance	29,792	26,052
Professional services	22,273	14,957
Business development expenses	20,966	8,579
Operating lease and maintenance expenses	19,879	22,123
Bank services	13,837	11,223
Membership fee	12,953	8,131
Information services	9,422	14,877
Training of personnel	5,161	7,155
Loss from revaluation of property and equipment (Note 17)	4,796	-
Mail and courier expenses	1,567	1,222
Insurance	1,409	1,261
Other expenses	46,489	42,082
Total operating expenses	<u>1,286,814</u>	<u>1,299,676</u>

*(in thousands of Tenge, unless otherwise is stated)***9. CORPORATE INCOME TAX**

Corporate income tax expense comprise:

	<u>2016</u>	<u>2015</u>
Current corporate income tax charge	139,762	268,033
Deferred corporate income tax expenses	6,439	78
Corporate income tax expense	146,201	268,111

The Group calculates its income tax return for the current period based on tax accounting in accordance with the tax regulations of the Republic of Kazakhstan, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred tax reflects net tax effect of temporary differences between carrying amount of assets and liabilities for financial statements purposes and the amount to be determined for tax purposes. As at 31 December 2016 and 31 December 2015 temporary differences relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax vs accounting bases' differences for certain assets.

Tax effect of temporary differences as at 31 December 2016 and 31 December 2015 is as follows:

	<u>31 December 2016</u>	<u>In other comprehen- sive income</u>	<u>In the income statement</u>	<u>31 December 2015</u>
Tax effect of deductible temporary differences				
Allowance for unused vacations	7,201	-	(169)	7,370
Property and equipment	124	-	(439)	563
Allowance for impairment of assets	3,966	-	3,966	-
Provision for doubtful liabilities	786	-	786	-
Deferred income tax assets	12,077	-	4,144	7,933
Tax effect of taxable temporary differences				
Property and equipment	(47,618)	(4,944)	(10,583)	(32,091)
Deferred tax liabilities	(47,618)	(4,944)	(10,583)	(32,091)
Total deferred income tax liabilities	(35,541)	(4,944)	(6,439)	(24,158)

Movement of net deferred tax liability

	<u>31 December 2016</u>	<u>In other comprehen- sive income</u>	<u>In the income statement</u>	<u>31 December 2015</u>
Net deferred tax liability at the beginning of the year	24,158	-	78	24,080
Deferred tax on PPE revaluation through equity	4,944	4,944	-	-
Deferred income tax expense	6,439	-	6,361	78
Net deferred tax liability at the ending of the year	35,541	4,944	6,439	24,158

The tax rate used for the reconciliations below is a corporate tax rate of 20% payable by legal entities in the Republic of Kazakhstan for taxable profits (as defined) in accordance with tax laws in this jurisdiction.

*(in thousands of Tenge, unless otherwise is stated)***9. CORPORATE INCOME TAX (continued)****Movement of net deferred tax liability (continued)**

The reconciliation between the corporate income tax expense in the accompanying consolidated financial statements and profit before tax multiplied by the statutory tax rate for the years ended 31 December is as follows:

	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
Profit before tax	867,976	1,247,271
Statutory corporate income tax rate	20%	20%
Tax at statutory rate	173,595	249,454
Non-taxable interest income and other income on government securities and other securities	(27,356)	(5,279)
Non-deductible expenses		
General and administrative expenses	5,814	5,393
Membership fee	2,468	1,514
Allowance for impairment of other assets	1,003	722
Expenses for sale of available-for-sale securities	-	17,011
Share of profit of associate	(122)	(253)
Other	(9,201)	(451)
Total corporate income tax permanent differences	(27,394)	18,657
Corporate income tax expense	146,201	268,111

10. EARNINGS PER SHARE

The earnings and weighted average number of common shares used in calculation of basic and diluted earnings per share are as follows:

	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
Net profit for the year attributable to shareholders of the Company	721,775	979,160
Weighted average number of common shares for basic earnings per share computation	942,013	942,013
Basic and diluted earnings per share (Tenge)	766.20	1,039.43

11. CASH AND CASH EQUIVALENTS

	<i>31 December 2016</i>	<i>31 December 2015</i>
Cash on hand	417	650
Correspondent and current accounts with other banks	109,742	62,644
Total cash and cash equivalents	110,159	63,294

*(in thousands of Tenge, unless otherwise is stated)***12. RESTRICTED CASH**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Citibank N.A.	–	1,360,040
National Bank of the Republic of Kazakhstan	426,636	529,041
Total restricted cash	426,636	1,889,081

As at 31 December 2016 and 31 December 2015, cash restricted in use comprise monetary funds of the Stock Exchange members placed for execution of operations in foreign currency. Cash was placed by the following members of the Stock Exchange:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Second tier Kazakhstan banks	392,851	1,866,232
Other financial organizations	33,785	22,869
Total liabilities on cash restricted in use	426,636	1,889,101

13. AMOUNTS DUE FROM BANKS

	<u>31 December 2016</u>			<u>31 December 2015</u>		
	%	Maturity	Amount	%	Maturity	Amount
Term deposits						
SB Alpha Bank JSC	13.00	January 2017	555,401	13.00	December 2016	500,000
Tsesnabank JSC	3-15	February- August 2017	467,834	5.20	August 2016	100,152
SB Sberbank of Russia JSC	16.00	February 2017	1,611,891	11.00	July 2016	55,575
Eurasia Bank JSC			–	11.50	August 2016	1,039,930
AsiaCreditBank JSC			–	9.00	February 2016	1,000,000
Qazag Banki JSC			–	13.00	May-August 2016	890,234
Capital Bank Kazakhstan JSC			–	13.00	June 2016	502,653
Bank of Astana JSC			–	13.50	December 2016	502,250
Total due from banks			2,635,126			4,590,794

As at 31 December 2016 and 31 December 2015, amounts due from banks included accrued interest of KZT 72,017 thousand and KZT 65,173 thousand, respectively.

14. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	Ownership interest, %	Amount	Ownership interest, %	Amount
Equity securities				
Central Securities Depository JSC	34.69	18,800	34.69	18,800
Kyrgyz Stock Exchange CJSC	10.58	2,253	10.58	2,253
Total equity securities	–	21,053	–	21,053
Total available-for-sale investments	–	21,053	10.58	21,053

The shares of Central Securities Depository JSC and Kyrgyz Stock Exchange CJSC are recorded at the acquisition price due to the absence of an active market and similar financial instruments, and also because their fair value cannot be reliably estimated using other methods. The management tests these investments for impairment on a regular basis.

*(in thousands of Tenge, unless otherwise is stated)***15. HELD-TO-MATURITY INVESTMENTS**

	31 December 2016	31 December 2015
Corporate bonds	61,912	61,912
Less allowance for impairment (Note 6)	(39,858)	(39,858)
	22,054	22,054
Short-term government securities		
Notes of the National Bank of the RK	2,525,010	-
Total held-to-maturity investments	2,547,064	22,054

Movements in the allowance for impairment for the years ended 31 December 2016 and 31 December 2015, are disclosed in Note 6.

	31 December 2016		31 December 2015	
	<i>Nominal interest rate, %</i>	<i>Amount</i>	<i>Nominal interest rate, %</i>	<i>Amount</i>
Debt securities				
Ornek XXI JSC	i + 2.50	35,967	i + 2.50	35,967
Temirbank JSC	8.00	25,945	8.00	25,945
		61,912		61,912
Less allowance for impairment		(39,858)		(39,858)
		22,054		22,054
Notes of the National Bank of RK		2,525,010		-
Total held-to-maturity investments		2,547,064		22,054

As at 31 December 2016 and 31 December 2015, held-to-maturity investments included an accrued interest of KZT 6,703 thousand and KZT 6,703 thousand, respectively.

16. INVESTMENTS TO ASSOCIATES

Movements of investments in the associate were as follows:

	2016	2015
At the beginning of the year	139,852	138,586
Share of profit of associate	612	1,266
At the ending of the year	140,464	139,852

The summarized financial information of RTRS LLP is presented below:

	31 December 2016	31 December 2015
Cash and cash equivalents	29,367	24,223
Investment property	174,315	176,160
Property and equipment	72,590	77,149
Other assets	4,817	2,248
Total assets	281,089	279,780
Other liabilities	161	75
Total liabilities	161	75
Equity	280,928	279,705
Share of the Group in net assets	50%	50%
Carrying amount of investment in associate	140,464	139,852

*(in thousands of Tenge, unless otherwise is stated)***16. INVESTMENTS TO ASSOCIATE (continued)**

	<i>For 2016</i>	<i>For 2015</i>
Revenue from rendering of the services	40,431	41,753
Finance income	2,876	877
General and administrative expenses	(42,084)	(40,095)
Other	-	(3)
Profit for the year	1,223	2,532
Other comprehensive income	-	-
Total comprehensive income for the year	1,223	2,532

17. PROPERTY AND EQUIPMENT

	<i>Building</i>	<i>Land</i>	<i>Machinery and equipment</i>	<i>Motor vehicles</i>	<i>Other</i>	<i>Total</i>
At cost						
31 December 2014	1,152,060	1,628	301,260	45,584	91,302	1,591,834
Additions	-	-	7,040	-	815	7,855
Other reclassifications	-	-	9,774	1,059	(10,833)	-
Offset of accumulated depreciation and cost of transferred assets	-	-	(2,389)	-	(2,378)	(4,767)
Disposals	-	-	(213)	-	(466)	(679)
31 December 2015	1,152,060	1,628	315,472	46,643	78,440	1,594,243
Additions	1,494	-	34,954	21,952	512	58,912
Other reclassifications	-	-	(45,255)	-	45,255	-
Revaluation gain	13,832	194,127	-	10,887	-	218,846
Revaluation loss	-	-	-	(4,796)	-	(4,796)
Reclassification	-	-	(812)	-	-	(812)
Offset of accumulated depreciation and cost of transferred assets	-	-	(18,109)	(12,993)	(430)	(31,532)
Offset of accumulated depreciation and cost of revalued assets	(56,616)	-	-	(24,045)	-	(80,661)
Disposal	(1,494)	-	(98)	(384)	(26)	(2,002)
31 December 2016	1,109,276	195,755	286,152	37,264	123,751	1,752,198
Accumulated depreciation						
31 December 2014	(34,535)	-	(177,676)	(27,994)	(40,233)	(280,438)
Depreciation charge	(11,521)	-	(34,224)	(4,866)	(5,326)	(55,937)
Other reclassifications	-	-	(3,734)	-	3,734	-
Offset of accumulated depreciation and cost of transferred assets	-	-	2,389	-	2,378	4,767
31 December 2015	(46,056)	-	(213,245)	(32,860)	(39,447)	(331,608)
Depreciation charge	(12,871)	-	(34,801)	(4,643)	(6,082)	(58,397)
Other reclassifications	-	-	34,904	-	(34,904)	-
Offset of accumulated depreciation and cost of transferred assets	-	-	18,109	12,993	430	31,532
Offset of accumulated depreciation and cost of revalued fixed assets	56,616	-	-	24,045	-	80,661
Reclassification	-	-	805	-	-	805
31 December 2016	(2,311)	-	(194,228)	(465)	(80,003)	(277,007)
Net carrying amount						
As at 31 December 2016	1,106,965	195,755	91,924	36,799	43,748	1,475,191
As at 31 December 2015	1,106,004	1,628	102,227	13,783	38,993	1,262,635
As at 31 December 2014	1,117,525	1,628	123,584	17,590	51,069	1,311,396

*(in thousands of Tenge, unless otherwise is stated)***18. INTANGIBLE ASSETS**

	<i>Internally developed software</i>	<i>Other software and licenses</i>	<i>Other IA</i>	<i>Total</i>
At cost				
31 December 2014	96,347	84,584	–	180,931
Additions	–	3,477	–	3,477
Salaries and other costs capitalized to intangible assets	30,252	–	–	30,252
Internal transfer	2	(2)	–	–
31 December 2015	126,601	88,059	–	214,660
Additions	–	3,945	5,573	9,518
Salaries and other costs capitalized to intangible assets	29,665	–	–	29,665
Reclassification	–	812	–	812
31 December 2016	156,266	92,816	5,573	254,655
Accumulated amortization				
31 December 2014	–	(18,580)	–	(18,580)
Amortization charge	–	(10,219)	–	(10,219)
31 December 2015	–	(28,799)	–	(28,799)
Amortization charge	(2,440)	(14,380)	–	(16,820)
Reclassification	–	(805)	–	(805)
31 December 2016	(2,440)	(43,984)	–	(46,424)
Net carrying amount				
As at 31 December 2016	153,826	48,832	5,573	208,231
As at 31 December 2015	126,601	59,260	–	185,861
As at 31 December 2014	96,347	66,004	–	162,351

19. OTHER ASSETS

	<i>31 December 2016</i>	<i>31 December 2015</i>
Other financial assets		
Commission fees receivable	29,274	18,032
Income receivable from information services receivable	23,045	24,670
Listing fees receivable	7,516	8,508
Membership fees receivable	399	1,189
Income receivable from remote access services receivable	387	717
Income receivable from clearing transactions services	83	26
Fines and penalties receivable	–	198
Total other financial assets	60,704	53,340
Allowance for accounts receivable <i>(Note 6)</i>	(14,542)	(6,629)
	46,162	46,711
Other non-financial assets		
Taxes prepaid other than corporate income tax	14,877	12,293
Deferred expenses	11,642	7,444
Inventories	8,826	15,249
Advances for vacations	1,952	302
Other	5	55
Total other non-financial assets	37,302	35,343
Total other assets	83,464	82,054

Movements in the allowance for impairment of other assets for the years ended 31 December 2016 and 31 December 2015, are disclosed in Note 6.

*(in thousands of Tenge, unless otherwise is stated)***20. OTHER LIABILITIES**

	31 December 2016	31 December 2015
Other financial liabilities		
Payables to suppliers	15,148	10,076
Dividends payable	2,203	2,203
	17,351	12,279
Other non-financial liabilities		
Provision for unused vacations	36,006	40,060
Taxes payable other than corporate income tax	2,692	2,615
Other	1,886	1,891
Total other liabilities	57,935	56,845

21. SHARE CAPITAL

The Company's share capital comprises the following number of common shares:

	<i>Authorised share capital, shares</i>	<i>Share capital, authorized but not issued, shares</i>	<i>Share capital issued, shares</i>
Common shares			
As at 31 December 2014	5,000,000	4,057,987	942,013
Issue of common shares	-	-	-
As at 31 December 2015	5,000,000	4,057,987	942,013
As at 31 December 2016	5,000,000	4,057,987	942,013

As at 31 December 2016 and 2015, issued and fully paid share capital consisting of common shares was equal to KZT 2,366,256 thousand.

22. COMMITMENTS AND CONTINGENCIES**Litigations**

In the normal course of business, claims against the Group can be received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation

Commercial legislation of the Republic of Kazakhstan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on Management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and fines.

Such uncertainty relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Management of the Group believes that it has already made all tax payments, and therefore no provision has been made in the consolidated financial statements. Tax years remain open to review by the tax authorities for five years.

*(in thousands of Tenge, unless otherwise is stated)***22. COMMITMENTS AND CONTINGENCIES (continued)****Operating environment**

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

23. RELATED PARTY TRANSACTIONS

Details of transactions between the Company and other related parties are disclosed below:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Cash and cash equivalents		
Other related parties	-	2,949
Restricted cash		
Parent	426,636	529,041
Amounts due from banks		
Other related parties	-	890,234
Available-for-sale investment securities		
Other related parties	21,053	21,053
Held-to-maturity investments		
Parent	2,525,010	-
Other related parties	-	22,054
Other assets		
Parent	1,132	393
Key management personnel of the Company	-	48
Other related parties	5,137	10,808
Payables to trade members on restricted cash		
Other related parties	12,355	46,290
Advances received		
Other related parties	1,327	6,703
Other liabilities		
Associate	-	660
Key management personnel of the Company	7,983	9,702
Other related parties	372	1,187

*(in thousands of Tenge, unless otherwise is stated)***23. RELATED PARTY TRANSACTIONS (continued)**

Included in the consolidated statement of comprehensive income for the years ended 31 December 2016 and 31 December 2015 are the following amounts which were recognized in transactions with related parties:

	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
Fee and commission income		
Parent	39,404	65,014
Other related parties	114,243	354,307
Interest income		
Parent	134,694	-
Other related parties	36,572	29,601
Charge of allowance for impairment on interest bearing assets and other assets		
Other related parties	(452)	374
Operating expenses		
Parent	-	(20)
Associate	(20,734)	(21,496)
Other related parties	(3,732)	(7,861)
Other income		
Other related parties	170	634

Compensation to 17 members of key management personnel (2015: 15 members of key management personnel) comprises:

	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
Short-term compensation to key management personnel of the Group	192,145	185,293
Total	192,145	185,293

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 13 *Fair Value Measurements*, IFRS 7 *Financial Instruments: Disclosure* and IAS 39 *Financial Instruments: Recognition and Measurement* regarding determination of the fair value or approximate fair value of such instruments.

Carrying amounts of cash and cash equivalents, restricted cash balances, due from banks, accounts receivable, clients funds and accounts payables are approximately equal to their fair value because of the short-term nature of such financial instruments.

Except as detailed below, Management of the Company considers that the fair value of financial assets and liabilities approximates their carrying amount:

	<i>31 December 2016</i>		<i>31 December 2015</i>	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
Held-to-maturity investments (Level 1)	2,547,064	2,545,242	22,054	25,206
Unrecognised gain/(loss)	-	(1,822)	-	3,152

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

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

(in thousands of Tenge, unless otherwise is stated)

24. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments recognized at fair value are broken down into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not entail a significant amount of judgment;
- Valuation techniques using observable inputs (Level 2) – valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active;
- Valuation techniques incorporating information other than observable market data (Level 3) – valuations based on inputs that are unobservable and significant to the overall fair value measurement.

25. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Stock Exchange's business and is an essential element of the Stock Exchange's operations. The main risks inherent to the Stock Exchange's operations are those related to;

- credit risks;
- operating risks;
- market risks;
- system risks;
- liquidity risks;
- legal risks;
- reputation risks.

The Group recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Stock Exchange has established a risk management framework, whose main purpose is to protect the Stock Exchange from risk and allow it to achieve its performance objectives.

The risk management policy, procedures for identifying, evaluating, monitoring and responding to those risks, as well as managing financial and operational risks of the Stock Exchange are governed by the relevant internal regulations approved by the Board of Directors and Management of the Stock Exchange.

Risk management structure

Board of Directors

The Board of Directors is responsible for the development of risk management strategy, approval of conceptual framework of the policy and limits on types of risks. Additionally, the Board of Directors ensures compliance of the Group's risk management and internal control with the requirements of legislation and regulatory legal acts of the government securities market regulatory body. The Board of Directors is responsible for the significant risk management issues and monitors execution of appropriate decisions made on risks and controls it.

Management Board

The Management Board is responsible for effective risk management system within the Group.

Investment Committee

The collective body of the Stock Exchange, whose composition is approved by the Management Board. The core function of the Investment Committee is taking investment decisions on transactions with financial instruments using own assets of the Stock Exchange.

*(in thousands of Tenge, unless otherwise is stated)***25. RISK MANAGEMENT POLICIES (continued)****Credit risk**

The Group is exposed to credit risk, i.e. risk of default by correspondent banks, debtors, or other counterparties of the Group in meeting its obligations, which results in the Group's financial losses.

In accordance with the policy for investing own assets (hereinafter, the "Policy"), the Board of Directors approved building of the return and risk balanced portfolio of financial instruments that are diversified by types of assets, degree of liquidity, level of return, urgency.

The assets forming a portfolio of own assets of the Stock Exchange can be placed on deposits in second-tier banks with long-term rating not lower than B+ according to the scale of Standard & Poor's rating agency or the long-term rating of the similar level of international rating agencies Fitch or Moody's Investors Service, in government securities of the Republic of Kazakhstan, debt securities (including coupon international bonds), having the rating score not lower than BB- according to the international scale of Standard & Poor's agency or rating of a similar level according to the international scale of Fitch or Moody's Investors Service. Cash on own portfolios can be used for the reverse automatic repo transactions with government securities. In addition, the assets of accumulative portfolio of own assets may be invested in non-government debt securities issued by National Welfare Fund "Samruk-Kazyna" JSC.

According to the Policy, corporate securities can be sold by the decision of the Investment Committee. In the event that sale of these corporate securities results in a loss, such a decision of Investment Committee shall be approved by the Board of Directors. Corporate securities of defaulted issuers are held in Group's investment portfolio.

In accordance with the Policy, Financial and Administrative Department of the Stock Exchange holds monthly analysis of investment portfolios of own assets of the Stock Exchange and Risk Management Department quarterly analyses the condition and exposure of investment portfolio to risks, as well as performs stress testing and back-testing of investment portfolio.

The credit risk of the Group with trade members is minimized due to the execution by the Company of payments on trade by the delivery-against-payment principle.

Maximum exposure to credit risk

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks inherent to specific assets and general market economy risks.

The following table presents the maximum exposure to credit risk of statement of financial position and off balance sheet financial assets. For financial assets in the statement of financial position, the maximum exposure of credit risk is equal to the carrying amount of those assets prior to any offset or collateral.

	31 December 2016	31 December 2015
Cash and cash equivalents, except for cash on hand	109,742	62,644
Restricted cash	426,636	1,889,081
Amounts due from banks	2,635,126	4,590,794
Available-for-sale investment securities	-	-
Held-to-maturity investments	2,547,064	22,054
Other financial assets	46,162	46,711
Total	5,764,730	6,611,284

Financial assets of the Group are graded according to various criteria such as credit rating, financial position, overdue analysis and other criteria. Further analysis of financial assets of the Group is presented based on the current credit ratings that have been issued by international rating agencies. The highest possible rating is AAA; investment grade refers to ratings from AAA to BBB, rating lower than BBB are classed as speculative grade.

As at 31 December 2016 and 2015, in accordance with the presented criteria financial assets are classified as standard, except for those assets which are impaired.

*(in thousands of Tenge, unless otherwise is stated)***25. RISK MANAGEMENT POLICIES (continued)****Credit risk (continued)***Maximum exposure to credit risk (continued)*

The following table details the credit ratings of financial assets held by the Group:

	AAA	AA	A	BBB	<BBB-	Credit rating un- assigned	Total
31 December 2016							
Cash and cash equivalents	-	-	4,604	55	105,083	-	109,742
Restricted cash	-	-	-	426,636	-	-	426,636
Amounts due from banks	-	-	-	-	2,635,126	-	2,635,126
Held-to-maturity investments	-	-	-	2,525,010	22,054	-	2,547,064
Other financial assets	-	-	-	-	-	46,162	46,162
Total	-	-	4,604	2,951,701	2,762,263	46,162	5,764,730

	AAA	AA	A	BBB	<BBB-	Credit rating un- assigned	Total
31 December 2015							
Cash and cash equivalents	-	1,219	7,228	4,476	49,721	-	62,644
Restricted cash	-	-	1,360,040	529,041	-	-	1,889,081
Amounts due from banks	-	-	-	-	4,590,794	-	4,590,794
Held-to-maturity investments	-	-	-	-	-	22,054	22,054
Other financial assets	-	-	-	-	-	46,711	46,711
Total	-	1,219	1,367,268	533,517	4,640,515	68,765	6,611,284

As at 31 December 2016 and 31 December 2015, there were no financial assets past due but not impaired.

Liquidity risk*Liquidity risk management*

Liquidity risk can occur in case of mismatching of asset maturities under current operations with maturities of the Group's liabilities. Also the Group is exposed to liquidity risk in case of the credit risk default of trade members.

Temporarily surplus own assets of the Group were placed on deposits in second-tier banks for a term not exceeding two years. The list of second tier banks where the Group's deposits could be placed was reconsidered on a regular basis and approved by the Investment Committee of the Company.

According to the policy, the temporarily surplus assets of the Group can be placed on deposits of second-tier banks for a term of up to two years. In this connection, diversification of investees included in the investment portfolio is performed in order to eliminate the risk of losses resulting from the concentration of financial assets with the same maturity in the investment portfolio of the Group.

Furthermore, according to the Company's policy, the funds of trade members are not placed in any instruments and are held on correspondent accounts of the Company. Liquidity risk of the trade activities is minimized through payment execution terms for the net requirements of trade members under the delivery-against-payment principle. According to this principle no cash is transferred to a trade member who violated the settlement regulations, and the cash remains on correspondent accounts of the Company. In addition, there are guarantee funds created by the members of the derivative market to minimize the risk of the non-execution of liabilities under deals on the derivatives market. The Company created a reserve fund which is calculated using an internal methodology.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the contractual maturity date.

*(in thousands of Tenge, unless otherwise is stated)***25. RISK MANAGEMENT POLICIES (continued)****Liquidity risk (continued)***Liquidity risk management (continued)*

The presentation below is based upon the information provided to key management personnel of the Group:

	<i>Less than 1 months</i>	<i>1 month – 3 month</i>	<i>3 month – 1 year</i>	<i>1 year – 5 years</i>	<i>Over 5 years</i>	<i>Maturity undefined</i>	<i>31 December 2016, total</i>
Financial assets							
Cash and cash equivalents	110,159	-	-	-	-	-	110,159
Restricted cash	426,636	-	-	-	-	-	426,636
Amounts due from banks	555,401	1,933,079	146,646	-	-	-	2,635,126
Available-for-sale investment securities	-	-	-	-	-	21,053	21,053
Held-to-maturity investments	559,341	961,619	1,004,050	22,054	-	-	2,547,064
Other financial assets	46,162	-	-	-	-	-	46,162
Total financial assets	1,697,699	2,894,698	1,150,696	22,054	-	21,053	5,786,200
Financial liabilities							
Payables to trade members on restricted cash	426,636	-	-	-	-	-	426,636
Other financial liabilities	17,351	-	-	-	-	-	17,351
Total financial liabilities	443,987	-	-	-	-	-	443,987
Net position	1,253,712	2,894,698	1,150,696	22,054	-	21,053	5,342,213
Aggregate liquidity gap as at 31 December 2016	1,253,712	4,148,410	5,299,107	5,321,160	5,321,160	5,342,213	
	<i>Less than 1 months</i>	<i>1-3 months</i>	<i>3 month – 1 year</i>	<i>1 year – 5 years</i>	<i>Over 5 years</i>	<i>Maturity undefined</i>	<i>31 December 2015, total</i>
Financial assets							
Cash and cash equivalents	63,294	-	-	-	-	-	63,294
Restricted cash	1,889,081	-	-	-	-	-	1,889,081
Amounts due from banks	-	1,000,000	3,590,794	-	-	-	4,590,794
Available-for-sale investment securities	-	-	-	-	-	21,053	21,053
Held-to-maturity investments	-	-	-	22,054	-	-	22,054
Other financial assets	46,711	-	-	-	-	-	46,711
Total financial assets	1,999,086	1,000,000	3,590,794	22,054	-	21,053	6,632,987
Financial liabilities							
Payables to trade members on restricted cash	1,889,101	-	-	-	-	-	1,889,101
Other financial liabilities	12,279	-	-	-	-	-	12,279
Total financial liabilities	1,901,380	-	-	-	-	-	1,901,380
Net position	97,706	1,000,000	3,590,794	22,054	-	21,053	4,731,607
Aggregate liquidity gap as at 31 December 2015	97,706	1,097,706	4,688,500	4,710,554	4,710,554	4,731,607	

The difference between undiscounted and discounted cash flows on financial liabilities is insignificant due to their short term nature.

*(in thousands of Tenge, unless otherwise is stated)***25. RISK MANAGEMENT POLICIES (continued)****Market risk**

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed.

Interest rate risk

In terms of the exposure to interest rate risk, the Stock Exchange's investment portfolio is exposed to a risk of change of coupon yield on bonds, which have variable rate indexed to the inflation rate; a risk of change in interest rates have an effect on the market value of the Group's bonds sub-portfolio classified as investments available for sale.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on reasonably possible changes in the risk variable.

The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2016 and 2015, and the effect of revaluing instruments with fixed rates accounted at fair value.

The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluing investment available for sale with fixed rates.

As at 31 December 2016 and 31 December 2015 the impact on profit before tax due to possible changes in interest rate is presented below:

	31 December 2016		31 December 2015	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Effect on profit before tax	109	(109)	109	(109)
Effect on equity	16	(16)	16	(16)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

In accordance with the Investment Policy, the Stock Exchange invests in debt securities, deposits of second tier banks, as well as auto repurchase transactions with government securities are allowed. The list of second tier banks in which the Stock Exchange has the right to place funds on deposit is established by the Investment Committee considering the features of the Investment Policy of own assets. Besides, investments represented by saving and accumulative portfolios may be denominated in tenge, US dollars and euro.

As at 31 December 2016 and 2015, a significant portion of financial assets (2016: 97%, 2015: 82%) and all financial liabilities are denominated in Kazakhstan Tenge, which involves a low level of currency risk. Therefore, the Group is not exposed to a significant risk of change in foreign exchange rates.

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.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to securities market price fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty. Such limitation is represented by the assumption that all interest rates move in an identical fashion.

(in thousands of Tenge, unless otherwise is stated)

25. RISK MANAGEMENT POLICIES (continued)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework, systematic inspections of internal audit department and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes. Risk monitoring is performed by the risk management department.

For the purpose of decreasing the operating risk arising from system failure the Group has established a reserve centre in an associate, RTRS LLP.