Baiterek National Managing Holding Joint Stock Company

Unaudited Condensed Separate Interim Financial Statements

30 June 2018

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Independent Auditors' Report on Review of Condensed Separate Interim Financial Information

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

Introduction

We have reviewed the accompanying condensed separate interim statement of financial position of Baiterek National Managing Holding Joint Stock Company (the "Holding Company") as at 30 June 2018, and the related condensed separate interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed separate interim financial information (the "condensed separate interim financial information"). Management is responsible for the preparation and presentation of this condensed separate interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed separate interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed separate interim financial information as at 30 June 2018 and for the six- month period then ended is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Ravshan Irmatov

Authorised representative (Partner)

KPMG Audit LLC

Almaty, Republic of Kazakhstan

29 August 2018

(In thousands of Kazakhstani Tenge)	Note	30 June 2018, unaudited	31 December 2017*
ASSETS			
Cash and cash equivalents	7	2,126,086	225,777
Deposits	8	12,937,252	18,542,858
Loans to subsidiaries	9	418,525,965	399,200,826
Investment securities	10	4,325,893	31,226
Investment in subsidiaries	11	873,882,161	873,882,161
Dividends receivable	17	11,672,270	-
Property, plant and equipment		84,773	49,672
Intangible assets		832,357	765,536
Current income tax prepayment		1,466,347	1,226,993
Other assets		314,769	635,622
TOTAL ASSETS		**1,326,167,873**	**1,294,560,671**
LIABILITIES			
Debt securities issued	12	308,417,467	299,070,782
Loans from the Government of the Republic of Kazakhstan	13	103,732,941	93,730,536
Deferred income tax liability		1,087,285	1,144,040
Other liabilities		474,921	1,085,679
TOTAL LIABILITIES		**413,712,614**	**395,031,037**
EQUITY			
Share capital	14	846,218,712	846,218,712
Retained earnings		66,236,547	53,310,922
TOTAL EQUITY		**912,455,259**	**899,529,634**
TOTAL LIABILITIES AND EQUITY		**1,326,167,873**	**1,294,560,671**

*The Holding Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (Notes 4 and 6). As a result of adoption of IFRS 9 the Holding Company changed presentation of certain captions, comparative information is re-presented accordingly (Notes 4 and 6).

Approved by Management Board on 29 August 2018 and were signed on its behalf by:

Yersain Yerbulatovich Khamitov
Managing Director -
Member of the Management Board

Kuralay Damirovna Yessengarayeva
Chief Accountant

(In thousands of Kazakhstani Tenge)	**Note**	**Six months ended 30 June 2018, unaudited**	**Six months ended 30 June 2017*, unaudited**
Interest income calculated using the effective interest method	15	15,178,342	12,502,662
Other interest income		10	-
Interest expense	16	(14,177,037)	(11,444,370)
Net interest income		**1,001,315**	**1,058,292**
Dividend income	17	13,990,059	14,768,097
Other operating income, net	18	219,613	2,100,273
Administrative and other operating expenses	19	(1,961,378)	(1,472,997)
Profit before income tax		**13,249,609**	**16,453,665**
Income tax benefit/(expense)	20	56,755	(424,236)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**13,306,364**	**16,029,429**

*The Holding Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (Notes 4 and 6). As a result of adoption of IFRS 9 the Holding Company changed presentation of certain captions, comparative information is re-presented accordingly (Notes 4 and 6).

(In thousands of Kazakhstani Tenge)	Note	Share capital	Retained earnings	Total
Balance at 1 January 2017		**802,318,712**	**38,570,681**	**840,889,393**
Profit for the period, unaudited		-	16,029,429	16,029,429
Total comprehensive income for the period, unaudited		**-**	**16,029,429**	**16,029,429**
Share issue, unaudited	14	13,900,000	-	13,900,000
Balance as at 30 June 2017, unaudited		**816,218,712**	**54,600,110**	**870,818,822**
Balance as at 1 January 2018*		**846,218,712**	**53,310,922**	**899,529,634**
Impact of adopting IFRS 9 as at 1 January 2018, unaudited	6	-	(380,739)	(380,739)
Restated balance at 1 January 2018, unaudited		**846,218,712**	**52,930,183**	**899,148,895**
Profit for the period, unaudited		-	13,306,364	13,306,364
Total comprehensive income for the period, unaudited		**-**	**13,306,364**	**13,306,364**
Balance as at 30 June 2018, unaudited		**846,218,712**	**66,236,547**	**912,455,259**

*The Holding Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (Notes 4 and 6).

(In thousands of Kazakhstani Tenge)	Note	Six months ended 30 June 2018, unaudited	Six months ended 30 June 2017*, unaudited
Cash flows from operating activities			
Interest received		1,597,420	1,740,956
Interest paid		(577,009)	(498,317)
Dividends received	17	2,317,789	114,295
Administrative and other operating expenses paid		(2,266,503)	(2,154,467)
Income tax paid		(239,354)	(261,143)
Net cash flows from/(used in) operating activities		**832,343**	**(1,058,676)**
Cash flows from investing activities			
Contribution to the capital of the subsidiaries	11	-	(19,100,000)
Deposits placement		-	(2,000,000)
Deposits withdrawal		5,350,000	8,080,000
Loans issued to subsidiaries	9	(10,000,000)	(116,100,000)
Repayment of loans issued to subsidiaries	9	1,621,372	-
Acquisition of investment securities measured at amortised cost		(4,214,552)	-
Acquisition of property, plant and equipment		(57,482)	(73)
Acquisition of intangible assets		(10,000)	(3,485)
Net cash flows used in investing activities		**(7,310,662)**	**(129,123,558)**
Cash flows from financing activities			
Receipt of loans from the Government of the Republic of Kazakhstan	13	10,000,000	116,100,000
Repayment of loans from the Government of the Republic of Kazakhstan	9	(1,621,372)	-
Proceeds from issue of ordinary shares	14	-	13,900,000
Net cash flows from financing activities		**8,378,628**	**130,000,000**
Net increase/(decrease) in cash and cash equivalents		**1,900,309**	**(182,234)**
Cash and cash equivalents at the beginning of the period		225,777	272,994
Cash and cash equivalents at the end of the period	7	**2,126,086**	**90,760**

*The Holding Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (Notes 4 and 6).

1 Introduction

Baiterek National Managing Holding Joint Stock Company (the "Holding Company") was incorporated in accordance with the Decree of the President of the Republic of Kazakhstan dated 22 May 2013 No. 571 "On some measures for optimisation of the management system of development institutes and financial organisations, and development of the national economy" and the Decree of the Government of the Republic of Kazakhstan dated 25 May 2013 No. 516 "About measures for implementation of the Decree of the President of the Republic of Kazakhstan dated 22 May 2013 No. 571". As at 30 June 2018 and 31 December 2017, the ultimate controlling party of the Holding Company is the Government of the Republic of Kazakhstan.

The Holding Company is a direct shareholder of eleven subsidiaries (31 December 2017: eleven).

Principal activity

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

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

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

Below are the major subsidiaries of the Holding Company:

			Ownership, %	
Name of subsidiary	**Abbreviated name**	**Country of incorporation**	**30 June 2018, unaudited**	**31 December 2017**
Development Bank of Kazakhstan JSC	DBK JSC	Republic of Kazakhstan	100.00	100.00
Investment Fund of Kazakhstan JSC	IFK JSC	Republic of Kazakhstan	100.00	100.00
KazakhExport Export Insurance Company JSC	KE JSC	Republic of Kazakhstan	100.00	100.00
DAMU Entrepreneurship Development Fund JSC	DAMU EDF JSC	Republic of Kazakhstan	100.00	100.00
National Agency for Technological Development JSC	NATD JSC	Republic of Kazakhstan	100.00	100.00
Kazyna Capital Management JSC	KCM JSC	Republic of Kazakhstan	100.00	100.00
Housing Construction Savings Bank of Kazakhstan JSC	HCSBK JSC	Republic of Kazakhstan	100.00	100.00
Mortgage Organisation Kazakhstan Mortgage Company JSC	KMC JSC	Republic of Kazakhstan	100.00	100.00
Housing Construction Guarantee Fund JSC	HCGF JSC	Republic of Kazakhstan	100.00	100.00
Baiterek Development JSC	BD JSC	Republic of Kazakhstan	100.00	100.00
Kazakhstan Project Preparation Fund LLP	KPPF LLP	Republic of Kazakhstan	97.70	97.70

Registered address and place of business. The Holding Company's registered address and place of business is: 55a Mangilik Yel Avenue, Yessil district, Astana, Republic of Kazakhstan.

2 Operating environment of the Holding Company

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

3 Basis of preparation

Statement of compliance. These condensed separate interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in separate financial position and performance of the Holding Company since the last separate annual financial statements as at and for the year ended 31 December 2017. These condensed separate interim financial statements do not include all the information required for full separate annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

This is the first set of the Holding Company's condensed separate interim financial statements where IFRS 9 have been applied. Changes to significant accounting policies are described below and in Note 4.

The Holding Company also prepares in accordance with IAS 34 the condensed consolidated interim financial statements for the six-month period ended 30 June 2018, which may be obtained in the head office of the Holding Company at the following address: 55a Mangilik Yel Avenue, Yessil district, Astana, Republic of Kazakhstan.

Basis of measurement. These condensed separate interim financial statements are prepared on the historical cost basis, except that financial instruments at fair value through profit or loss are stated at fair value.

Functional and presentation currency. The functional currency of the Holding Company is the Kazakhstani tenge ("Tenge") as, being the national currency of the Republic of Kazakhstan; it reflects the economic substance of the majority of underlying events and circumstances relevant to the Holding Company.

Tenge is also the presentation currency for the purposes of these condensed separate interim financial statements.

Financial information presented in Tenge is rounded to the nearest thousand, unless otherwise stated.

Use of estimates and judgments. The preparation of condensed separate interim financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed separate interim financial statements the significant judgments made by management in applying the Holding Company's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the Holding Company's separate financial statements for the year ended 31 December 2017, except for those disclosed in Note 9 "Loans to subsidiaries" and Note 13 "Loans from the Government of the Republic of Kazakhstan".

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the period ended 30 June 2018 is included in the following note:

- impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL – Note 5.

Changes in accounting policies and presentation.

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments'. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

In October 2017, the IASB issued 'Prepayment Features with Negative Compensation' (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Holding Company has adopted IFRS 9 'Financial Instruments' issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 on the same date. The requirements of IFRS 9 represent a significant change from IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Holding Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Holding Company classifies financial assets under IFRS 9 (Note 4).

3 Basis of preparation, continued

Changes in accounting policies and presentation, continued.

IFRS 9 Financial instruments, continued

Classification of financial assets and financial liabilities, continued.

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

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

For an explanation of how the Holding Company classifies financial liabilities under IFRS 9 (Note 4).

Impairment of financial assets. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Holding Company applies the impairment requirements of IFRS 9 (Note 4).

Transition. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the six month ended 30 June 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the six months ended 30 June 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Holding Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.
- For more information and details on the changes and implications resulting from the adoption of IFRS 9 (Note 6).

4 Significant accounting policies

In preparing these condensed separate interim financial statements the Holding Company applied the same accounting policies as those applied in the separate financial statements of the Holding Company for the year ended 31 December 2017, except as explained below, related to the Holding Company's adoption of IFRS 9, which is applicable from 1 January 2018.

Interest income and expense

Effective interest rate. Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Holding Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount. The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

4 Significant accounting policies, continued

Interest income and expense, continued

Calculation of interest income and expense. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Financial assets and financial liabilities (*iv*).

Presentation. Interest income and expense presented in the condensed separate interim statement of profit or loss and other comprehensive include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- interest on non-derivative debt financial instruments measured at FVTPL and interest income on finance lease receivable are presented separately as “other interest income”. It is measured using the effective interest method, excluding transaction costs.

Financial assets and financial liabilities

(i) Classification.

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Holding Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Holding Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4 Significant accounting policies, continued

Financial assets and financial liabilities, continued

(i) Classification, continued

Business model assessment. The Holding Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Holding Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Holding Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Holding Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Holding Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Holding Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Holding Company changes its business model for managing financial assets. The Holding Company should reclassify financial assets if the Holding Company changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Holding Company's senior management as a result of external or internal changes and must be significant to the Holding Company's operations and demonstrable to external parties. Accordingly, a change in the Holding Company's business model will occur only when the Holding Company either begins or ceases to perform an activity that is significant to its operations; for example, when the Holding Company has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets. From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Financial assets and financial liabilities (i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Holding Company is recognised as a separate asset or liability.

(iii) Modification of financial assets and financial liabilities

Financial assets. If the terms of a financial asset are modified, the Holding Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms.

4 Significant accounting policies, continued

Financial assets and financial liabilities, continued

(iii) Modification of financial assets and financial liabilities, continued

The Holding Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Holding Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Holding Company analogizes to the guidance on the derecognition of financial liabilities.

The Holding Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Holding Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Holding Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

As part of credit risk management activities, the Holding Company renegotiates loans issued in financial difficulties (referred to as ‘forbearance activities’). If the Holding Company plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Holding Company concludes that modification of financial assets modified as part of the Holding Company’s forbearance policy is not substantial, the Holding Company performs qualitative evaluation of whether the modification is substantial.

Financial liabilities. The Holding Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Holding Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Holding Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

The Holding Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Holding Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

4 Significant accounting policies, continued

Financial assets and financial liabilities, continued

(iv) Impairment

See also Note 5.

The Holding Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued.

The Holding Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (Note 5).

The Holding Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Holding Company has not recognised loss allowances on the financial instruments, where the counterparty is the Holding Company's subsidiary.

Measurement of ECL. ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Holding Company expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Holding Company expects to recover.

Restructured financial assets. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (Note 5).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets. At each reporting date, the Holding Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Holding Company on terms that the Holding Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

4 Significant accounting policies, continued

Financial assets and financial liabilities, continued

(iv) Impairment, continued

Presentation of allowance for ECL in the condensed separate interim statement of financial position. Loss allowances for ECL are presented in the condensed separate interim statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the condensed separate interim statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs. Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Holding Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Holding Company's procedures for recovery of amounts due.

Investment securities

The 'investment securities' caption in the condensed separate interim statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt investment securities mandatorily measured at FVTPL or designated as at FVTP; these are at fair value with changes recognised immediately in profit or loss.

Comparative information

As a result of adoption of IFRS 9 the Holding Company changed presentation of certain captions in the primary forms of the condensed separate interim financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the condensed separate interim statement of financial position is disclosed in Note 6.

The effect of main changes in presentation of the condensed separate interim statement of financial position as at 1 January 2018 as follows:

- "Investment securities available for sale" were presented within "Investment securities" line item.

Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted; however, the Holding Company has not early adopted the following new or amended standards in the preparing these condensed separate interim financial statements.

The Holding Company has no updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Holding Company's condensed separate interim financial information.

5 Financial risk review

This note presents information about the Holding Company's exposure to financial risks. For information on the Holding Company's financial risk management framework (Note 21).

Credit risk - Amounts arising from ECL

Significant increase in credit risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Holding Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Holding Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

5 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Credit risk grades. The Holding Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

- Data from credit reference agencies, press articles, changes in external credit ratings;
- Payment record – this includes overdue status as well as a range of variables about payment ratios;
- Requests for and granting of forbearance;
- Existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD. Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Holding Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Holding Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

Forward-looking information for key macro-economic indicators may be obtained from official sources on the web-pages of the National Bank of the Republic of Kazakhstan and Statistics Committee of the Republic of Kazakhstan.

The Holding Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. The Holding Company then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Holding Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Holding Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Holding Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement (stage 1) to credit-impaired (stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

5 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Definition of default. The Holding Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Holding Company in full, without recourse by the Holding Company to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Holding Company.

In assessing whether a borrower is in default, the Holding Company considers quantitative indicators, e.g. overdue status and non-payment on another obligation of the same issuer to the Holding Company, and other data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Modified financial assets. The contractual terms of a financial instrument may be modified for a number of reasons, including changing market conditions, and other factors not related to a current or potential credit deterioration of the counterparty. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value in accordance with the accounting policy set out in Note 4(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (Note 4(iv)) /in default). A counterparty needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Incorporating of forward-looking information. The Holding Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Holding Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Holding Company operates, such as the National Bank of the Republic of Kazakhstan and Statistics Committee of the Republic of Kazakhstan.

The Holding Company will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Holding Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. GDP growth forecasts were defined by the Holding Company as a key driver.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on data from external provider.

Measurement of ECLs. The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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5 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Measurement of ECLs, continued

The Holding Company estimates LGD parameters based on the type of counterparty.

For financial assets in Stage 1 and Stage 2, other than finance lease receivables, the following three categories of LGD are considered:

- LGD is equal to 0%, if a counterparty is the Government of the Republic of Kazakhstan;
- LGD is equal to 70%, if a counterparty is the Kazakhstani bank and other financial institute;
- with regard to other counterparties, LGD is estimated based on Moody's recovery studies according to the counterparty's external rating. LGD estimates are recalibrated following the publication of the studies update (generally, on an annual basis).

Exposure at default (EAD) represents the expected exposure in the event of a default. The Holding Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

		External benchmarks used	
(In thousands of Kazakhstani Tenge)	**An exposure as at 30 June 2018**	**PD**	**LGD**
Cash and cash equivalents	2,126,086	S&P default study	Moody's recovery studies/ for exposures within Kazakhstan, LGD is based on historical recovery studies of defaulted financial institutions.
Deposits	12,937,252		
Investment securities measured at amortised cost	4,294,683		

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Holding Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Holding Company considers a longer period. The maximum contractual period extends to the date at which the Holding Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Credit quality analysis. The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

		30 June 2018 (unaudited)		
(In thousands of Kazakhstani Tenge)	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Cash and cash equivalents				
National Bank of the Republic of Kazakhstan	6	-	-	6
rated BB	2,125,250	-	-	2,125,250
rated B-	830	-	-	830
	2,126,086	**-**	**-**	**2,126,086**
Loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**2,126,086**			**2,126,086**
Deposits				
rated BB	3,376,710	-	-	3,376,710
rated B+	4,436,375	-	-	4,436,375
rated B	5,346,017	-	-	5,346,017
	13,259,102	**-**	**-**	**13,259,102**
Loss allowance	**(321,850)**	**-**	**-**	**(321,850)**
Carrying amount	**12,937,252**	**-**	**-**	**12,937,252**
Investment securities at amortised cost				
Notes of National Bank of the Republic of Kazakhstan	4,294,683	-	-	4,294,683
	4,294,683	**-**	**-**	**4,294,683**
Loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**4,294,683**	**-**	**-**	**4,294,683**

6 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9. The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

(In thousands of Kazakhstani Tenge)	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
Financial assets							
Cash and cash equivalents	7	Loans and receivables	Amortised cost	225,777	-	-	225,777
Deposits	8	Loans and receivables	Amortised cost	18,542,858	-	(380,739)	18,162,119
Loans to subsidiaries	9	Loans and receivables	Amortised cost	399,200,826	-	-	399,200,826
Investment securities	10	Available for sale	FVOCI	31,226	(31,226)	-	-
Investment securities – debt [(a)]	10	Available for sale	FVTPL (mandatory)	-	31,226	-	31,226
Total financial assets				**418,000,687**	**-**	**(380,739)**	**417,619,948**
Financial liabilities							
Debt securities issued	12	Amortised cost	Amortised cost	299,070,782	-	-	299,070,782
Loans from the Government of the Republic of Kazakhstan	13	Amortised cost	Amortised cost	93,730,536	-	-	93,730,536
Other financial liabilities		Amortised cost	Amortised cost	292,478	-	-	292,478
Total financial liabilities				**393,093,796**	**-**	**-**	**393,093,796**

The Holding Company's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 4. The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Certain investment securities held by the Holding Company are classified under IFRS 9 as mandatorily measured at FVTPL due to non-compliance with the SPPI criterion.

6 Transition to IFRS 9, continued

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment allowance and provisions			
(In thousands of Kazakhstani Tenge)	**31 December 2017 (IAS 39/ IAS 37)**	**Reclassifica-tion**	**Remeasu-rement**	**1 January 2018 (IFRS 9)**
Loans and receivables under IAS 39 of financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, deposits, and other financial assets)	-	-	380,739	380,739
Total measured at amortised cost	**-**	**-**	**380,739**	**380,739**

7 Cash and cash equivalents

(In thousands of Kazakhstani Tenge)	**30 June 2018, unaudited**	**31 December 2017**
Current accounts	2,126,086	225,777
Total cash and cash equivalents	**2,126,086**	**225,777**

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

(In thousands of Kazakhstani Tenge)	**30 June 2018, unaudited**	**31 December 2017**
Neither past due nor impaired		
- NBRK	6	2
- BB- to BB+ rated	2,125,250	225,775
- B- to B+ rated	830	-
Total cash and cash equivalents	**2,126,086**	**225,777**

Interest rate analysis of cash and cash equivalents is disclosed in Note 21.

8 Deposits

(In thousands of Kazakhstani Tenge)	**30 June 2018, unaudited**	**31 December 2017**
Deposits		
- BB- to BB+ rated	3,376,710	6,788,881
- B- to B+ rated	9,882,392	11,753,977
Total deposits before impairment allowance	**13,259,102**	**18,542,858**
Impairment allowance	(321,850)	-
Total deposits	**12,937,252**	**18,542,858**

Interest rate analysis of deposits is disclosed in Note 21.

8 Deposits, continued

Movements in the deposits impairment allowance by three ECL stages for the six-month period ended 30 June 2018 and 30 June 2017 are as follows:

	Six-month period ended 30 June 2018, unaudited				
(In thousands of Kazakhstani Tenge)	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total	Six-month period ended 30 June 2017, unaudited
Balance at the beginning of the period	-	-	-	-	-
Effect of initial application of IFRS 9, unaudited	380,739	-	-	380,739	-
Net recovery, unaudited	(58,889)	-	-	(58,889)	-
Balance at the end of the period, unaudited	**321,850**	**-**	**-**	**321,850**	**-**

Comparative amounts for the six-month period ended 30 June 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

9 Loans to subsidiaries

	Nominal value		Carrying amount	
(In thousands of Kazakhstani Tenge)	30 June 2018, unaudited	31 December 2017	30 June 2018, unaudited	31 December 2017
- DBK JSC	483,961,805	473,961,805	190,878,029	177,910,759
- BD JSC	277,195,125	277,195,125	121,647,427	117,987,779
- DAMU EDF JSC	200,000,000	200,000,000	74,115,485	71,948,648
- KMC JSC	132,470,920	134,092,292	25,921,083	25,596,002
- HCSBK JSC	22,000,000	22,000,000	5,963,941	5,757,638
Total loans to subsidiaries	**1,115,627,850**	**1,107,249,222**	**418,525,965**	**399,200,826**

During six-month period ended 30 June 2018, the Holding Company provided a loan to subsidiary in the total amount of Tenge 10,000,000 thousand (unaudited) (six month-period ended 30 June 2017: Tenge 116,100,000 thousand (unaudited)). The loan bears an interest rate of 0.15% p.a. and mature in 2027 (six month-period ended 30 June 2017: interest rate of 0.15% p.a. and mature in 2036 and 2046).

In accordance with approved government programs, during six-month period ended 30 June 2018 the loans were provided on the following terms and conditions:

- Tenge 10,000,000 thousand (unaudited) loan to DBK JSC at the rate of 0.15% p.a. and with maturity in 9 years for on-lending DBK-Leasing JSC at an interest rate of 0.20% p.a. and maturity of 9 years to provide long-term lease financing under the Unified Program for Business Support and Development “Business Road Map – 2020”;

During six-month period ended 30 June 2017 the loans were provided on the following terms and conditions:

- Tenge 17,500,000 thousand (unaudited) loan to DBK JSC at the rate of 0.15% p.a. and with maturity in 10 years for on-lending DBK-Leasing JSC at an interest rate of 0.20% p.a. and maturity of 10 years to provide long-term lease financing under the Unified Program for Business Support and Development “Business Road Map – 2020”.

- Tenge 18,600,000 thousand (unaudited) loan to DBK JSC at the rate of 0.08% p.a. and with maturity in 20 years for on-lending DBK-Leasing JSC at an interest rate of 0.10% p.a. to renovate the passenger car fleet of "Passenger transportation" JSC;

- Tenge 80,000,000 thousand loan (unaudited) to DBK JSC at the rate of 0.15% p.a. and with maturity in 20 years to finance projects under the State Industrial and Innovation Development Program of the Republic of Kazakhstan for 2015-2019. Interest rate on loans for final borrowers is limited to 11% p.a.

At initial recognition the loans were recognised at fair value measured by applying relevant estimated market interest rate of 8.48% p.a. (six-month period ended 30 June 2017: from 8.78% to 9.42% p.a.) to discount their future cash flows. The Holding Company recognised a difference of Tenge 3,652,825 thousand (unaudited) (six-month period ended 30 June 2017: Tenge 69,854,813 thousand (unaudited)) between the estimated fair value and nominal value as a loss, at initial recognition of loans provided to subsidiaries at a below-market interest rates and reported the difference in profit or loss (Note 18). These loans were financed through loans from the Government of the Republic of Kazakhstan denominated in Tenge at interest rate of 0.10% p.a. (six-month period ended 30 June 2017: 0.05%-0.10% p.a.) maturing in 2027 (six-month period ended 30 June 2017: 2027 and 2037) (Note 13). The difference of Tenge 3,808,188 thousand (unaudited) (six-month period ended 30 June 2017: Tenge 71,957,365 thousand (unaudited)) between the fair value of loans from the Government of the Republic of Kazakhstan at initial recognition and nominal value was recognised in profit or loss as a government grant to correspond with the Holding Company’s loss at initial recognition of loans to subsidiaries (Note 18).

9 Loans to subsidiaries, continued

During six-month period ended 30 June 2018, KMC JSC has made early partial repayment of the loan in the amount of Tenge 1,621,372 thousand (unaudited) (six month-period ended 30 June 2017: none) and the Holding Company in turn has partially repaid the loan form the Government of the Republic of Kazakhstan. The difference of Tenge 1,164,494 thousand (unaudited) (six month-period ended 30 June 2017: none) between the initial net present values of the loan provided to subsidiary before early partial repayment and the new net present value after early partial repayment has been recognised in profit or loss as a gain from early repayment of loans issued to subsidiaries (Note 18). The difference of Tenge 1,178,761 thousand (unaudited) (six month-period ended 30 June 2017: none) between the initial net present values of the loan received from the Government before early partial repayment and the new net present value after early partial repayment has been recognised in profit or loss as a loss from early repayment of loans received from the Government (Note 18).

10 Investment securities

(In thousands of Kazakhstani Tenge)	**30 June 2018, unaudited**	**31 December 2017**
Investment securities measured at amortised cost		
-Notes of the National Bank of the Republic of Kazakhstan	4,294,683	-
Investment securities measured at fair value through profit or loss		
-Debt obligations of Special Financial Company “DSFK” LLP	31,210	-
Investment securities available for sale		
-Debt obligations of Special Financial Company “DSFK” LLP	-	31,226
Total investment securities	**4,325,893**	**31,226**

Interest rate analysis of investment securities is disclosed in Note 21.

11 Investment in subsidiaries

(In thousands of Kazakhstani Tenge)	**30 June 2018, unaudited**	**31 December 2017**
Carrying amount:		
DBK JSC	378,515,793	378,515,793
KCM JSC	104,696,686	104,696,686
HCSBK JSC	95,159,603	95,159,603
DAMU EDF JSC	78,925,794	78,925,794
BD JSC	47,732,078	47,732,078
KMC JSC	43,682,233	43,682,233
IFK JSC	40,918,407	40,918,407
KE JSC	34,339,971	34,339,971
NATD JSC	25,533,132	25,533,132
HCGF JSC	22,228,464	22,228,464
KPPF LLP	2,150,000	2,150,000
Total investments in subsidiaries	**873,882,161**	**873,882,161**

There were no movements in the carrying amount of the Holding Company’s investment in subsidiaries during six-month period ended 30 June 2018.

(In thousands of Kazakhstani Tenge)	**1 January 2017**	**Contribution, unaudited**	**30 June 2017, unaudited**
Carrying amount:			
DBK JSC	353,515,793	-	353,515,793
KCM JSC	104,696,686	-	104,696,686
HCSBK JSC	95,159,603	-	95,159,603
DAMU EDF JSC	78,925,794	-	78,925,794
BD JSC	47,732,078	-	47,732,078
KMC JSC	38,482,233	5,200,000	43,682,233
IFK JSC	34,339,971	-	34,339,971
KE JSC	27,018,407	13,900,000	40,918,407
NATD JSC	25,533,132	-	25,533,132
HCGF JSC	12,228,464	-	12,228,464
KPPF LLP	2,150,000	-	2,150,000
Total investments in subsidiaries	**819,782,161**	**19,100,000**	**838,882,161**

12 Debt securities issued

(In thousands of Kazakhstani Tenge)			Nominal value		Carrying amount	
	Placement date	**Maturity date**	**30 June 2018, unaudited**	**31 December 2017**	**30 June 2018, unaudited**	**31 December 2017**
KZ2C0Y20F251	25.03.2016	25.03.2036	202,000,000	202,000,000	59,774,379	57,818,728
KZP01Y20E920	13.03.2015, 31.03.2015	13.03.2035	170,000,000	170,000,000	59,666,417	57,873,853
KZ2C0Y20E676	15.04.2014	15.04.2034	100,000,000	100,000,000	37,536,571	36,418,222
KZ2C0Y20E775	10.12.2014	10.12.2034	100,000,000	100,000,000	36,122,532	35,049,799
KZP01Y30E879	21.01.2015, 16.02.2015	21.01.2045	92,500,000	92,500,000	16,982,563	16,478,351
KZ2C0Y20E742	30.10.2014	30.10.2034	50,000,000	50,000,000	17,815,390	17,275,725
KZP02Y20E738	26.03.2015	26.03.2035	38,095,125	38,095,125	30,397,760	29,579,933
KZP01Y20E730	15.07.2014	15.07.2034	23,000,000	23,000,000	21,258,271	20,710,437
KZP02Y30E877	29.01.2016	29.01.2046	22,500,000	22,500,000	4,242,412	4,122,938
KZP01Y09F615	19.10.2017	29.01.2026	21,100,000	21,100,000	10,997,088	10,552,209
KZP02Y20E928	29.09.2015	29.09.2035	15,000,000	15,000,000	5,018,641	4,866,191
KZ2C0Y20F236	03.02.2016	03.02.2036	15,000,000	15,000,000	4,801,837	4,653,295
KZP03Y20E736	09.03.2016	09.03.2036	15,000,000	15,000,000	3,803,606	3,671,101
			864,195,125	**864,195,125**	**308,417,467**	**299,070,782**

As at 30 June 2018 and 31 December 2017, the Holding Company's debt securities issued are not listed.

During six-month period ended 30 June 2018 and six-month period ended 30 June 2017, the Holding Company did not issue debt securities (unaudited).

The interest expense of Tenge 9,799,244 thousand (unaudited) incurred during six-month period ended 30 June 2018 (six-month period ended 30 June 2017: Tenge 8,780,120 thousand (unaudited)) relates to the debt securities issued (Note 16).

13 Loans from the Government of the Republic of Kazakhstan

	Nominal value		Carrying amount	
(In thousands of Kazakhstani Tenge)	**30 June 2018, unaudited**	**31 December 2017**	**30 June 2018, unaudited**	**31 December 2017**
Ministry of Finance of the Republic of Kazakhstan	251,432,725	243,054,097	103,732,941	93,730,536
Total loans from Government of the Republic of Kazakhstan	**251,432,725**	**243,054,097**	**103,732,941**	**93,730,536**

During six-month period ended 30 June 2018 the Holding Company received a loan from the Ministry of Finance of the Republic of Kazakhstan in the total amount of Tenge 10,000,000 thousand (unaudited) (six month-period ended 30 June 2017: Tenge 116,100,000 thousand (unaudited)):

- a loan of Tenge 10,000,000 thousand (unaudited) has been provided at the rate of 0.10% p.a. and with maturity in 9 years. The borrowed funds are intended to lend the Holding Company's subsidiary - DBK JSC for further lending of DBK-Leasing JSC to provide a long-term lease financing under the Unified Program for Business Support and Development "Business Road Map – 2020".

During six-month period ended 30 June 2017 the following loans have been received:

- a loan of Tenge 17,500,000 thousand (unaudited) has been provided at the rate of 0.10% p.a. and with maturity in 10 years. The borrowed funds are intended to lend the Holding Company's subsidiary - DBK JSC for further lending of DBK-Leasing JSC to provide a long-term lease financing under the Unified Program for Business Support and Development "Business Road Map – 2020";

- a loan of Tenge 18,600,000 thousand (unaudited) has been provided at the rate of 0.05% p.a. and with maturity in 20 years. All borrowed funds are intended to finance the Holding Company's subsidiary - DBK JSC for further lending of DBK-Leasing JSC to finance the renewal of passenger car fleet of "Passenger transportation" JSC;

- a loan of Tenge 80,000,000 thousand (unaudited) loan to DBK JSC at the rate of 0.10% p.a. and with maturity in 20 years. The borrowed funds are intended to lend the Holding Company's subsidiary - DBK JSC to finance the investment projects as a part of implementation of the State Program of the Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019. Interest rate on loans for final borrowers is limited to 11% p.a.

13 Loans from the Government of the Republic of Kazakhstan, continued

During six-month period ended 30 June 2018 the Holding Company accounted for the income of Tenge 3,808,188 thousand (unaudited) (six-month period ended 30 June 2017: Tenge 71,957,365 thousand (unaudited)), as government subsidies, which were recognised in other operating income in the condensed separate interim statement of profit or loss and other comprehensive income (Note 18). The Holding Company applied the market interest rate of 8.70% p.a. (six-month period ended 30 June 2017: 9.21%-9.49% p.a.) to measure the fair value of the loans received from the Government of the Republic of Kazakhstan at initial recognition by discounting their future contractual cash flows.

The interest expense of Tenge 4,377,793 thousand (unaudited) incurred during six-month period ended 30 June 2018 (six-month period ended 30 June 2017: Tenge 2,664,250 thousand (unaudited)) relates to the loan from the Government of the Republic of Kazakhstan (Note 16).

14 Share capital

(In thousands of Kazakhstani Tenge, except for number of shares)	**30 June 2018, unaudited**	**31 December 2017**
Authorised ordinary shares	5,000,086,550	5,000,086,550
Ordinary shares registered but not placed	(4,153,867,838)	(4,153,867,838)
Total issued shares paid	**846,218,712**	**846,218,712**
Par value per share, in Tenge	1,000	1,000
Issued share capital paid	**846,218,712**	**846,218,712**

Each ordinary share carries one vote.

During six-month-period ended 30 June 2018, the Holding Company did not issue any shares (six-month period ended 30 June 2017: Tenge 13,900,000 (unaudited)).

15 Interest income calculated using the effective interest method

(In thousands of Kazakhstani Tenge)	**Six-month period ended 30 June 2018, unaudited**	**Six-month period ended 30 June 2017, unaudited**
Loans to subsidiaries	14,294,266	11,532,726
Deposits	801,992	969,936
Investment securities measured at amortised cost	82,084	-
Total Interest income calculated using the effective interest method	**15,178,342**	**12,502,662**

Interest income for the six-month period ended 30 June 2018 includes Tenge 13,468,517 thousand (unaudited) (six-month period ended 30 June 2017: Tenge 10,787,234 thousand (unaudited)), resulting from unwinding of discount which has arisen upon initial recognition of loans to subsidiaries.

16 Interest expense

(In thousands of Kazakhstani Tenge)	**Six months ended 30 June 2018, unaudited**	**Six months ended 30 June 2017, unaudited**
Debt securities issued	9,799,244	8,780,120
Loans from the Government of the Republic of Kazakhstan	4,377,793	2,664,250
Total interest expense	**14,177,037**	**11,444,370**

Interest expense on debt securities issued for the six-month period ended 30 June 2018 includes Tenge 9,361,872 thousand (unaudited) (six-month period ended 30 June 2017: Tenge 8,358,572 thousand (unaudited)) resulting from unwinding of discount which has arisen upon initial recognition of debt securities issued (Note 12).

Interest expense on loans from the Government of the Republic of Kazakhstan for the six-month period ended 30 June 2018 includes Tenge 4,262,262 thousand (unaudited) (six-month period ended 30 June 2017: Tenge 2,587,317 thousand (unaudited)), resulting from unwinding of discount which has arisen upon initial recognition of loans from the Government of the Republic of Kazakhstan (Note 13).

17 Dividend income

(In thousands of Kazakhstani Tenge)	Balance as at 1 January 2018	Declared, unaudited	Paid, unaudited	Balance as at 30 June 2018, unaudited
HCSBK JSC	-	7,675,971	-	7,675,971
DBK JSC	-	1,428,367	(1,428,367)	-
DAMU EDF JSC	-	1,234,153	-	1,234,153
KMC JSC	-	1,108,575	-	1,108,575
BD JSC	-	1,014,182	-	1,014,182
KCM JSC	-	882,282	(882,282)	-
KE JSC	-	639,389		639,389
KPPF LLP	-	7,140	(7,140)	-
	-	**13,990,059**	**(2,317,789)**	**11,672,270**

(In thousands of Kazakhstani Tenge)	Balance as at 1 January 2017	Declared, unaudited	Paid, unaudited	Balance as at 30 June 2017, unaudited
HCSBK JSC	-	6,778,929	-	6,778,929
BD JSC	-	3,059,355	-	3,059,355
DBK JSC	-	1,995,163	-	1,995,163
DAMU EDF JSC	-	1,678,218	-	1,678,218
KMC JSC	-	926,802	-	926,802
IFK JSC	-	215,335	-	215,335
NATD JSC	-	81,339	(81,339)	-
KE JSC	-	32,956	(32,956)	-
	-	**14,768,097**	**(114,295)**	**14,653,802**

18 Other operating income

(In thousands of Kazakhstani Tenge)	Six-month period ended 30 June 2018, unaudited	Six-month period ended 30 June 2017, unaudited
Loss at initial recognition of loans to subsidiaries at a market-below interest rates (Note 9)	(3,652,825)	(69,854,813)
Government grant (Note 13)	3,808,188	71,957,365
Gain on early repayment of loans to subsidiaries (Note 9)	1,164,494	-
Loss on early repayment of loans from the Government of the Republic of Kazakhstan (Note 9)	(1,178,761)	-
Other	78,517	(2,279)
Total other operating income	**219,613**	**2,100,273**

19 Administrative and other operating expenses

(In thousands of Kazakhstani Tenge)	Six-month period ended 30 June 2018, unaudited	Six-month period ended 30 June 2017, unaudited
Staff costs	991,867	688,021
Consulting services	217,497	62,567
Administrative expense of the Board of Directors	185,177	183,912
Operating lease expense	138,115	144,715
Outsourcing costs	135,757	86,381
Amortisation of software and other intangible assets	66,378	67,217
Business trips	44,215	48,600
Other costs related to property, plant and equipment	40,532	15,661
Depreciation of property, plant and equipment	22,381	33,367
Communication services	21,275	13,402
Staff training, conferences	20,789	3,532
Insurance costs	16,199	15,859
Advertising and marketing services	14,231	46,906
Costs for stationary printing products, branding products	3,745	7,419
Other	43,220	55,438
Total administrative and other operating expenses	**1,961,378**	**1,472,997**

20 Income tax (expense)/benefit

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

(In thousands of Kazakhstani Tenge)	**Six-month period ended 30 June 2018, unaudited**	**Six-month period ended 30 June 2017, unaudited**
Current income tax expense	-	-
Change in deferred income tax liabilities due to origination and reversal of temporary differences	(56,755)	424,236
Total income tax (expense)/benefit	**(56,755)**	**424,236**

The income tax rate applicable to the Holding Company's income of the six-month period ended 30 June 2018 is 20% (the six-month period ended 30 June 2017: 20%).

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

(In thousands of Kazakhstani Tenge)	**Six-month period ended 30 June 2018, unaudited**	**%**	**Six-month period ended 30 June 2017, unaudited**	**%**
Profit before income tax	**13,249,609**	**100.00**	**16,453,665**	**100.00**
Income tax at the applicable tax rate	2,649,922	20.00	3,290,733	20.00
Non-taxable dividend income	(2,798,012)	(21.12)	(2,953,619)	(17.95)
Non-taxable income on reversal of impairment allowance	(11,878)	(0.09)		
Unrecognised deferred tax assets	161,802	1.22	69,598	0.42
Non-taxable income/(non-deductible expense)	(58,589)	(0.44)	17,524	0.11
Income tax (benefit)/expense	**(56,755)**	**(0.43)**	**424,236**	**2.58**

21 Financial risk management

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

The risk management policy has the following objectives:

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

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

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

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

21 Financial risk management, continued

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

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

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

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

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

The Holding Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the condensed separate interim statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. No collateral and other credit enhancements exist as at 30 June 2018 (31 December 2017: None).

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

None of financials assets are past due or impaired as at 30 June 2018 (31 December 2017: None), except deposits (Note 8).

Credit risk concentration. The Holding Company's cash and deposit balances as at 30 June 2018 were placed with seven banks (31 December 2017: eight banks). That does not expose the Holding Company to significant credit concentration risk.

Concentration of loans to subsidiaries is disclosed in Note 9.

Concentration of investment securities is disclosed in Note 10.

Currency risk. As at 30 June 2018 and 31 December 2017, the Holding Company has no significant foreign currency exposure.

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

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

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

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

21 Financial risk management, continued

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

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

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

The table below summarises the Holding Company's exposure to interest rate risk as at 30 June 2018. The table presents the aggregated amounts of the Holding Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

(In thousands of Kazakhstani Tenge)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Interest-free**	**Total**
30 June 2018, unaudited						
Total financial assets	2,794,484	13,673,085	3,335,536	418,111,255	11,673,106	449,587,466
Total financial liabilities	(72,334)	(197,536)	(17,360)	(411,863,178)	(198,022)	(412,348,430)
Net interest sensitivity gap at 30 June 2018, unaudited	**2,722,150**	**13,475,549**	**3,318,176**	**6,248,077**	**11,475,084**	**37,239,036**

The table below summarises the Holding Company's exposure to interest rate risk as at 31 December 2017. The table presents the aggregated amounts of the Holding Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

(In thousands of Kazakhstani Tenge)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Interest-free**	**Total**
31 December 2017						
Total financial assets	1,995,219	3,884,912	13,368,380	398,752,469	2	418,000,982
Total financial liabilities	(50,292)	(249,394)	(11,649)	(392,489,983)	(292,478)	(393,093,796)
Net interest sensitivity gap at 31 December 2017	**1,944,927**	**3,635,518**	**13,356,731**	**6,262,486**	**(292,476)**	**24,907,186**

An analysis of the sensitivity of profit or loss (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and restated positions of interest-bearing assets and liabilities existing as at 30 June 2018 and 31 December 2017 are as follows:

(In thousands of Kazakhstani Tenge)	**30 June 2018, unaudited**	**31 December 2017**
Parallel rise by 100 basis points	103,867	62,226
Parallel fall by 100 basis points	(103,867)	(62,226)

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

In weighted-average % p.a.	**30 June 2018, unaudited**	**31 December 2017**
Assets		
Cash and cash equivalents	6.31%	7.30%
Deposits	9.80%	9.37%
Loans to subsidiaries	7.35%	7.32%
Investment securities	8.31%	-
Liabilities		
Debt securities issued	6.73%	6.72%
Loans from the Government of the Republic of Kazakhstan	9.39%	9.42%

21 Financial risk management, continued

Liquidity. Contractual payments under the financial liabilities exceed their carrying amount by the sum of non-amortised discount of future interest expenses. As at 30 June 2018 the contractual payments on the issued debt securities and loans from the Government of the Republic of Kazakhstan amount to Tenge 879,199,153 thousand and Tenge 254,100,680 thousand (31 December 2017: Tenge 879,651,573 thousand and Tenge 245,740,225 thousand) respectively, including nominal value of Tenge 864,195,125 thousand and Tenge 251,432,725 thousand (31 December 2017: Tenge 864,195,125 thousand and nominal value of Tenge 243,054,097 thousand) respectively, and total future interest of Tenge 15,004,028 thousand and Tenge 2,667,955 thousand (31 December 2017: Tenge 15,456,448 thousand and Tenge 2,686,128 thousand) payable on annual basis.

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

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

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

22 Contingencies and commitments

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

Tax contingencies. The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

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

Credit related commitments. On December 2017, a loan facility agreement has been concluded between DBK JSC and Sumitomo Mitsui Banking Corporation Europe Limited, the Bank of Tokyo-Mitsubishi UFJ Ltd., Deutsche Bank AG, Credit Agricole Corporate and Investment Bank in order to finance the investment project PetroKazakhstan Oil Product LLC. The Holding Company has concluded the financial guarantee agreement as a security for DBK JSC's loan facility agreement for the amount not exceeding USD 225,000,thousand (equivalent to Tenge 76,743,000 thousand). During 2018 under the loan facility agreement DBK JSC has received loans for the total amount of USD 225,000 thousand with maturity in 2030 and interest rates 4.67% and 4.94% p.a.

23 Related party transactions

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

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

23 Related party transactions, continued

The balances as at 30 June 2018 for transactions with related parties are as follows:

(In thousands of Kazakhstani Tenge)	**Subsidiaries**	**Transactions with state owned entities**
Cash and cash equivalents	-	6
Investments in subsidiaries	873,882,161	-
Loans to subsidiaries	418,525,965	-
Investment securities	-	4,294,683
Dividends receivable	11,672,270	-
Current income tax prepayment	-	1,466,347
Other assets	-	2,228
Debt securities issued	-	(308,417,467)
Loans from the Government of the Republic of Kazakhstan	-	(103,732,941)
Deferred income tax liability	-	(1,087,286)
Other liabilities	(61,998)	(91,944)

The income and expense items on the related party transactions for the six-month period ended 30 June 2018 were as follows (unaudited):

(In thousands of Kazakhstani Tenge)	**Subsidiaries**	**Transactions with state owned entities**
Interest income	14,294,266	82,084
Interest expense	-	(14,177,037)
Dividend income	13,990,059	-
Other operating (expense)/income	(2,471,998)	2,629,427
Administrative and other operating expenses	(44,000)	(308,234)
Income tax benefit	-	56,755

The balances as at 31 December 2017 for transactions with related parties are as follows:

(In thousands of Kazakhstani Tenge)	**Subsidiaries**	**Transactions with state owned entities**
Cash and cash equivalents	-	2
Investments in subsidiaries	873,882,161	-
Loans to subsidiaries	399,200,826	-
Current income tax prepayment	-	1,226,993
Debt securities issued	-	(299,070,782)
Loans from the Government of the Republic of Kazakhstan	-	(93,730,536)
Deferred income tax liability	-	(1,144,040)
Other liabilities	-	(159,772)

The income and expense items on the related party transactions for the six-month period ended 30 June 2017 were as follows (unaudited):

(In thousands of Kazakhstani Tenge)	**Subsidiaries, unaudited**	**Transactions with state owned entities, unaudited**
Interest income	11,532,726	-
Interest expense	-	(11,444,370)
Dividend income	14,768,097	-
Other operating (expense)/income	(69,854,813)	71,957,365
Administrative and other operating expenses	-	(342,130)
Income tax expense	-	(424,236)

23 Related party transactions, continued

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

(In thousands of Kazakhstani Tenge)	Six-month period ended 30 June 2018, unaudited	Six-month period ended 30 June 2017, unaudited
Members of the Board of Directors	164,419	158,026
Members of the Management Board	113,507	93,585
	277,926	**251,611**

24 Fair value

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

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

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

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

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

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

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

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 30 June 2018:

(In thousands of Kazakhstani Tenge)	Level 2, unaudited	Total fair values, unaudited	Total carrying amount, unaudited
Assets			
Cash and cash equivalents	2,126,086	2,126,086	2,126,086
Deposits	12,937,252	12,937,252	12,937,252
Loans to subsidiaries	365,442,527	365,442,527	418,525,965
Investment securities	4,288,121	4,288,121	4,294,683
Dividends receivable	11,672,270	11,672,270	11,672,270
Liabilities			
Debt securities issued	248,609,617	248,609,617	308,417,467
Loans from the Government of the Republic of Kazakhstan	111,732,394	111,732,394	103,732,941

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017:

(In thousands of Kazakhstani Tenge)	Level 2	Total fair value	Total carrying amount
Assets			
Cash and cash equivalents	225,777	225,777	225,777
Deposits	18,542,858	18,542,858	18,542,858
Loans to subsidiaries	319,176,924	319,176,924	399,200,826
Liabilities			
Debt securities issued	219,524,526	219,524,526	299,070,782
Loans from the Government of the Republic of Kazakhstan	94,468,401	94,468,401	93,730,536

25 Subsequent events

In July 2018, in compliance with the Minutes of the meeting of the Management Council of the National Fund of the Republic of Kazakhstan No.01-7.16 dated 14 November 2014 (considering amendments and additions as of 7 August 2017), the Holding Company issued coupon bonds for Tenge 10,600,000 thousand with interest rate of 0.15% p.a. and maturity in 2026, to finance purchase of debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate. The issue proceeds were transferred to the Holding Company's subsidiary BD JSC in the form of loans with 92 months term and interest rate of 0.20% p.a.

In August 2018, in accordance with the Law of the Republic of Kazakhstan "On Republican Budget for 2018-2020", the Holding Company received a loan of Tenge 12,000,000 thousand, at the interest rate of 0.10% p.a., with maturity of 20 years, from the Republican budget, to finance projects under the State Program of the Industrial and Innovative Development of the Republic of Kazakhstan in 2015-2019. The borrowed funds have been provided to the Holding Company's subsidiary DBK JSC in the form of a loan at the interest rate of 0.15% p.a., with maturity of 20 years, for the above stated purposes.

In August 2018, in accordance with the Law of the Republic of Kazakhstan "On Republican Budget for 2018-2020", the Holding Company received a loan of Tenge 13,000,000 thousand, at the interest rate of 0.10% p.a., with maturity of 15 years, from the Republican budget, to finance projects under Nurly-Zhol State Program for Infrastructure Development in 2015-2019. The borrowed funds have been provided to the Holding Company's subsidiary DBK JSC in the form of a loan at the interest rate of 0.15% p.a., with maturity of 15 years, for the above stated purposes.

In July 2018, the Holding Company received cash payments from subsidiaries for declared dividends in the amount of Tenge 11,762,270 thousand.