Baiterek National Managing Holding Joint Stock Company

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

31 December 2018

CONTENTS

INDEPENDENT AUDITORS' REPORT

SEPARATE FINANCIAL STATEMENTS

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Independent Auditors' Report

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

Opinion

We have audited the separate financial statements of Baiterek National Managing Holding Joint Stock Company (the "Holding Company"), which comprise the separate statement of financial position as at 31 December 2018, the separate statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Holding Company as at 31 December 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Holding Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Kazakhstan and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Government Grants

Please refer to the Notes 3 (Government grants), 9, 11, 12 and 17 in the separate financial statements.

The key audit matter	How the matter was addressed in our audit
During 2018 the Holding Company issued unsecured coupon bonds with total nominal value of Tenge 70,148,922 thousand with a coupon rate of 0.15% p.a. and received loans from the Government in the amount of Tenge 47,537,182 thousand with interest rates ranging from 0.05% p.a. to 0.10% p.a. Using the funds received the Holding Company issued loans to subsidiaries with total nominal value of Tenge 117,686,104 thousand with interest rates ranging from 0.08% p.a. to 0.20% p.a. At initial recognition these debt securities issued, loans received and loans issued were recognised at fair values measured by applying estimates of relevant market interest rates to discount the contractual future cash flows. The difference of Tenge 57,462,015 thousand between the fair value and the nominal value of debt securities issued and loans received was recognised as a government grant in other operating income in the separate statement of profit or loss and comprehensive income. The difference of Tenge 56,738,188 thousand between the fair value and the nominal value of loans issued was also recognised as a loss at initial recognition of loans to subsidiaries at a market-below interest rates in other operating income in the separate statement of profit or loss and comprehensive income. We focused on the estimate of the fair value of the debt securities issued, the loans received and loans issued to subsidiaries due to significant judgment involved arriving at the estimate, as well as on accounting for the difference	Our audit procedures included assessing, based on the overall substance of the transaction, whether the difference between consideration received and the fair value of the debt securities issued and loan received represents a government grant. We assessed the reasonableness of management's estimates of market rates applied to calculate fair values of the debt securities issued, the loans received and loans issued to subsidiaries at below-market rates and compared them to available market information. We also assessed whether the financial statement disclosures appropriately reflect the information in relation to government grants recognised in the separate financial statements.

between the nominal value and fair value of debt securities issued and loans received.	

Expected credit losses for loans to subsidiaries

Please refer to the Notes 3 (Impairment), 5 and 9 in the separate financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to subsidiaries represent 33% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used. From 1 January 2018 the Holding Company implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: - timely identification of significant increase in credit risk and default events related to loans to subsidiaries (allocation between stages 1, 2 and 3 in accordance with the IFRS 9); - assessment of probability of default (PD) and loss given default (LGD). Due to the significant amount of loans to subsidiaries, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.	We analysed the key aspects of the Holding Company's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of our own specialists in financial risk management. To analyse adequacy of professional judgement and assumptions made by the management in relation to allowance for the ECL estimate, we performed the following procedures: — We tested whether Stages are correctly assigned by the Holding Company by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Holding Company. — We agreed input data for the model used to assess ECL for loans to subsidiaries to available financial and non-financial information. We also assessed whether the separate financial statements disclosures appropriately reflect the Holding Company's exposure to credit risk.

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

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

In preparing the separate financial statements, management is responsible for assessing the Holding Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Holding Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Holding Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Holding Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Holding Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Sergey Dementyev
General Director of KPMG Audit LLC
acting on the basis of the Charter

15 April 2019

(In thousands of Kazakhstani Tenge)	**Note**	**31 December 2018**	**31 December 2017***
ASSETS			
Cash and cash equivalents	7	2,596,755	225,777
Deposits		-	18,542,858
Investment securities	8	86,938,945	31,226
Loans to subsidiaries	9	482,718,492	399,200,826
Investments in subsidiaries	10	891,478,834	873,882,161
Property, plant and equipment		89,110	49,672
Intangible assets		292,991	765,536
Current income tax prepayment		1,682,421	1,226,993
Other assets		293,441	635,622
TOTAL ASSETS		**1,466,090,989**	**1,294,560,671**
LIABILITIES			
Debt securities issued	11	435,423,764	299,070,782
Loans from the Government of the Republic of Kazakhstan	12	123,866,691	93,730,536
Deferred income tax liability	20	1,121,863	1,144,040
Other liabilities		1,152,008	1,085,679
TOTAL LIABILITIES		**561,564,326**	**395,031,037**
EQUITY			
Share capital	13	846,218,712	846,218,712
Retained earnings		58,307,951	53,310,922
TOTAL EQUITY		**904,526,663**	**899,529,634**
TOTAL LIABILITIES AND EQUITY		**1,466,090,989**	**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 (Note 2). As a result of adoption of IFRS 9 the Holding Company changed presentation of certain captions, comparative information is re-presented accordingly (Note 2).

Approved by the Management on 15 April 2019 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	2018	2017*
Interest income calculated using the effective interest method	14	32,381,151	27,124,324
Other interest income		21	-
Interest expense	15	(30,112,475)	(24,850,810)
Net interest income		**2,268,697**	**2,273,514**
Dividends received	16	13,990,059	14,768,097
Other operating income	17	743,009	2,160,539
Recovery of impairment on financial assets, net	18	153,904	-
Impairment loss on intangible asset		(605,137)	-
Impairment losses on financial guarantees	22	(392,750)	-
Loss on sales of shares in investment in subsidiary	10	(403,327)	-
Administrative expenses	19	(5,031,791)	(4,016,556)
Profit before income tax		**10,722,664**	**15,185,594**
Income tax benefit/(expense)	20	22,177	(362,318)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,744,841**	**14,823,276**

*The Holding Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (Note 2).

(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 year		-	14,823,276	14,823,276
Total comprehensive income for the year		**-**	**14,823,276**	**14,823,276**
Share issue	13	43,900,000	-	43,900,000
Discount on financial instruments		-	(83,035)	(83,035)
Balance at 31 December 2017*		**846,218,712**	**53,310,922**	**899,529,634**
Impact of adopting IFRS 9 as at 1 January 2018	6	-	(5,747,812)	(5,747,812)
Restated balance at 1 January 2018		**846,218,712**	**47,563,110**	**893,781,822**
Profit for the year		-	10,744,841	10,744,841
Total comprehensive income for the year		**-**	**10,744,841**	**10,744,841**
Balance at 31 December 2018		**846,218,712**	**58,307,951**	**904,526,663**

*The Holding Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (Note 2).

(In thousands of Kazakhstani Tenge)	Note	2018	2017
Cash flows from operating activities			
Interest received		3,558,878	3,446,793
Interest paid		(1,106,737)	(1,002,515)
Dividends received	16	13,990,059	14,768,097
Staff costs paid		(1,905,342)	(1,654,039)
Administrative and other operating expenses paid		(3,086,959)	(2,600,512)
Income tax paid		(455,428)	(518,485)
Net cash flows from operating activities		**10,994,471**	**12,439,339**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(58,836)	(13,072)
Contribution to the capital of the subsidiaries	10	(20,000,000)	(54,100,000)
Proceeds from sales of shares of subsidiary	10	2,000,000	-
Acquisition of intangible assets		(105,499)	(3,484)
Acquisition of investment securities measured at amortised cost		(86,509,159)	-
Deposits placement		-	(24,300,000)
Deposits repayment		18,350,000	22,030,000
Loans to subsidiaries	9	(117,686,104)	(147,200,000)
Repayment of loans issued to subsidiaries	9	1,621,372	-
Net cash flows used in investing activities		**(202,388,226)**	**(203,586,556)**
Cash flows from financing activities			
Proceeds from debt securities issued	11	147,848,922	21,100,000
Receipts of loans from the Government of the Republic of Kazakhstan	12	47,537,182	126,100,000
Repayment of loans from the Government of the Republic of Kazakhstan	9	(1,621,372)	-
Issue of ordinary shares	13	-	43,900,000
Net cash flows from financing activities		**193,764,732**	**191,100,000**
Net increase/(decrease) in cash and cash equivalents		**2,370,978**	**(47,217)**
Cash and cash equivalents at beginning of year		225,777	272,994
Cash and cash equivalents at end of year	7	**2,596,755**	**225,777**

*The Holding Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (Note 2).

1 Introduction

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

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

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

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

On 19 March 2014, the Holding Company jointly with "Kazakhstan Centre of Government-Private Partnership" JSC established "Kazakhstan Project Preparation Fund" LLP ("KPPF LLP"). The Holding Company made a cash contribution of Tenge 150,000 thousand to the charter capital of KPPF LLP amounting to 75.00% interest in KPPF LLP.

In accordance with Order No. 964 of the Committee for State Property and Privatisations of 2 October 2014, the Committee for Investments of the Ministry of Industry and New Technologies of the Republic of Kazakhstan transferred 26.00% of shares of KMC JSC to the Holding Company as a contribution to the share capital. The value of transaction amounted to Tenge 10,216,702 thousand, where the total number of shares of 10,216,701 having nominal value Tenge 1,000 per one share, and 1 share of nominal value Tenge 608 per one share were transferred.

Debt securities issued in December 2018 are listed on Kazakhstan Stock Exchange (the "KASE").

Principal activity

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

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

1 Introduction, continued

Principal activity, continued

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

Below are the major subsidiaries of the Holding Company:

			Ownership, %	
Name of subsidiary	**Abbreviated name**	**Country of incorporation**	**31 December 2018**	**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, Nur-Sultan, Republic of Kazakhstan.

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

Operating environment of the Holding Company

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

2 Basis of preparation

Statement of compliance. These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This is the first set of the Holding Company's separate financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described below in Note 2.

In addition, the Holding Company has prepared the consolidated financial statements in accordance with IFRS of the Holding Company and its subsidiaries. The consolidated financial statements of the Holding Company is available from the Holding Company's office at the address: 55a Mangilik Yel Avenue, Yessil district, Nur-Sultan, 010000, Republic of Kazakhstan.

Basis of measurement. These separate 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 (2017: financial assets available for sale).

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

2 Basis of preparation, continued

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 separate financial statements.

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

Changes in accounting policies and presentation.

The Holding Company has adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Holding Company's separate financial statements.

Due to the transition methods chosen by the Holding Company in applying IFRS 9, comparative information throughout these separate financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 6);
- additional disclosures in accordance with IFRS 7 (see Notes 5 and 6).

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Holding Company.

IFRS 9 *Financial instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Holding Company has applied consequential amendments to IAS 1 '*Presentation of Financial Statements*', which require separate presentation in the separate statement of profit or loss and other comprehensive income of interest income calculated using the effective interest method. Previously, the Holding Company disclosed this amount in notes to the separate financial statements.

Additionally, the Holding Company has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures*' that are applied to disclosures about 2018 but have not been applied to the comparative information.

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, see Note 3.

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, see Note 3.

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, see Note 3.

2 Basis of preparation, continued

Changes in accounting policies and presentation, continued

IFRS 9 *Financial instruments*, continued

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 as at and for the year ended 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 year ended 31 December 2018 under IFRS 9.
- The Holding Company used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the separate statement of profit or loss and other comprehensive income, the Holding Company has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.
- 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, see Note 6.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 '*Revenue*', IAS 11 '*Construction Contracts and related interpretations'*.

The Holding Company initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Holding Company's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

3 Summary of significant accounting policies

Except for the changes disclosed in Note 2, the Holding Company has consistently applied the following accounting policies to all periods presented in these separate financial statements.

Interest income and expense

Policy applicable from 1 January 2018

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.

3 Summary of significant accounting policies, continued

Interest income and expense, continued

Policy applicable from 1 January 2018, continued

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.

Calculation of interest income and expense. The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. 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. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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 calculated using the effective interest method presented in the separate statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Other interest income presented in the separate statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the separate statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

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

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

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

Financial assets and financial liabilities

Policy applicable from 1 January 2018

(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.

3 Summary of significant accounting policies, continued

Financial assets and financial liabilities, continued

Policy applicable from 1 January 2018, continued

(i) Classification, continued

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;
- expected credit loss 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.

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.

3 Summary of significant accounting policies, continued

Financial assets and financial liabilities, continued

Policy applicable from 1 January 2018, continued

(i) Classification, continued

Assessment whether contractual cash flows are solely payments of principal and interest, continued

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.

Policy applicable before 1 January 2018

The Holding Company classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held for trading; or
  - designated as at FVTPL.

Policy applicable from 1 January 2018

Financial liabilities

The Holding Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification. Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets. The Holding Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Holding Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Holding Company enters into transactions whereby it transfers assets recognised on its separate statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Holding Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Holding Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities. The Holding Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3 Summary of significant accounting policies, continued

Financial assets and financial liabilities, continued

(iii) Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

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 plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms.

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 cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Holding Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Holding Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Holding Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification: Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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.

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. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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.

3 Summary of significant accounting policies, continued

Financial assets and financial liabilities, continued

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

Policy applicable from 1 January 2018, continued

Financial liabilities, continued

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 the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets. If the terms of a financial asset were modified, then the Holding Company evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

Financial liabilities. The Holding Company derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

Policy applicable after 1 January 2018

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.

No impairment loss is recognised on equity investments.

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. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

3 Summary of significant accounting policies, continued

Financial assets and financial liabilities, continued

(iv) Impairment, contined

Policy applicable after 1 January 2018, continued

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 Holding Company 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.

See also Note 5.

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.
- 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.

Presentation of allowance for ECL in the separate statement of financial position. Loss allowances for ECL are presented in the separate 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 separate 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. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

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.

3 Summary of significant accounting policies, continued

Financial assets and financial liabilities, continued

(iv) Impairment, continued

Policy applicable before 1 January 2018

Objective evidence of impairment. At each reporting date, the Holding Company assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was ‘impaired’ when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Holding Company on terms that the Holding Company would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

Measurement of impairment. Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

- For assets measured at amortised cost: if an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- For available-for-sale debt security: if, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through other comprehensive income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in other comprehensive income.

Presentation. Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off. The Holding Company wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Holding Company determined that there was no realistic prospect of recovery.

Investment securities

Policy applicable after 1 January 2018

The ‘investment securities’ caption in the separate 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.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

3 Summary of significant accounting policies, continued

Investment securities, continued

Policy applicable before 1 January 2018, continued

Held-to-maturity. Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Holding Company had the positive intent and ability to hold to maturity, and which were not designated as at FVTPL or as available-for-sale.

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Holding Company from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that were so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Holding Company had collected substantially all of the asset's original principal; and
- sales or reclassifications that were attributable to non-recurring isolated events beyond the Holding Company's control that could not have been reasonably anticipated.

Fair value through profit or loss

- *Trading assets* were those assets that the Holding Company acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Trading assets were initially recognised and subsequently measured at fair value in the separate statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value were recognised as part of net trading income in profit or loss.
- *Designated assets*. The Holding Company designated some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

Available-for-sale. Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value could not be measured reliably were carried at cost. All other available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Holding Company became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses were recognised in profit or loss.

Other fair value changes, other than impairment losses, were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Holding Company had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Financial guarantees and loan commitments. Financial guarantees are contracts that require the Holding Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018*: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018:* at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Holding Company has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2018*: the Holding Company recognises a loss allowance;
- *before 1 January 2018*: the Holding Company recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within other liabilities.

3 Summary of significant accounting policies, continued

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

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

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

Loans from the Government of the Republic of Kazakhstan. Loans from the Government of the Republic of Kazakhstan are denominated in Kazakhstani Tenge and measured at amortised cost.

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

Investments in subsidiaries. Subsidiaries are investees controlled by the Holding Company. The Holding Company controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the separate financial statements prepared by the Holding Company investments in subsidiaries are stated at cost, less impairment. Cost of investments in subsidiaries is disclosed in Note 10.

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

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies, continued

Operating leases. Where the Holding Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Holding Company, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

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

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

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies, continued

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

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

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

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

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

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

Presentation of the separate statement of financial position in order of liquidity. The Holding Company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the separate statement of financial position. Instead, analysis of assets and liabilities by their expected and contractual maturities are presented in Note 21.

Comparative information

As a result of adoption of IFRS 9 the Holding Company changed presentation of certain captions in the primary forms of the separate 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 separate statement of financial position is disclosed in Note 6.

The effect of main changes in presentation of the separate 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 effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted; however, the Holding Company has not early adopted them in preparing these separate financial statements, with the exception of the amendment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017.

IFRS 16 Leases. The Holding Company is required to adopt IFRS 16 *Leases* from 1 January 2019. The Holding Company has assessed the estimated impact that initial application of IFRS 16 will have on its separate financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Holding Company has not yet finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Holding Company presents its first financial statements that include the date of initial application.

3 Summary of Significant Accounting Policies, continued

Standards issued but not yet effective, continued

IFRS 16 Leases, continued

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Leases in which the Holding Company is a lessee

The Holding Company has not completed the assessment of the impact on its separate financial statements. For operating lease agreements for which the Holding Company is a lessee, the Holding Company does not expect a significant impact on the separate financial statements.

As at 31 December 2018 the Holding Company has no financial lease agreements.

(ii) Leases in which the Holding Company is a lessor

The Holding Company does not have lease agreements, in which the Holding Company is a lessor.

(iii) Transition

The Holding Company plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Holding Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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

- IFRIC 23 Uncertainty over Income Tax Treatments.
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRSs 2015-2017 Cycle–various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

4 Critical accounting estimates and judgements in applying accounting policies

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

Tax legislation. Kazakhstani tax, currency and customs legislation is subject to varying interpretations (Note 22).

Initial recognition of the borrowings and investments at the rates below market rates under the state development programs. Approach to accounting and evaluation of borrowings and loans to subsidiaries made under state programs of the economic development in 2018 is disclosed in Notes 9, 11 and 12.

Initial recognition of related party transactions. In the normal course of business the Holding Company enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Classification of financial assets (applicable to 2018 only): Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial instruments (applicable to 2018 only): 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.

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 Holding Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

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.

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 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 Holding Company assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument. 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.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Holding Company determines a probation period during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

5 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Significant increase in credit risk, continued

Determining whether credit risk has increased significantly, continued

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).

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);
- the borrower is past due more than 90 days on any material credit obligation to the Holding Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations

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 3(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.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

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 3(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.

5 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

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).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Holding Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD is equal to 70%, if a counterparty is the Kazakhstani bank.

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 and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, 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 credit 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.

External benchmark information is used by the Holding Company to supplement the internally available data. 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 31 December 2018**	**PD**	**LGD**
Investment securities	86,907,780	S&P default study	Moody's recovery studies/ for exposures within Kazakhstan, LGD is based on historical recovery studies of defaulted financial institutions.
Loans to subsidiaries	488,312,399		

5 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

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.

	31 December 2018			
(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 - unrated	1,675	-	-	1,675
rated BB	2,593,620	-	-	2,593,620
rated B	625	-	-	625
unrated	835	-	-	835
	2,596,755	**-**	**-**	**2,596,755**
Loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**2,596,755**	**-**	**-**	**2,596,755**
Loans to subsidiaries				
rated BBB-	209,262,518	37,502,471	-	246,764,989
rated BB+	-	76,392,378	-	76,392,378
unrated	165,155,032	-	-	165,155,032
	374,417,550	**113,894,849**	**-**	**488,312,399**
Loss allowance	**(883,176)**	**(4,710,731)**	**-**	**(5,593,907)**
Carrying amount	**373,534,374**	**109,184,118**	**-**	**482,718,492**
Investment securities at amortised cost				
Notes of National Bank of the Republic of Kazakhstan - unrated	9,161,104	-	-	9,161,104
rated BBB-	77,746,676	-	-	77,746,676
	86,907,780	**-**	**-**	**86,907,780**
Loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**86,907,780**	**-**	**-**	**86,907,780**
Financial guarantee contracts				
rated BBB-	86,445,000	-	-	86,445,000
rated BB	56,567,500	-	-	56,567,500
	143,012,500	**-**	**-**	**143,012,500**
Loss allowance	**392,750**	**-**	**-**	**392,750**
Carrying amount	**392,750**	**-**	**-**	**392,750**

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 Holding 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		Loans and receivables	Amortised cost	18,542,858	-	(380,739)	18,162,119
Investment securities	8	Available for sale	FVOCI	31,226	(31,226)	-	-
Investment securities – debt [(a)]	8	Available for sale	FVTPL (mandatory)	-	31,226	-	31,226
Loans to subsidiaries	9	Loans and receivables	Amortised cost	399,200,826	-	(5,367,073)	393,833,753
Total financial assets				**418,000,687**	**-**	**(5,747,812)**	**412,252,875**
Financial liabilities							
Debt securities issued	11	Amortised cost	Amortised cost	299,070,782	-	-	299,070,782
Loans from the Government of the Republic of Kazakhstan	12	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 3. 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 summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on other components of equity.

(In thousands of Kazakhstani Tenge)	**Impact of adopting IFRS 9 at 1 January 2018**
Retained earnings	
Opening balance under IAS 39 (31 December 2017)	53,310,922
Recognition of expected credit losses under IFRS 9 (including placements with banks and other financial institutions and loans to subsidiaries)	(5,747,812)
Opening balance under IFRS 9 (1 January 2018)	**47,563,110**

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 deposits and loans to subsidiaries)	-	-	(5,747,812)	(5,747,812)
Total measured at amortised cost	**-**	**-**	**(5,747,812)**	**(5,747,812)**

7 Cash and cash equivalents

In thousands of Kazakhstani Tenge	**31 December 2018**	**31 December 2017**
Current accounts	2,596,755	225,777
Total cash and cash equivalents	**2,596,755**	**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)	**31 December 2018**	**31 December 2017**
Neither past due nor impaired		
- NBRK - unrated	1,675	2
- BB- to BB+ rated	2,593,620	225,775
- B- to B+ rated	625	-
- unrated	835	-
Total cash and cash equivalents	**2,596,755**	**225,777**

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

8 Investment securities

(In thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Investment securities measured at amortised cost		
-Notes of the National Bank of the Republic of Kazakhstan	9,161,104	-
-Debt obligations of HCSBK JSC	57,730,709	-
-Debt obligations of KMC JSC	20,015,967	-
Investment securities measured at fair value through profit or loss		
-Debt obligations of Special Financial Company “DSFK” LLP	31,165	-
Investment securities available for sale		
-Debt obligations of Special Financial Company “DSFK” LLP	-	31,226
Total investment securities	**86,938,945**	**31,226**

In December 2018 the Holding Company purchased unsecured coupon bonds of HCSBK JSC and KMC JSC with nominal value of Tenge 57,700,000 thousand and 20,000,000 thousand, respectively, with coupon rates of 9.58% p.a. and maturity in 2033 to provide financing for further expansion of mortgage lending.

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

9 Loans to subsidiaries

	Nominal value		Carrying amount	
(In thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017	31 December 2018	31 December 2017
- DBK JSC	521,498,987	473,961,805	213,828,911	177,910,759
- BD JSC	347,344,047	277,195,125	165,155,032	117,987,779
- DAMU EDF JSC	200,000,000	200,000,000	76,392,378	71,948,648
- KMC JSC	132,470,920	134,092,292	26,753,934	25,596,002
- HCSBK JSC	22,000,000	22,000,000	6,182,144	5,757,638
Gross loans to subsidiaries	1,223,313,954	1,107,249,222	488,312,399	399,200,826
Less: impairment allowance	-	-	(5,593,907)	-
Total loans to subsidiaries	**1,223,313,954**	**1,107,249,222**	**482,718,492**	**399,200,826**

In 2018, the Holding Company provided loans to subsidiaries in the total amount of Tenge 117,686,104 thousand (in 2017: Tenge 147,200,000 thousand). The loans bear interest rates of 0.08% - 0.20% p.a. and mature in 2026-2038 (in 2017: interest rate of 0.08% and 0.20% p.a. and mature in 2026-2037).

In accordance with approved government programs, in 2018 the loans were provided on the following terms and conditions:

- Tenge 10,000,000 thousand 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”;

- Tenge 10,600,000 thousand loan to BD JSC at the rate of 0.20% p.a. and with maturity in 8 years to purchase debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase;

- Tenge 13,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a. and with maturity in 15 years for on-lending DBK-Leasing JSC at an interest rate of 0.20% p.a. and maturity of 15 years to provide long-term financing for leasing agricultural vehicles;

- Tenge 12,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a. and with maturity in 20 years to finance projects under the State Industrial and Innovation Development Program of the Republic of Kazakhstan;

9 Loans to subsidiaries, continued

- Tenge 15,004,300 thousand loan to BD JSC at the rate of 0.20% p.a. and with maturity in 8 years to purchase debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase;

- Tenge 12,537,182 thousand loan to DBK JSC at the rate of 0.08% p.a. and with maturity in 20 years for on-lending DBK-Leasing JSC at an interest rate of 0.10% p.a. and maturity of 20 years to renovate the passenger car fleet of "Passenger transportation" JSC;

- Tenge 44,544,622 thousand loan to BD JSC at the rate of 0.20% p.a. and with maturity in 8 years to purchase debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase.

In accordance with approved government programs, in 2017 the loans were provided on the following terms and conditions:

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

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

- Tenge 80,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a. and with maturity in 20 years to finance projects under the State Industrial and Innovation Development Program of the Republic of Kazakhstan for 2015-2019;

- Tenge 21,100,000 thousand loan to BD JSC at the rate of 0.20% p.a. and with maturity in 8.4 years to purchase debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase;

- Tenge 10,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a. and with maturity in 20 years to finance domestic car manufacturers through conditional financing of second-tier banks to further finance individuals - buyers of vehicles manufactured in the Republic of Kazakhstan and to DBK-Leasing JSC for the latter to provide financing to legal entities and individual entrepreneurs, which take for lease vehicles of special purpose, except for agricultural vehicles produced in the Republic of Kazakhstan.

At initial recognition the loans were recognised at fair value measured by applying relevant market interest rates varying from 8.42% to 9.14% p.a. (in 2017: from 8.78% to 9.42% p.a.) to discount their future cash flows. The Holding Company recognised a difference of Tenge 56,738,188 thousand (in 2017: Tenge 86,953,329 thousand) between a fair value and a nominal value as a loss, at initial recognition of loans provided to subsidiaries at a below-market interest rates and reported the difference in profit or loss. These loans were financed through bonds issue and funds of the republican budget denominated in Tenge at interest rates varying from 0.05% to 0.15% p.a. (in 2017: from 0.05% to 0.15% p.a.) maturing in 2026-2038 (Notes 11 and 12). The differences of Tenge 31,170,408 thousand (in 2017: Tenge 10,728,233 thousand) and Tenge 26,291,607 thousand (in 2017: Tenge 78,464,629 thousand) between a fair value at initial recognition and nominal value of bonds and loans from the government of the Republic of Kazakhstan were therefore, recognised in profit or loss as a government grant to correspond with the Holding Company’s loss on initial recognition of loans to subsidiaries (Note 17).

During 2018, KMC JSC has made early partial repayment of the loan in the amount of Tenge 1,621,372 thousand (in 2017: none) and the Holding Company in turn has partially repaid the loan to the Government of the Republic of Kazakhstan. The difference of Tenge 1,164,494 thousand (in 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 17). The difference of Tenge 1,178,761 thousand (in 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 17).

Movements in the loans to subsidiaries impairment allowance by ECL stages for 2018 and 2017 are as follows:

	2018			
(In thousands of Kazakhstani Tenge)	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Total**	**2017**
Balance at the beginning of the period	-	-	-	-
Effect of initial application of IFRS 9 (Note 6)	667,383	4,699,690	5,367,073	-
Accrual (Note 18)	215,794	11,040	226,834	-
Balance at the end of the period	**883,177**	**4,710,730**	**5,593,907**	**-**

10 Investments in subsidiaries

The table below summarises the movements in the carrying amount of the Holding Company's investments in subsidiaries in 2018:

(In thousands of Kazakhstani Tenge)	1 January 2018	Contribution	Sale	31 December 2018
Carrying amount:				
DBK JSC	378,515,793	10,000,000	-	388,515,793
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
IFK JSC	34,339,971	10,000,000	-	44,339,971
KMC JSC	43,682,233	-	-	43,682,233
KE JSC	40,918,407	-	-	40,918,407
NATD JSC*	25,533,132	-	(2,403,327)	23,129,805
HCGF JSC	22,228,464	-	-	22,228,464
KPPF LLP	2,150,000	-	-	2,150,000
Total investments in subsidiaries	**873,882,161**	**20,000,000**	**(2,403,327)**	**891,478,834**

*On 26 December 2018 the Holding Company has sold shares of NATD JSC in the quantity of 2,403,327 ordinary shares with the nominal value of Tenge 1,000 per share and at the book value of 1 common share of Tenge 832. Due to the fact that the sales price was lower than the carrying value of the shares, the Holding Company has recognised loss on sales of shares in NATD JSC in the amount of Tenge 403,327 thousand.

The table below summarises the movements in the carrying amount of the Holding Company's investment in subsidiaries in 2017:

(In thousands of Kazakhstani Tenge)	1 January 2017	Contribution	31 December 2017
Carrying amount:			
DBK JSC	353,515,793	25,000,000	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	38,482,233	5,200,000	43,682,233
KE JSC	27,018,407	13,900,000	40,918,407
IFK JSC	34,339,971	-	34,339,971
NATD JSC	25,533,132	-	25,533,132
HCGF JSC	12,228,464	10,000,000	22,228,464
KPPF LLP	2,150,000	-	2,150,000
Total investments in subsidiaries	**819,782,161**	**54,100,000**	**873,882,161**

11 Debt securities issued

(In thousands of Kazakhstani Tenge)			Nominal value		Carrying amount	
	Placement date	**Maturity date**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
KZ2C0Y20F251	25.03.2016	25.03.2036	202,000,000	202,000,000	61,835,624	57,818,728
KZP01Y20E920	13.03.2015, 31.03.2015	13.03.2035	170,000,000	170,000,000	61,549,827	57,873,853
KZ2C0Y20E676	15.04.2014	15.04.2034	100,000,000	100,000,000	38,711,102	36,418,222
KZ2C0Y20E775	10.12.2014	10.12.2034	100,000,000	100,000,000	37,249,114	35,049,799
KZP01Y30E879	21.01.2015, 16.02.2015	21.01.2045	92,500,000	92,500,000	17,513,584	16,478,351
KZ2C0Y15G093 (listed)	20.12.2018	27.12.2033	77,700,000	-	77,782,017	-
KZ2C0Y20E742	30.10.2014	30.10.2034	50,000,000	50,000,000	18,382,517	17,275,725
KZPO4M87F618	28.12.2018	03.12.2026	44,544,622	-	25,246,220	-
KZP02Y20E738	26.03.2015	26.03.2035	38,095,125	38,095,125	31,292,745	29,579,933
KZP01Y20E730	15.07.2014	15.07.2034	23,000,000	23,000,000	21,806,475	20,710,437
KZP02Y30E877	29.01.2016	29.01.2046	22,500,000	22,500,000	4,367,947	4,122,938
KZP01Y09F615	19.10.2017	29.03.2026	21,100,000	21,100,000	11,469,544	10,552,209
KZPO3M89F616	10.16.2018	03.12.2026	15,004,300	-	8,117,696	-
KZP02Y20E928	29.09.2015	29.09.2035	15,000,000	15,000,000	5,178,889	4,866,191
KZ2C0Y20F236	03.02.2016	03.02.2036	15,000,000	15,000,000	4,958,080	4,653,295
KZP03Y20E736	09.03.2016	09.03.2036	15,000,000	15,000,000	3,959,413	3,671,101
KZPO2M92F612	07.12.2018	03.12.2026	10,600,000	-	6,002,970	-
			1,012,044,047	**864,195,125**	**435,423,764**	**299,070,782**

Debt securities issued (KZ2C0Y15G093) in December 2018 are listed on Kazakhstan Stock Exchange (the "KASE"). As at 31 December 2018 and 2017, the remaining Holding Company's debt securities issued are not listed.

In 2018, the Holding Company issued the bonds for the total amount of Tenge 147,848,922 thousand:

- unsecured coupon bonds with total nominal value of Tenge 70,148,922 thousand issued with a coupon rate of 0.15% p.a. which mature in 8 years. The funds will be used to finance purchase of debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase;

- unsecured coupon bonds with nominal value of Tenge 77,700,000 thousand issued with a coupon rate of 9.50% p.a. and maturity in 2033. The funds will be used to finance purchase of debt securities issued by the HCSBK JSC and KMC JSC to finance existing and new programs of HCSBK JSC and to issue mortgage loans through second tier banks.

In 2017, the Holding Company issued the bonds for the total amount of Tenge 21,100,000 thousand:

- unsecured coupon bonds with nominal value of Tenge 21,100,000 thousand issued on 19 October 2017, with a coupon rate of 0.15% p.a. which mature in March 2026. The funds will be used to finance purchase of debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase.

Debt securities issued (KZ2C0Y15G093) were acquired by Unified Accumulative Pension Fund JSC, State Fund of Social Insurance JSC, Kazakhstan Deposit Insurance Fund JSC and "Nomad Life" Life Insurance Company JSC. All other bonds issued in 2018 and 2017 were acquired in full by "Samruk-Kazyna NWF" JSC.

As a part of implementation of programs of state support and development, the Management Council of the National Fund of the Republic of Kazakhstan sets conditions of financing in the form of interest rates, financing schedule and related requirements for both the Holding Company, its subsidiaries, commercial banks as the agents of the programs as well as for the ultimate recipients of the funds. In addition, the Government has approved special conditions, under which the Holding Company's subsidiaries may provide further financing to commercial banks and companies. For this reason, the difference that had arisen upon valuation of bonds purchased by the NBRK using proceeds of the National Fund of the Republic of Kazakhstan in 2018 at fair value at the issue date, was recognised as a government grant, also taking into account that the NBRK acted as the state agent and not in the interests of the Holding Company's ultimate shareholder, since all terms of the loans had been agreed on at the Government level in the decree concerning the financing of the above-mentioned programs, and the Government as the Holding Company's shareholder does not expect that direct economic benefits will be available to it, as the ultimate beneficiaries of the benefits are the recipient entities under the programs. Thus, in 2018 the Holding Company reported income of Tenge 31,170,408 thousand (2017: Tenge 10,728,233 thousand) as the government grant, which was recognised in other operating income in the separate statement of profit or loss and comprehensive income (Note 17). The Holding Company applied the market interest rates from 8.42% to 9.14% p.a. (2017: 9.01% p.a.) to determine the fair value of issued bonds upon initial recognition.

The interest expense of Tenge 20,547,293 thousand incurred during 2018 (in 2017: Tenge 18,163,655 thousand) relates to the debt securities issued (Note 15).

12 Loans from the Government of the Republic of Kazakhstan

	Nominal value		Carrying amount	
(In thousands of Kazakhstani Tenge)	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Ministry of Finance of the Republic of Kazakhstan	288,969,907	243,054,097	123,866,691	93,730,536
Total loans from the Government of the Republic of Kazakhstan	**288,969,907**	**243,054,097**	**123,866,691**	**93,730,536**

During 2018, the Holding Company received loans from the Ministry of Investments and Development of the Republic of Kazakhstan in the total amount of Tenge 47,537,182 thousand (2017: Tenge 126,100,000 thousand):

- a loan of Tenge 10,000,000 thousand 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”;

- a loan of Tenge 13,000,000 thousand has been provided at the rate of 0.10% p.a. and with maturity in 15 years. The borrowed funds are intended to lend the Holding's subsidiary - DBK JSC at the rate of 0.15% p.a. and with maturity in 15 years for on-lending DBK-Leasing JSC at an interest rate of 0.20% p.a. and maturity of 15 years to provide long-term financing for leasing agricultural vehicles;

- a loan of Tenge 12,000,000 thousand has been provided at the rate of 0.10% p.a. and with maturity in 20 years. The borrowed funds are intended to lend the Holding's subsidiary - 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;

- a loan of Tenge 12,537,182 thousand has been provided at the rate of 0.05% p.a. and with maturity in 20 years. The borrowed funds are intended to lend the Holding's subsidiary - 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. and maturity of 20 years to renovate the passenger car fleet of "Passenger transportation" JSC.

During 2017 the following loans have been received:

- a loan of Tenge 17,500,000 thousand 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 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 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 11.00% p.a;

- a loan of Tenge 10,000,000 thousand has been provided at the rate of 0.10% p.a. and with maturity in 20 years. All borrowed funds are intended to finance the Holding Company’s subsidiary - DBK JSC to finance domestic car manufacturers through conditional financing of second-tier banks to further finance individuals - buyers of vehicles manufactured in Kazakhstan and to DBK-Leasing JSC to provide financing to legal entities and individual entrepreneurs, which take for lease vehicles of special purpose.

During 2018, the Holding Company stated income of Tenge 26,291,607 thousand as government grants (2017: Tenge 78,464,629 thousand), recognised in other operating income in the separate statement of profit or loss and comprehensive income. The Holding Company used estimated market interest rates of 8.48% – 8.76% (2017: 8.92% – 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 9,565,182 thousand incurred during 2018 (in 2017: Tenge 6,687,155 thousand) relates to the loan from the Government of the Republic of Kazakhstan (Note 15).

13 Share capital

(In thousands of Kazakhstani Tenge, except for number of shares)	31 December 2018	31 December 2017
Authorised ordinary shares	5,000,086,550	5,000,086,550
Authorised, but not issued	(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 2017, the Holding Company received three cash contributions for a total amount of Tenge 43,900,000 thousand to share capital.

14 Interest income calculated using the effective interest method

(In thousands of Kazakhstani Tenge)	2018	2017
Loans to subsidiaries	30,270,765	25,109,313
Deposits	1,192,578	2,015,011
Investment securities measured at amortised cost	917,808	-
Total interest income calculated using the effective interest method	**32,381,151**	**27,124,324**

Interest income for the year ended 31 December 2018 includes Tenge 28,583,024 thousand (2017: Tenge 23,559,030 thousand) resulting from unwinding of discount which has arisen upon initial recognition of loans to subsidiaries (Note 9).

15 Interest expense

(In thousands of Kazakhstani Tenge)	2018	2017
Debt securities issued	20,547,293	18,163,655
Loans from the Government of the Republic of Kazakhstan	9,565,182	6,687,155
Total interest expense	**30,112,475**	**24,850,810**

Interest expense on debt securities issued for the year ended 31 December 2018 includes Tenge 19,576,149 thousand (2017: Tenge 17,312,472 thousand) resulting from unwinding of discount which has arisen upon initial recognition of debt securities issued (Note 11).

Interest expense on loans from the Government of the Republic of Kazakhstan for the year ended 31 December 2018 includes Tenge 9,321,324 thousand (2017: Tenge 6,501,255 thousand), resulting from unwinding of discount which has arisen upon initial recognition of loans from the Government of the Republic of Kazakhstan (Note 12).

16 Dividends received

(In thousands of Kazakhstani Tenge)	2018	2017
HCSBK JSC	7,675,971	6,778,929
DBK JSC	1,428,367	1,995,163
DAMU EDF JSC	1,234,153	1,678,218
KMC JSC	1,108,575	926,802
BD JSC	1,014,182	3,059,355
KCM JSC	882,282	-
KE JSC	639,389	32,956
KPPF LLP	7,140	-
IFK JSC	-	215,335
NATD JSC	-	81,339
Total dividends received	**13,990,059**	**14,768,097**

17 Other operating income

(In thousands of Kazakhstani Tenge)	2018	2017
Loss at initial recognition of loans to subsidiaries at a market-below interest rates (Note 9)	(56,738,188)	(86,953,329)
Government grant (Notes 11 and 12)	57,462,015	89,192,862
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	33,449	(78,994)
Total other operating income	**743,009**	**2,160,539**

18 Recovery of impairment on financial assets, net

(In thousands of Kazakhstani Tenge)	2018	2017
Recovery of impairment on deposits	380,738	-
Provision for impairment on loans to subsidiaries (Note 9)	(226,834)	-
Total recovery of impairment on financial assets, net	**153,904**	**-**

19 Administrative expenses

(In thousands of Kazakhstani Tenge)	2018	2017
Staff costs	1,905,342	1,654,039
Charity and sponsorship*	789,374	564,878
Consulting services	671,627	292,260
Administrative expense of the Board of Directors	337,756	317,696
Outsourcing costs	293,145	249,747
Operating lease expense	257,682	285,709
Amortisation of software and other intangible assets	130,229	134,455
Other costs related to property, plant and equipment	102,733	35,964
Staff training, conferences	87,048	46,711
Business trip expenses	78,198	85,686
Communication services	63,892	39,596
Advertising and marketing services	45,812	62,273
Depreciation of property, plant and equipment	41,494	63,199
Insurance costs	37,195	32,493
Costs for stationary printing products, branding products	24,606	17,257
Other	165,658	134,593
Total administrative expenses	**5,031,791**	**4,016,556**

*During 2018 the Holding Company has provided sponsorship to “Fund to support the development of ballet art” in the amount of Tenge 559,900 thousand with a purpose to purchase of 20 apartments for teachers in ballet academy and provided sponsorship to “Kazakhstan Fund of Economic Initiatives” Corporate Fund in the amount of Tenge 150,000 thousand (2017: Tenge 350,000 thousand) with a purpose of orgainisation of Astana Economic Forum 2018.

20 Income tax

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

(In thousands of Kazakhstani Tenge)	2018	2017
Change in deferred tax liabilities due to origination and reversal of temporary differences	22,177	(362,318)
Total income tax benefit/(expense)	**22,177**	**(362,318)**

20 Income tax, continued

The income tax rate applicable to the Holding Company's 2018 income is 20% (2017: 20%). For the year ended 31 December 2018, the Holding Company had offset the taxes payable against the withholding tax on interest income on bank deposits to the amount of Tenge 207,893 thousand (2017: Tenge 291,899 thousand).

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

(In thousands of Kazakhstani Tenge)	2018	%	2017	%
Profit before income tax	**10,722,664**	**100**	**15,185,594**	**100**
Income tax at the applicable tax rate	(2,144,533)	(20)	(3,037,119)	(20)
Dividends received which are non-taxable	2,798,012	26	2,953,619	19
Non-deductible losses	(204,683)	(2)	-	-
Unrecognised deferred tax assets	(329,504)	(3)	(168,070)	(1)
Non-deductible expenses	(97,077)	(1)	(110,748)	-
Income tax benefit/(expense)	**22,177**	**-**	**(362,318)**	**(2)**

Differences between IFRS and statutory taxation regulations in the Republic of Kazakhstan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2024-2028.

The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2017: 20%).

(In thousands of Kazakhstani Tenge)	1 January 2018	Recognised in profit or loss	31 December 2018
Tax effect of deductible/(taxable) temporary differences			
Property, plant and equipment	3,525	107,725	111,250
Loans to subsidiaries	141,705,596	5,398,134	147,103,730
Investment securities	35,083	(347)	34,736
Debt securities issued	(142,951,848)	(5,476,772)	(148,428,620)
Other liabilities	63,604	(6,563)	57,041
Tax loss carried forward	1,178,622	329,504	1,508,126
Net deferred tax asset before recoverability assessment	**34,582**	**351,681**	**386,263**
Recognised deferred tax asset	141,807,808	5,498,949	147,306,757
Recognised deferred tax liability	(142,951,848)	(5,476,772)	(148,428,620)
Net deferred income tax liability	**(1,144,040)**	**22,177**	**(1,121,863)**

20 Income tax, continued

(In thousands of Kazakhstani Tenge)	1 January 2017	Recognised in profit or loss	31 December 2017
Tax effect of deductible/(taxable) temporary differences			
Property, plant and equipment	(4,861)	8,386	3,525
Loans to subsidiaries	129,026,736	12,678,860	141,705,596
Investment securities	-	35,083	35,083
Debt securities issued	(129,876,373)	(13,075,475)	(142,951,848)
Other liabilities	72,776	(9,172)	63,604
Tax loss carried forward	1,010,552	168,070	1,178,622
Net deferred tax asset before recoverability assessment	**228,830**	**(194,248)**	**34,582**
Recognised deferred tax asset	129,099,512	12,708,296	141,807,808
Recognised deferred tax liability	(129,881,234)	(13,070,614)	(142,951,848)
Net deferred income tax liability	**(781,722)**	**(362,318)**	**(1,144,040)**

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.

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.

21 Financial risk management, continued

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 to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the lending and other transactions with counterparties of the Holding Company and its subsidiaries giving rise to financial assets.

The Holding Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the separate statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. No collateral and other credit enhancements exist as at 31 December 2018 and 31 December 2017.

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

None of financial assets are past due as at 31 December 2018 and 31 December 2017.

Credit risk concentration. The Holding Company's cash and deposit balances at 31 December 2018 were placed with 3 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.

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

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

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

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

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

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

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

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

21 Financial risk management, continued

Interest rate risk, continued

The table below summarises the Holding Company's exposure to interest rate risk as at 31 December 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
At 31 December 2018						
Total financial assets	2,687,822	3,893,449	5,737,224	565,526,469	3,135	577,848,099
Total financial liabilities	(57,756)	(267,378)	(12,451)	(558,952,870)	(286,930)	(559,577,385)
Net interest sensitivity gap at 31 December 2018	**2,630,066**	**3,626,071**	**5,724,773**	**6,573,599**	**(283,795)**	**18,270,714**

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
At 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 31 December 2018 and 2017 is as follows:

(In thousands of Kazakhstani Tenge)	2018	2017
100 bp parallel rise	52,161	62,226
100 bp parallel fall	(52,161)	(62,226)

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

In weighted-average % p.a.	31 December 2018	31 December 2017
Assets		
Cash and cash equivalents	6.18%	7.30%
Deposits	-	9.37%
Investment securities	9.58%	-
Loans to subsidiaries	7.50%	7.32%
Liabilities		
Debt securities issued	6.83%	6.72%
Loans from the Government of the Republic of Kazakhstan	9.29%	9.42%

Liquidity of financial assets and liabilities is presented in the table above. Contractual payments under the financial liabilities exceed their carrying amount by the sum of non-amortised discount of future interest expenses. As at 31 December 2018 the contractual payments on the issued debt securities and loans from the Government of the Republic of Kazakhstan amount to Tenge 1,137,587,088 thousand and Tenge 291,898,079 thousand (31 December 2017: Tenge 879,651,573 thousand and Tenge 245,740,225 thousand) respectively, including nominal value of Tenge 1,012,044,047 thousand and Tenge 288,969,907 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 125,543,041 thousand and Tenge 2,928,172 thousand (31 December 2017: Tenge 15,456,448 thousand and Tenge 2,686,128 thousand) payable on annual basis.

21 Financial risk management, continued

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

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

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

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

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

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 86,445,000 thousand). In February 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. At the reporting date, the management of the Holding Company accrued expected credit loss for the amount of Tenge 157,330 thousand, using the following assumptions: the factor of guarantee conversion is 1.0, the credit rating of the counterparty is "BBB-" and the corresponding indicators of PD (0.26%) and LGD (70%).

In December 2018, AstanaGaz KMG JSC issued bonds to finance the construction of the Saryarka gas pipeline for the total amount of 85,000,000 thousand tenge, with a maturity of 2033 and a coupon rate of 10.00%. The Holding Company has concluded the financial guarantee agreement as a security for 50% obligations of AstanaGaz KMG JSC in an amount not exceeding Tenge 42,500,000 thousand of the principal and Tenge 14,067,500 thousand of the total coupon payments. At the reporting date, the management of the Holding Company accrued expected credit loss for the amount of Tenge 235,420 thousand, using the following assumptions: the factor of guarantee conversion is 1.0, the credit rating of the counterparty is "BB" and the corresponding indicators of PD (0.75%) and LGD (55.49%).

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 control 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 31 December 2018 for balances with related parties are as follows:

(In thousands of Kazakhstani Tenge)	Subsidiaries	Transactions with state owned entities
Cash and cash equivalents	-	1,675
Investments in subsidiaries	891,478,834	-
Investment securities	77,746,676	9,161,104
Gross loans to subsidiaries	488,312,399	-
Impairment allowance on loans to subsidiaries	(5,593,907)	-
Current income tax prepayment	-	1,682,421
Debt securities issued	-	(435,423,764)
Loans from the Government of the Republic of Kazakhstan	-	(123,866,691)
Deferred income tax liability	-	(1,121,863)
Financial guarantees issued*	(157,330)	(235,420)
Other liabilities	(64,493)	(82,468)

* Durig the year ended 31 December 2018 the Holding Company issued financial guarantees on behalf of 2 related parties, DBK JSC and AstanaGaz KMG JSC, with the guarantee amounts of Tenge 56,567,500 thousand and USD 225,000 thousand, respectively. The obligation arises from the moment of default, which occurs in case of partial or complete non-fulfillment by DBK JSC and AstanaGaz KMG JSC of the obligation to pay the principal and interest/coupon in accordance with the payment schedules. The guarantees have maturity from 2030 to 2033. All guarantees are noninterest bearing and not collateralised. During 2018 the Holding Company has received guarantee commission income in the amount of Tenge 32,702 thousand, which is recognised as a part of other operating income.

The income and expense items on the related party transactions for 2018 were as follows:

(In thousands of Kazakhstani Tenge)	Subsidiaries	Transactions with state owned entities
Interest income calculated using the effective interest method	30,317,461	871,133
Interest expense	-	(30,112,475)
Dividends received	13,990,059	-
Other operating (expense)/income	(55,573,694)	56,283,254
Provision for impairment on loans to subsidiaries	(226,834)	-
Impairment losses on financial guarantees	(157,330)	(235,420)
Loss on sales of shares in investment in subsidiary	(403,327)	-
Administrative expenses	(182,714)	(583,992)
Income tax benefit	-	22,177

The balances as at 31 December 2017 for balances 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 2017 were as follows:

(In thousands of Kazakhstani Tenge)	Subsidiaries	Transactions with state owned entities
Interest income calculated using the effective interest method	25,109,313	-
Interest expense	-	(24,850,810)
Dividends received	14,768,097	-
Other operating (expense)/income	(86,953,329)	89,192,862
Administrative expenses	-	(757,807)
Income tax expense	-	(362,318)

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)	2018	2017
Members of the Board of Directors	289,412	210,381
Members of the Management Board	251,148	219,972
Total	**540,560**	**430,353**

The members of the Management Board receive remuneration not exceeding the established limits in accordance with the Decree of the Government of the Republic of Kazakhstan No. 1266.

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 31 December 2018:

(In thousands of Kazakhstani Tenge)	Level 2	Total fair value	Total carrying amount
Assets			
Cash and cash equivalents	2,596,755	2,596,755	2,596,755
Investment securities	86,880,111	86,880,111	86,907,780
Loans to subsidiaries	444,193,543	444,193,543	482,718,492
Liabilities			
Debt securities issued	382,869,575	382,869,575	435,423,764
Loans from the Government of the Republic of Kazakhstan	133,617,190	133,617,190	123,866,691

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 January 2019, in accordance with the Minutes of the meeting of the Management Council of the National Fund of the Republic of Kazakhstan dated 7 August 2017, No.17-01-9.4, the Holding Company issued the coupon bonds for the amount of Tenge 5,751,078 thousand with a coupon rate of 0.15% p.a. and maturity in 2026 to finance the housing construction. The funds were transferred to the Holding Company's subsidiary – BD JSC – in the form of loans that have a term of 85 months and bear interest at the rate of 0.20% p.a.

In March 2019, in accordance with the Law of the Republic of Kazakhstan dated 30 November 2018 "On the National Budget for 2019-2021", the charter capital of the Holding Company increased by Tenge 34,000,000 thousand, with subsequent increase of the charter capital of EIC KazakhExport" JSC to support Kazakhstani producers of non-primary goods and service providers in the foreign markets and enhance their competitiveness through provision of efficient financial measures to support export.