

**Agrarian Credit Corporation
Joint Stock Company**

Interim condensed financial statements

*For the six-month period ended 30 June 2018
with report on review of interim financial information*

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Report on review of interim financial information

To the Shareholder and Board of Directors of Joint Stock Company "Agrarian Credit Corporation"

Introduction

We have reviewed the accompanying interim condensed financial statements of Joint Stock Company "Agrarian Credit Corporation" (hereinafter - the "Corporation"), which comprise the interim condensed statement of financial position as at 30 June 2018 and the related interim condensed statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (hereinafter - "interim financial information").

Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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


Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.


Ernst & Young LLP



Paul Cohn
Audit Partner



Olga Khegay
Auditor



Gulmira Turmagambetova
General Director
Ernst & Young LLP



Auditor's qualification certificate
No. МФ-0000286 dated 25 September 2015

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

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

20 September 2018

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

(in thousands of tenge)

| | Notes | As at 30 June 2018 (unaudited) | As at 31 December 2017* |
|---|-------|--------------------------------------|----------------------------|
| Assets | | | |
| Cash and cash equivalents | 5 | 62,123,101 | 7,046,982 |
| Amounts due from credit institutions | 6 | 35,321,369 | 21,671,412 |
| Loans to customers | 7 | 235,296,892 | 163,555,462 |
| Assets held for sale | | 780,177 | 443,657 |
| Investment securities | 8 | 40,472,107 | 51,175,874 |
| Investment property | 9 | 332,226 | 337,694 |
| Property and equipment | 10 | 311,715 | 242,056 |
| Intangible assets | 11 | 193,548 | 230,959 |
| Current corporate income tax assets | | - | 39,453 |
| Deferred corporate income tax assets | 20 | 2,193,136 | 1,744,732 |
| Other assets | 12 | 537,789 | 624,312 |
| Total assets | | 377,562,060 | 247,112,593 |
| Liabilities | | | |
| Amounts due to the Shareholder | 13 | 62,733,329 | 13,745,153 |
| Amounts due to the Government of the Republic of Kazakhstan | 14 | 60,002,617 | - |
| Amounts due to state and budget organizations | 15 | 18,772,898 | 9,891,167 |
| Amounts due to credit institutions | 16 | - | 1,515,288 |
| Amounts payable under the cession agreements | 17 | 3,152,363 | 1,282,221 |
| Debt securities issued | 18 | 67,791,129 | 66,867,978 |
| Short-term accrued liabilities | | 283,328 | 226,695 |
| Current corporate income tax liabilities | | 1,697,726 | - |
| Other liabilities | 19 | 1,908,311 | 1,025,413 |
| Total liabilities | | 216,341,701 | 94,553,915 |
| Equity | | | |
| Share capital | 21 | 158,630,371 | 158,630,371 |
| Additional paid-in capital | 21 | 21,587,242 | 12,538,954 |
| Reserve funds | 21 | 5,339,751 | 2,546,627 |
| Reserve for notional distribution | 21 | (29,931,260) | (24,051,401) |
| Retained earnings | | 5,594,255 | 2,894,127 |
| Total equity | | 161,220,359 | 152,558,678 |
| Total liabilities and equity | | 377,562,060 | 247,112,593 |
| Book value per common share (in tenge) | 21 | 1,015.11 | 960.27 |

* Certain amounts included in this column do not agree to the financial statements for 2017 as they reflect the reclassifications made and disclosed in Note 4.

Signed and authorized for release on behalf of the Management Board of the Company:

Sarybayev Narmukhan Narmukhanovich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

20 September 2018

The accompanying selected explanatory notes on pages 7 to 27 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED INCOME STATEMENT

for the six-month period ended 30 June 2018

(in thousands of tenge)

| | Notes | For the six-month period ended 30 June | |
|---|-------|--|---------------------|
| | | 2018 (unaudited) | 2017 (unaudited) |
| Interest income calculated using effective interest rate | | | |
| Cash and cash equivalents | | 1,764,534 | 2,431,611 |
| Amounts due from credit institutions | | 1,756,387 | 1,785,455 |
| Loans to customers | | 10,390,718 | 7,792,597 |
| Investment securities | | 2,180,606 | 1,534,134 |
| | | <u>16,092,245</u> | <u>13,543,797</u> |
| Other interest income | | | |
| Finance lease | | 4,527 | - |
| | | <u>16,096,772</u> | <u>13,543,797</u> |
| Interest expense | | | |
| Amounts due to the Shareholder | | (648,219) | (464,293) |
| Amounts due to the Government of the Republic of Kazakhstan | | (2,617) | (2,100) |
| Amounts due to state and budget organizations | | (599,201) | (192,528) |
| Amounts due to credit institutions | | (35,582) | - |
| Debt securities issued | | (3,050,492) | (2,182,073) |
| Other liabilities | | (65,345) | - |
| | | <u>(4,401,456)</u> | <u>(2,840,994)</u> |
| Net interest income | | <u>11,695,316</u> | <u>10,702,803</u> |
| Credit loss expense | 22 | <u>10,076,963</u> | <u>(2,184,143)</u> |
| Net interest income, after credit loss expense | | <u>21,772,279</u> | <u>8,518,660</u> |
| Net loss from foreign currencies transactions | | (113) | (411) |
| Other income | | 47,644 | 137,826 |
| Non-interest income | | <u>47,531</u> | <u>137,415</u> |
| Personnel expenses | 23 | (1,283,652) | (1,028,243) |
| Other operating expenses | 23 | (744,977) | (615,722) |
| Other expenses | | (1,292) | (26,223) |
| Other impairment and provisions on other financial assets | | (140,657) | - |
| Non-interest expenses | | <u>(2,170,578)</u> | <u>(1,670,188)</u> |
| Profit before corporate income tax expense | | <u>19,649,232</u> | <u>6,985,887</u> |
| Corporate income tax expense | 20 | (2,551,834) | (1,136,990) |
| Profit for the period | | <u>17,097,398</u> | <u>5,848,897</u> |
| Basic and diluted earnings per common share (in tenge) | | <u>107.78</u> | <u>36.87</u> |

Signed and authorized for release on behalf of the Management Board of the Company:

Sarybayev Namukhan Kalmakhanovich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

20 September 2018

The accompanying selected explanatory notes on pages 7 to 27 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**for the six-month period ended 30 June 2018***(in thousands of tenge)*

| | <i>For the six-month period ended 30 June</i> | |
|--|---|--------------------|
| | <i>2018</i> | <i>2017</i> |
| <i>Notes</i> | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Profit for the period | 17,097,398 | 5,848,897 |
| Other comprehensive income for the period | - | - |
| Total comprehensive income for the reporting period | 17,097,398 | 5,848,897 |

Signed and authorized for release on behalf of the Management Board of the Company:

Sarybayev Narmukhan Kalmakhanovich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

20 September 2018

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2018

(in thousands of tenge)

| | Share capital | Additional paid-in capital | Reserve fund | Reserve for notional distribution | (Accumulated deficit)/ Retained earnings | Total |
|---|---------------|----------------------------|--------------|-----------------------------------|--|-------------|
| As at 1 January 2017 | 158,630,371 | 6,831,528 | 1,086,111 | (15,008,072) | (1,167,650) | 150,372,288 |
| Total comprehensive income for the reporting period (unaudited) | - | - | - | - | 5,848,897 | 5,848,897 |
| Gain on initial recognition of loans from the Shareholder at fair value, net of tax (unaudited) (Note 21) | - | 3,414,441 | - | - | - | 3,414,441 |
| Reserve for notional distribution for the period, net of tax (unaudited) (Note 21) | - | - | - | (1,441,199) | - | (1,441,199) |
| Increase in reserve funds (unaudited) (Note 21) | - | - | 1,460,516 | - | (1,460,516) | - |
| Dividends declared (unaudited) (Note 21) | - | - | - | - | (1,460,516) | (1,460,516) |
| As at 30 June 2017 (unaudited) | 158,630,371 | 10,245,969 | 2,546,627 | (16,449,271) | 1,760,215 | 156,733,911 |
| As at 1 January 2018 | 158,630,371 | 12,538,954 | 2,546,627 | (24,051,401) | 2,894,127 | 152,558,678 |
| Impact of adopting IFRS 9 (Note 2) | - | - | - | - | (7,414,461) | (7,414,461) |
| Restated opening balance as at 1 January 2018 under IFRS 9 | 158,630,371 | 12,538,954 | 2,546,627 | (24,051,401) | (4,520,334) | 145,144,217 |
| Total comprehensive income for the reporting period (unaudited) | - | - | - | - | 17,097,398 | 17,097,398 |
| Gain on initial recognition of loans from the Shareholder at fair value, net of tax (unaudited) (Note 21) | - | 9,048,288 | - | - | - | 9,048,288 |
| Reserve for notional distribution for the period, net of tax (unaudited) (Note 21) | - | - | - | (5,879,859) | - | (5,879,859) |
| Increase in reserve funds (unaudited) (Note 21) | - | - | 2,793,124 | - | (2,793,124) | - |
| Dividends declared (unaudited) (Note 21) | - | - | - | - | (4,189,685) | (4,189,685) |
| As at 30 June 2018 (unaudited) | 158,630,371 | 21,587,242 | 5,339,751 | (29,931,260) | 5,594,255 | 161,220,359 |

Signed and authorized for release on behalf of the Management Board of the Company:

Sarybayev Namukhan Kalmakhanovich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

20 July 2018

The accompanying selected explanatory notes on pages 7 to 27 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

for the six-month period ended 30 June 2018

(in thousands of tenge)

| | <i>For the six-month period ended 30 June</i> | |
|--|---|---------------------|
| | <i>2018</i> | <i>2017</i> |
| <i>Notes</i> | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Cash flows from operating activities | | |
| Interest received | 11,971,790 | 11,057,516 |
| Interest paid | (2,352,099) | (2,423,954) |
| Realised gains less losses from dealing in foreign currencies | - | (411) |
| Personnel expenses paid | (862,331) | (980,978) |
| Other operating expenses paid | (934,151) | (545,079) |
| Cash flows from operating activities before changes in operating assets and liabilities | 7,823,209 | 7,107,094 |
| <i>Net increase in operating assets</i> | | |
| Loans to customers | (69,982,050) | (50,855,177) |
| Amounts due from credit institutions | (12,172,359) | (19,679,870) |
| Other assets | (262,220) | (240,748) |
| <i>Net decrease in operating liabilities</i> | | |
| Other liabilities | (313,990) | (12,547) |
| Net cash used in operating activities before corporate income tax | (74,907,410) | (63,681,248) |
| Corporate income tax paid | (436,783) | (477,638) |
| Net cash used in operating activities | (75,344,193) | (64,158,886) |
| Cash flows from investing activities | | |
| Proceeds from redemption of investment securities | 310,656,808 | 295,077,907 |
| Purchase of investment securities | (299,915,669) | (292,791,402) |
| Purchase of property and equipment | (108,403) | (20,664) |
| Purchase of intangible assets | (37,234) | (29,600) |
| Net cash flow from investing activities | 10,595,502 | 2,236,241 |

The accompanying selected explanatory notes on pages 7 to 27 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS (continued)

| | Notes | <i>For the six-month period ended 30 June</i> | |
|---|-------|---|---------------------|
| | | 2018 (unaudited) | 2017 (unaudited) |
| Cash flows from financing activities | | | |
| Repayment of loans from credit institutions | | (1,553,480) | — |
| Proceeds from loans from the Government of the Republic of Kazakhstan | | 60,000,000 | 60,000,000 |
| Proceeds from loans from the Shareholder | | 54,782,674 | — |
| Repayment of loans from the Shareholder | | (1,133,601) | (888,542) |
| Proceeds from loans from state and budget organisations | | 11,932,941 | 9,740,174 |
| Repayment of loans from state and budget organisations | | — | (134,767) |
| Dividends paid | 21 | (4,189,685) | (730,258) |
| Net cash from financing activities | | 119,838,849 | 67,986,607 |
| Effect of expected credit losses on cash and cash equivalents | | (14,039) | — |
| Net increase in cash and cash equivalents for the period | | 55,076,119 | 6,063,962 |
| Cash and cash equivalents, beginning | | 7,046,982 | 30,072,378 |
| Cash and cash equivalents, ending | 5 | 62,123,101 | 36,136,340 |

Signed and authorized for release on behalf of the Management Board of the Company:

Sarybayev Narmukhan Karmakhanovich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

20 September 2018

(in thousands of tenge)

1. Principal activities

Agrarian Credit Corporation Joint Stock Company (hereinafter, the "Company" or the "Corporation") was established by the Decree of the Government of the Republic of Kazakhstan No. 137 dated 25 January 2001 *On issues of credit financing of agricultural sector* in the form of a joint stock company in accordance with the legislation of the Republic of Kazakhstan. The Company carries out activities on the basis of a license to conduct operations provided for by banking legislation of the Republic of Kazakhstan No. 5.2.24 as of 5 November 2013, issued by the Committee on Regulation and Supervision of the Financial Market and Financial Organizations under the National Bank of the Republic of Kazakhstan. The Company activities are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK").

The principal activities of the Company include implementation of government programs to support the agricultural sector, attraction of domestic and foreign investment for the realization of their own projects in the agricultural sector, development and implementation of projects in the agricultural sector, realization of collateral and agricultural products received in repayment of issued funds, banking borrowing operations on the basis of a license, leasing activities, and other activities not prohibited by the legislative acts that meet the goals and objectives of the Company stipulated by the Charter.

The financing activities of the Company provide for specific requirements and limitations on the use of funds. Interest rate for granted loans to customers is below market due to implementation of the agriculture development programs in the Republic of Kazakhstan.

As at 30 June 2018 and 31 December 2017, KazAgro National Management Holding Joint Stock Company (hereinafter, "KazAgro" or the "Shareholder") owns 100% shares of the Company. The ultimate controlling party of the Company is the Government of the Republic of Kazakhstan.

As at 30 June 2018 and 31 December 2017 the Company has 15 registered branches throughout the Republic of Kazakhstan.

The address of the Company's registered office is: the Republic of Kazakhstan, Astana, Imanov street, 11.

2. Basis of preparation

The interim condensed financial statements for the six-month period ended 30 June 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 *"Interim Financial Reporting"*.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2017.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017, except for the adoption of new Standards effective as of 1 January 2018. The nature and the effect of these changes are disclosed below. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as financial assets at fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

(in thousands of tenge)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

| | |
|----------|--|
| Stage 1: | When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. |
| Stage 2: | When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. |
| Stage 3: | Loans considered credit-impaired. The Company records an allowance for the LTECL. |
| POCI: | Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses. |

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

*(in thousands of tenge)***2. Basis of preparation (continued)****Changes in accounting policies (continued)***IFRS 9 Financial Instruments (continued)**(b) Impairment (continued)*

The Company calculates ECL based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

| | |
|-----------------------------|---|
| Probability of default (PD) | The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. |
| Exposure at Default (EAD) | The <i>Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. |
| Loss Given Default (LGD) | The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. |

When estimating the ECLs, the Company considers three scenarios (a base case, an upside and downside). Each of the scenarios is associated with different PDs, EADs and LGDs. In its ECL models, the Company relies on forward looking information as economic inputs.

The Company considers an exposure to have significantly increased in credit risk if based on the results of the analysis significant increase in credit risk is identified (overdue payments, factual or expected decrease in rating and etc.). The Company also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Company calculates ECLs on an individual basis for the following assets: all stage 3 assets, which exceed 0.2% of total equity of the Company, the corporate lending portfolio, due from credit institutions, debt investment securities at amortised cost, POCI resulted from restructuring. The Company calculates ECL on a collective basis for all other classes of assets which it groups into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

(in thousands of tenge)

2. Basis of preparation (continued)**Changes in accounting policies (continued)***IFRS 9 Financial Instruments (continued)*(c) *Effect of transition to IFRS 9*

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

| | <i>IAS 39 measurement</i> | | <i>Remeasurement</i> | <i>IFRS 9 measurement</i> | |
|--------------------------------------|---------------------------|--------------------|----------------------|---------------------------|-----------------|
| | <i>Category</i> | <i>Amount</i> | <i>ECL</i> | <i>Amount</i> | <i>Category</i> |
| Financial assets | | | | | |
| Cash and cash equivalents | Loans and receivables | 7,046,982 | (1,270) | 7,045,712 | Amortized cost |
| Amounts due from credit institutions | Loans and receivables | 21,671,412 | (5,330,229) | 16,341,183 | Amortized cost |
| Loans to customers | Loans and receivables | 163,555,462 | (2,814,251) | 160,741,211 | Amortized cost |
| Investment securities | Held-to-maturity | 51,175,874 | (1,970) | 51,173,904 | Amortized cost |
| Other financial assets | | 545,151 | (94,943) | 450,208 | |
| Non-financial assets | | | | | |
| Deferred corporate income tax assets | | 1,744,732 | 1,628,896 | 3,373,628 | |
| Total assets | | 245,739,613 | (6,613,767) | 239,125,846 | |
| Non-financial liabilities | | | | | |
| Provisions | | - | (800,694) | (800,694) | |
| Total liabilities | | - | (800,694) | (800,694) | |

The analysis conducted by the Company showed that as at 1 January 2018 all financial assets met the SPPI test criteria. Therefore, these financial instruments continue to be classified as measured at amortized cost.

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

| | <i>Reserves and retained earnings</i> |
|---|---------------------------------------|
| Retained earnings | |
| Closing balance under IAS 39 (31 December 2017) | 2,894,127 |
| Recognition of IFRS 9 ECLs | (9,043,357) |
| Deferred tax in relation to the above | 1,628,896 |
| Restated opening balance under IFRS 9 (1 January 2018) | (4,520,334) |
| Total changes in equity due to adopting IFRS 9 | (7,414,461) |

The following table reconciles the aggregate opening financial assets loss allowances under IAS 39 and provisions for loan commitments in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

| | <i>Loan loss allowance/provisions under IAS 39/IAS 37 at 31 December 2017</i> | | <i>ECL under IFRS 9 as at 1 January 2018</i> |
|--------------------------------------|---|-----------------------|--|
| | <i>2017</i> | <i>Re-measurement</i> | |
| Impairment allowance for | | | |
| Cash and cash equivalents | - | (1,270) | (1,270) |
| Amounts due from credit institutions | (6,206,647) | (5,330,229) | (11,536,876) |
| Loans to customers | (27,343,153) | (2,814,251) | (30,157,404) |
| Investment securities | - | (1,970) | (1,970) |
| Other financial assets | (19,521) | (94,943) | (114,464) |
| | (33,569,321) | (8,242,663) | (41,811,984) |
| Undrawn loan commitments | - | (800,694) | (800,694) |
| | - | (800,694) | (800,694) |
| | (33,569,321) | (9,043,357) | (42,612,678) |

(in thousands of tenge)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Company's revenue including interest income, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Company's income are not impacted by the adoption of this standard.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments are not applicable to the Company as the Company does not have any share-based payment plans.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. These amendments did not have material effect on financial statements of the Company.

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. This amendment is not applicable to the Company.

IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- ▶ An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments did not have effect on financial statements of the Company.

(in thousands of tenge)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Annual improvements 2014-2016 cycle (issued in December 2016) (continued)

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. There is no effect on the Company from these amendments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Company's current practice is in line with the Interpretation.

3. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Expected credit losses

The Company regularly reviews its loans to customers to assess impairment. The Company uses its subjective judgement to estimate the expected credit losses in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers.

Similarly, the Company estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Company uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Assessment of collateral

The management of the Company monitors collateral on a regular basis using experienced judgements or independent estimate in order to adjust the cost of collateral considering the current market situation.

Taxation

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax returns, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Company is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

(in thousands of tenge)

4. Reclassifications

The statement of financial position as at 31 December 2017 was amended as follows to comply with the presentation as at 30 June 2018:

| <i>Statement of financial position as at 31 December 2017</i> | <i>As per previous financial statements</i> | <i>Reclassification amount</i> | <i>Adjusted amount</i> |
|---|---|------------------------------------|----------------------------|
| Amounts payable under the cession agreements | – | 1,282,221 | 1,282,221 |
| Other liabilities | 2,307,634 | (1,282,221) | 1,025,413 |

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

| | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|-------------------------------------|---|-----------------------------------|
| Cash on current accounts with banks | 62,137,119 | 7,046,961 |
| Cash on hand | 21 | 21 |
| | <u>62,137,140</u> | <u>7,046,982</u> |
| Less allowance for impairment | (14,039) | – |
| Cash and cash equivalents | <u>62,123,101</u> | <u>7,046,982</u> |

Concentration of cash and cash equivalents

As at 30 June 2017, cash placed on current accounts included funds in the amount of KZT 39,128,707 thousand or 63% of the total cash and cash equivalents placed with Bank CenterCredit JSC (as at 31 December 2017: KZT 2,055,184 thousand or 29% of the total amount of cash and cash equivalents).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | <i>30 June 2018 (unaudited)</i> | <i>31 December 2017</i> |
|---|---|-----------------------------|
| Loans to the second tier banks | 37,179,222 | 27,878,059 |
| Deposits for more than 90 days | 1,004,822 | – |
| | <u>38,184,044</u> | <u>27,878,059</u> |
| Less allowance for impairment | (2,862,675) | (6,206,647) |
| Amounts due from credit institutions | <u>35,321,369</u> | <u>21,671,412</u> |

As at 30 June 2018, due from credit institutions include loans in tenge issued to Bank RBK JSC, Bank of Astana JSC, Halyk Bank of Kazakhstan JSC, Eurasian Bank JSC, Tsesnabank JSC, Tengri Bank JSC, ATFBank JSC, Bank CenterCredit JSC, Kazkommertsbank JSC, Nurbank JSC and SB Sberbank JSC for lending to entities, operating in the agroindustrial complex with maturity of up to 2028 and interest rates of 1.0 to 13.2% per annum (at 31 December 2017: of 4.0 to 12.5% per annum and maturity of up to 2026).

The analysis of changes in the ECL allowances during the six-month period ended 30 June 2018 is as follows:

| | <i>Six-month period ended 30 June 2018 (unaudited)</i> | | | |
|---|--|----------------|------------------|------------------|
| | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>Total</i> |
| ECL as at 1 January 2018 (Note 2) | 144,332 | 11,392,544 | – | 11,536,876 |
| Transfers to Stage 1 | 4,179,437 | (4,179,437) | – | – |
| Transfers to Stage 2 | – | – | – | – |
| Transfers to Stage 3 | – | (6,438,001) | 6,438,001 | – |
| Credit loss expense | (3,943,280) | (775,106) | (3,183,189) | (7,901,575) |
| Unwinding of discount (recognized in interest income) | – | – | 241,133 | 241,133 |
| Amounts written off | – | – | (1,013,759) | (1,013,759) |
| As at 30 June 2018 | <u>380,489</u> | <u>–</u> | <u>2,482,186</u> | <u>2,862,675</u> |

(in thousands of tenge)

6. Amounts due from credit institutions (continued)

Below are movements in the allowance for impairment of amounts due from credit institutions for the six-month period ended 30 June 2017:

| | <i>Six-month period ended 30 June 2017 (unaudited)</i> |
|-----------------------|--|
| As at 1 January | - |
| Charge for the period | (1,871,404) |
| As at 30 June | <u>(1,871,404)</u> |

7. Loans to customers

Loans to customers comprise loans to borrowers operating in the agricultural sector and include the following items:

| | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|-------------------------------|---|-----------------------------------|
| Loans to legal entities | 219,316,247 | 148,768,887 |
| Loans to individuals | 42,512,366 | 42,129,728 |
| | <u>261,828,613</u> | <u>190,898,615</u> |
| Less allowance for impairment | (26,531,721) | (27,343,153) |
| Loans to customers | <u>235,296,892</u> | <u>163,555,462</u> |

Allowance for impairment of loans to customers

The analysis of changes in the ECL allowances during the six-month period ended 30 June 2018 is as follows:

| | <i>Six-month period ended 30 June 2018 (unaudited)</i> | | | | |
|---|--|------------------|-------------------|-------------|-------------------|
| | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>POCI</i> | <i>Total</i> |
| <i>Legal entities</i> | | | | | |
| ECL as at 1 January 2018 | 1,089,879 | 130,166 | 27,607,329 | - | 28,827,374 |
| Transfers to Stage 1 | 3,025,007 | (1,532,021) | (1,492,986) | - | - |
| Transfers to Stage 2 | (832,700) | 1,042,801 | (210,101) | - | - |
| Transfers to Stage 3 | (753,081) | (678,549) | 1,431,630 | - | - |
| Credit loss expense | (1,442,937) | 3,557,946 | (4,229,912) | - | (2,114,903) |
| Unwinding of discount (recognized in interest income) | - | - | 455,926 | - | 455,926 |
| Amounts written off | - | - | (1,835,298) | - | (1,835,298) |
| As at 30 June 2018 | <u>1,086,168</u> | <u>2,520,343</u> | <u>21,726,588</u> | <u>-</u> | <u>25,333,099</u> |

| | <i>Six-month period ended 30 June 2018 (unaudited)</i> | | | | |
|---|--|----------------|------------------|-------------|------------------|
| | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>POCI</i> | <i>Total</i> |
| <i>Individuals</i> | | | | | |
| ECL as at 1 January 2018 | 33,240 | 73,045 | 1,223,745 | - | 1,330,030 |
| Transfers to Stage 1 | 184,331 | (91,070) | (93,261) | - | - |
| Transfers to Stage 2 | (9,781) | 68,929 | (59,148) | - | - |
| Transfers to Stage 3 | (2,857) | (5,295) | 8,152 | - | - |
| Credit loss expense | (135,385) | (34,793) | 8,000 | - | (162,178) |
| Unwinding of discount (recognized in interest income) | - | - | 30,770 | - | 30,770 |
| As at 30 June 2018 | <u>69,548</u> | <u>10,816</u> | <u>1,118,258</u> | <u>-</u> | <u>1,198,622</u> |

Below is a reconciliation of the allowance for impairment of loans to customers during the six-month period ended 30 June 2017:

| | <i>Six-month period ended 30 June 2017 (unaudited)</i> |
|-----------------------|--|
| As at 1 January | (25,081,883) |
| Charge for the period | (312,739) |
| Write-off | 171,498 |
| As at 30 June | <u>(25,223,124)</u> |

*(in thousands of tenge)***7. Loans to customers (continued)****Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending – collateral of real estate properties, inventory and receivables, guarantees and securities;
- For retail lending – collateral of residential properties and other assets.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment.

Concentration of loans issued to customers

As at 30 June 2018, the Company had a concentration of loans represented by KZT 39,154,107 thousand due from the ten largest borrowers or 17% of net loan portfolio (31 December 2017: KZT 25,130,056 thousand or 15% of net loan portfolio).

8. Investment securities

As at 30 June 2018 and 31 December 2017, investment securities comprise discount notes of the NBRK measured at amortized cost (previously classified as held to maturity), with a carrying value of KZT 40,472,107 thousand and KZT 51,175,874 thousand, respectively. These instruments have maturity in 2018.

9. Investment property

Below is movement of investment property items:

| | <i>Buildings</i> |
|---------------------------------|------------------|
| Cost | |
| As at 31 December 2016 | 426,300 |
| Additions (unaudited) | – |
| As at 31 June 2017 (unaudited) | 426,300 |
| As at 31 December 2017 | 426,300 |
| Additions (unaudited) | – |
| As at 30 June 2018 (unaudited) | 426,300 |
| Accumulated depreciation | |
| As at 31 December 2016 | (77,669) |
| Depreciation charge (unaudited) | (5,468) |
| As at 30 June 2017 (unaudited) | (83,137) |
| As at 31 December 2017 | (88,606) |
| Depreciation charge (unaudited) | (5,468) |
| As at 30 June 2018 (unaudited) | (94,074) |
| Net book value | |
| As at 31 December 2017 | 337,694 |
| As at 30 June 2018 (unaudited) | 332,226 |

Income from lease of investment property for the six-month period ended 30 June 2018 amounted to KZT 21,542 thousand (the six-month period ended 30 June 2017: KZT 27,387 thousand).

*(in thousands of tenge)***10. Property and equipment**

The movements in property and equipment were as follows:

| | <i>Land</i> | <i>Machinery and equip- ment</i> | <i>Motor vehicles</i> | <i>Other</i> | <i>Total</i> |
|---------------------------------------|--------------|--|---------------------------|-----------------|------------------|
| Cost | | | | | |
| As at 31 December 2016 | 5,397 | 280,745 | 56,548 | 80,158 | 422,848 |
| Additions (unaudited) | – | 18,417 | – | 2,247 | 20,664 |
| Disposals (unaudited) | – | (30) | – | (47) | (77) |
| Reclassification (unaudited) | – | 6,807 | – | (6,807) | – |
| As at 30 June 2017 (unaudited) | 5,397 | 305,939 | 56,548 | 75,551 | 443,435 |
| As at 31 December 2017 | 5,397 | 312,019 | 106,188 | 91,615 | 515,219 |
| Additions (unaudited) | – | 37,371 | 65,800 | 5,638 | 108,809 |
| Disposals (unaudited) | – | – | (1,570) | (333) | (1,903) |
| As at 30 June 2018 (unaudited) | 5,397 | 349,390 | 170,418 | 96,920 | 622,125 |
| Accumulated depreciation | | | | | |
| As at 31 December 2016 | – | (146,766) | (26,980) | (40,733) | (214,479) |
| Depreciation charge (unaudited) | – | (21,718) | (8,425) | (3,421) | (33,564) |
| Disposals (unaudited) | – | – | – | 55 | 55 |
| As at 30 June 2017 (unaudited) | – | (168,484) | (35,405) | (44,099) | (247,988) |
| As at 31 December 2017 | – | (191,368) | (35,317) | (46,478) | (273,163) |
| Depreciation charge (unaudited) | – | (24,895) | (10,179) | (3,941) | (39,015) |
| Disposals (unaudited) | – | – | 1,570 | 198 | 1,768 |
| As at 30 June 2018 (unaudited) | – | (216,263) | (43,926) | (50,221) | (310,410) |
| Net book value | | | | | |
| As at 31 December 2017 | 5,397 | 120,651 | 70,871 | 45,137 | 242,056 |
| As at 30 June 2018 (unaudited) | 5,397 | 133,127 | 126,492 | 46,699 | 311,715 |

11. Intangible assets

The movements in intangible assets were as follows:

| | <i>Software</i> |
|---|------------------|
| Cost | |
| As at 31 December 2016 | 535,653 |
| Additions (unaudited) | 74,600 |
| As at 30 June 2017 (unaudited) | 610,253 |
| As at 31 December 2017 | 615,750 |
| Additions (unaudited) | 1,071 |
| As at 30 June 2018 (unaudited) | 616,821 |
| Accumulated amortization | |
| As at 31 December 2016 | (341,972) |
| Amortization charge (unaudited) | (31,462) |
| As at 31 December 2017 (unaudited) | (373,434) |
| As at 31 December 2017 | (384,791) |
| Amortization charge (unaudited) | (38,482) |
| As at 30 June 2018 (unaudited) | (423,273) |
| Net book value | |
| As at 31 December 2017 | 230,959 |
| As at 30 June 2018 (unaudited) | 193,548 |

*(in thousands of tenge)***12. Other assets**

Other assets consist of the following:

| | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|-------------------------------|---|-----------------------------------|
| Accounts receivable | 456,928 | 564,672 |
| Advances given | 107,570 | 257 |
| Finance lease receivables | 73,926 | - |
| Inventories | 55,038 | 9,601 |
| Other taxes receivable | 20,718 | 320 |
| Other assets | 80,236 | 68,983 |
| | <u>794,416</u> | <u>643,833</u> |
| Less allowance for impairment | <u>(256,627)</u> | <u>(19,521)</u> |
| Other assets | <u>537,789</u> | <u>624,312</u> |

13. Amounts due to the Shareholder

Amounts due to the Shareholder consist of the following:

| | <i>Maturity</i> | <i>Nominal interest rate per annum, %</i> | <i>Currency</i> | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|---------------------------------------|------------------|---|-----------------|---|---------------------------------------|
| Loan under contract No. 81 | 21 June 2019 | 14.5-15.5% | tenge | 28,293,908 | - |
| Loan under contract No. 76 | 14 December 2025 | 1.00% | tenge | 15,293,953 | - |
| Loan under contract No. 61 | 24 August 2032 | 0.32% | tenge | 8,729,016 | 2,472,133 |
| Investment loan under contract No. 36 | 30 December 2023 | 1.02% | tenge | 6,426,502 | 6,894,425 |
| Loan under contract No. 148 | 10 December 2019 | 9.00% | tenge | 2,637,972 | 3,001,640 |
| Loan under contract No. 70 | 13 October 2024 | 0.32% | tenge | 939,988 | 902,480 |
| Loan under contract No. 124 | 1 January 2023 | 10.00% | tenge | 296,582 | 322,289 |
| Loan under contract No. 148 | 10 December 2019 | 1.00% | tenge | 115,408 | 152,186 |
| Amounts due to the Shareholder | | | | <u>62,733,329</u> | <u>13,745,153</u> |

Loan under contract No. 81

On 21 June 2018, the Company entered into Loan Agreement No. 81 with the Shareholder. The loan is intended to finance the agro-industrial complex projects with priority to production and processing of meat and milk. On 28 June 2018, the amount of KZT 26,000,000 thousand was received under this Agreement. The effective interest rate on the loan is 7.64% per annum.

Loan under contract No. 76

On 6 June 2018, the Company entered into Loan Agreement No. 76 with the Shareholder. The loan is intended for the subsequent lending to the agro-industrial complex entities for the procurement of agricultural machinery and equipment within the framework of the agro-industrial complex development map for intensive technical re-equipment and for the processing of agricultural products as part of the agro-industrial agro-processing development map. On 14 June 2018, the amount of KZT 20,000,000 thousand was received under this Agreement. The effective interest rate on the loan is 6.19-7.64% per annum.

Loan under contract No. 61

On 24 August 2017, the Company entered into Loan Agreement No. 61 with the Shareholder. Effective interest rates on tranches obtained under this agreement are 7.58%-8.60% per annum. The loan is intended to direct funds to the agro-industrial complex entities for the implementation of a set of measures aimed at creating, expanding and modernizing material production and production infrastructure in the agro-industrial complex. During 2018 the amount of KZT 8,782,674 thousand was received under this Agreement.

(in thousands of tenge)

13. Amounts due to the Shareholder (continued)

Investment loan under contract No. 36

As at 30 June 2018 and 31 December 2017, amounts due to the Shareholder includes the amount due under the Framework Loan Agreement No. 36 dated 18 May 2009. In accordance with this Agreement, the Company received an investment loan to develop, expand and modify production in agricultural sector. Effective interest rates on tranches obtained under this agreement are 4.50%-6.19% per annum.

Loan under contract No. 148

On 10 of December 2012 the Company entered into Framework Loan Agreement No. 148 with the Shareholder. The initial amount of the loan under the agreement was KZT 2,000,000 thousand. The lending purpose is to meet liquidity needs sufficient to cover the liabilities; support agricultural complex entities; acquire, repair and upgrade property and equipment and other purposes in accordance with the legislation. The tranches received by the Company under this agreement before 1 January 2015 have a nominal interest rate of 1.0% per annum.

On 11 February 2015, a supplementary agreement No. 1 to the Framework Loan Agreement No. 148 was concluded, under which all tranches received after 1 January 2015 have a nominal interest rate of 9.00% per annum. Effective interest rates on tranches received under Framework Loan Agreement No. 148 are 9.63%-11.63% per annum.

Loan under contract No. 70

On 13 October 2017, the Company entered into Loan Agreement No. 70 with the Shareholder. The amount under the Contract is KZT 5,000,000 thousand at the nominal borrowing rate of 0.32% per annum. The loan is intended for lending to credit partnerships and leasing companies for the subsequent financing of agribusiness entities for the purchase of new trailed and mounted tillage, forage harvesting equipment, equipment for processing and drying of agricultural crops, equipment for domestic production of livestock. The effective interest rate on the loan is 8.6% per annum.

Loan under contract No. 124

On 23 December 2015 the Company entered into Loan Agreement No. 124 with the Shareholder. The initial amount of the loan was KZT 591,108 thousand. Effective interest rate on tranches obtained under this agreement is 9.63% per annum. The loan is intended for restructuring/refinancing of liabilities of borrowers that have arisen before 1 January 2014 in connection with a loan/lease granted to replenish working capital, purchase property and equipment and construction, as well as to refinance the debts incurred in connection with obtaining a loan/lease for the above purposes.

During the six-month period ended 30 June 2018, the difference between the nominal and fair values of loans received from the Shareholder at the date of initial recognition of KZT 7,385,324 thousand (six-month period ended 30 June 2017: zero tenge) was recognized by the Company within additional paid-in capital (Note 21).

As at 30 June 2018 and 31 December 2017, there are no obligations to comply with financial covenants related to loans from the Shareholder.

14. Amounts due to the Government of the Republic of Kazakhstan

As at 30 June 2018, the amounts due to the Government of the Republic of Kazakhstan include a short-term loan in tenge provided by the Ministry of Finance of the Republic of Kazakhstan in the amount of KZT 60,000,000 thousand under the agreement No. 9 ППЧ 0906 dated 22 January 2018 to support the agro-industrial complex by financing spring-field and harvesting works with maturity on 20 December 2018 and an interest rate of 0.01% per annum.

15. Amounts due to state and budget organizations

The program for the development of productive employment and large scale entrepreneurship for 2017-2021

During the six-month period ended 30 June 2018, the Company entered into seventeen loan agreements with local executive bodies as part of the implementation of the Program for the development of productive employment and mass entrepreneurship for 2017-2021 approved by the Resolution of the Government of the Republic of Kazakhstan No. 919 dated 29 December 2016. Loans with nominal interest rates of 0.01% per annum are intended for funding microfinance organizations and credit cooperatives for lending business projects under the Program. The effective interest rates on loans are 7.58%-8.93% per annum. As at 30 June 2018, amounts payable by the Company under this Agreement amount to KZT 16,196,350 thousand (31 December 2017: KZT 7,464,102 thousand).

(in thousands of tenge)

15. Amounts due to state and budget organizations (continued)**Employment roadmap 2020**

In August 2016, the Company entered into two loan agreements with the State Institution “Administration of entrepreneurship, industrial innovative development and tourism of the South Kazakhstan oblast” and the Akimat of Almaty oblast within the framework of the implementation of the Road Map 2020 approved by the Decree of the Government of the Republic of Kazakhstan No. 162 dated March 2015. The funds received under the above agreements have nominal interest rate of 0.01% per annum and effective interest rates of 13.3% per annum. The loans are intended for ensuring sustainable and balanced growth of regional entrepreneurship in rural areas for 2016-2017, as well as to maintain existing and create new permanent jobs within the framework of the Employment Roadmap 2020. As at 30 June 2018, the amounts due under these agreements amounted to KZT 2,576,548 thousand (as at 31 December 2017: KZT 2,427,065 thousand).

During the six-month period ended 30 June 2018, the difference between the nominal and fair value of loans received from the state and budget organizations at the date of initial recognition of KZT 3,650,384 thousand (six-month period ended 30 June 2017: KZT 4,268,051 thousand) was recognized by the Company within additional paid-in capital (Note 21).

16. Amounts due to credit institutions

On 26 October 2017 and 31 October 2017, the Company received short-term loans from Bank CenterCredit JSC in the total amount of KZT 1,500,000 thousand with maturity on 21 July 2018 and 31 July 2018 within the framework of the Agreement on establishing a credit limit No. 10.A/2016/U/S/06260 dated 18 November 2016. The interest rate for these loans was 12% per annum. These loans were repaid on 26 March 2018.

17. Amounts payable under the cession agreements

Amounts payable under the cession agreements comprise:

| | <i>Maturity date</i> | <i>Nominal interest rate per a year, %</i> | <i>Currency</i> | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|---|----------------------|--|-----------------|---|-----------------------------------|
| Qazaq Banki JSC | 9 December 2024 | 3.0% | tenge | 1,819,132 | – |
| KazMeat LLP | 10 November 2018 | 2.0%-10.6% | tenge | 1,260,759 | 1,212,624 |
| KazAgroProduct JSC | 10 November 2018 | 4.0% | tenge | 72,472 | 69,597 |
| Amounts payable under the cession agreements | | | | 3,152,363 | 1,282,221 |

On 24 May 2018, the Company entered into two cession agreement with Qazaq Banki JSC. Under these agreements, Qazaq Banki JSC ceded claims on loans given to the end borrowers under the agro-industrial complex development programs with a nominal value of KZT 4,210,486 thousand and a fair value at the date of initial recognition of KZT 3,005,006 thousand as a settlement of amounts due to the Company in the amount of KZT 2,071,284 thousand. The Company is obligated to pay KZT 2,139,202 thousand in accordance with the agreed repayment schedule with maturity in 2024 and a nominal interest rate of 3.0% per annum (effective interest rate is 7.78% per annum).

Amount payable under the cession agreements also include amounts arising under the cession agreement dated 22 December 2017 concluded between the Company, KazMeat LLP and KazAgroProduct JSC. In accordance with the agreement, the Company received the right for claim to the borrowers KazBeef Ltd LLP and Shchuchinskiy Gormolzavod LLP with the fair value at initial recognition of KZT 113,714 thousand.

*(in thousands of tenge)***18. Debt securities issued**

Debt securities issued comprise:

| | <i>Maturity date</i> | <i>Rate per annum %</i> | <i>Currency</i> | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|---|----------------------|-------------------------|-----------------|---------------------------------------|-------------------------------|
| Fixed income bonds (1st issue of the 3d bond Programme) | 30 December 2021 | 8.5% | tenge | 23,845,053 | 23,835,996 |
| Fixed income bonds (2nd issue of the 2d bond programme) | 17 December 2022 | 8.0% | tenge | 17,853,931 | 17,819,148 |
| Commercial bonds with fixed income | 13 September 2018 | 11% | tenge | 10,605,000 | 10,091,667 |
| Fixed income bonds (1st issue of the 2d bond Programme) | 20 February 2023 | 8.5% | tenge | 10,121,533 | 10,105,772 |
| Fixed income bonds (2nd issue of the 3d bond programme) | 22 June 2026 | 14% | tenge | 5,365,612 | 5,015,395 |
| Debt securities issued | | | | 67,791,129 | 66,867,978 |

19. Other liabilities

Other liabilities comprise:

| | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|--|---------------------------------------|-------------------------------|
| Provisions for ECL on credit related commitments | 887,926 | - |
| Subsidizing of interest rates by the Ministry of Agriculture of the Republic of Kazakhstan as part of the program to support agriculture | 701,247 | 854,272 |
| Accounts payable | 190,692 | 96,530 |
| Other taxes payable | 66,742 | 5,884 |
| Other | 61,704 | 68,727 |
| Other liabilities | 1,908,311 | 1,025,413 |

As at 30 June 2018 and 31 December 2017, other liabilities of the Company include amounts received from the Ministry of Agriculture of the Republic of Kazakhstan to reimburse the subsidized portion of interest on loans granted to customers for the acquisition of farm animals under the budget program 056 "Subsidizing interest rates on loans, and leasing of technological equipment and agricultural machinery".

20. Taxation

Corporate income tax expenses comprise the following:

| | <i>Six-month period ended 30 June</i> | |
|--|---------------------------------------|-------------------------|
| | <i>2018 (unaudited)</i> | <i>2017 (unaudited)</i> |
| Current corporate income tax charge | (2,163,450) | (924,593) |
| Deferred corporate income tax charge – origination and reversal of temporary differences | (1,180,491) | (705,708) |
| Less deferred tax recognized in equity (<i>Note 21</i>) | 792,107 | 493,311 |
| Corporate income tax expense | (2,551,834) | (1,136,990) |

As at 30 June 2018, deferred corporate income tax assets comprised KZT 2,193,136 thousand (as at 31 December 2017: KZT 1,744,732 thousand).

21. Equity

As at 30 June 2018 and 31 December 2017, declared and outstanding common shares of the Company in the amount of 158,630,371 shares have been fully paid by the sole Shareholder at the placement price of 1 thousand tenge per one common share.

During the six-month period ended 30 June 2018, in accordance with the decision of the sole Shareholder dated 11 May 2018, the Company declared and paid dividends in the amount of KZT 4,189,685 thousand or KZT 26.41 per one common share for the year ended 31 December 2017.

*(in thousands of tenge)***21. Equity (continued)**

During the six-month period ended 30 June 2017, in accordance with the decision of the sole Shareholder dated 26 May 2017, the Corporation declared and paid dividends in the amount of KZT 1,460,516 thousand or KZT 9.21 per one common share for the year ended 31 December 2016. As at 30 June 2017 the Corporation paid dividends in the amount of KZT 730,258 thousand.

In accordance with the policy of the Company, the reserve fund is created for general risks including future losses and other unforeseen risks and obligations. The reserve fund is subject to distribution on the basis of the Shareholder's decision.

Presented below is movement in additional paid-in capital and reserves for the six-month period ended 30 June 2018:

| | <i>Reserve fund</i> | <i>Additional paid-in capital</i> | <i>Reserve for notional distribution</i> |
|--|-------------------------|---|--|
| As at 1 January 2018 | 2,546,627 | 12,538,954 | (24,051,401) |
| Reserve for notional distribution for the period (unaudited) | - | - | (7,349,824) |
| Tax effect of recognition of reserve for notional distribution (unaudited) | - | - | 1,469,965 |
| Gain on initial recognition of loans from the Shareholder and state and budget organizations at fair value (unaudited) | - | 11,310,360 | - |
| Tax effect from initial recognition of loans from the Shareholder and state and budget organizations at fair value (unaudited) | - | (2,262,072) | - |
| Increase in reserve fund (unaudited) | 2,793,124 | - | - |
| As at 30 June 2018 (unaudited) | 5,339,751 | 21,587,242 | (29,931,260) |

Presented below is movement in additional paid-in capital and reserves for the six-month period ended 30 June 2017:

| | <i>Reserve fund</i> | <i>Additional paid-in capital</i> | <i>Reserve for notional distribution</i> |
|--|-------------------------|---|--|
| As at 1 January 2017 | 1,086,111 | 6,831,528 | (15,008,072) |
| Reserve for notional distribution for the period (unaudited) | - | - | (1,801,498) |
| Tax effect of recognition of reserve for notional distribution (unaudited) | - | - | 360,299 |
| Gain on initial recognition of loans from the Shareholder and state and budget organizations at fair value (unaudited) | - | 4,268,051 | - |
| Tax effect from initial recognition of loans from the Shareholder and state and budget organizations at fair value (unaudited) | - | (853,610) | - |
| Increase in reserve fund (unaudited) | 1,460,516 | - | - |
| As at 30 June 2017 (unaudited) | 2,546,627 | 10,245,969 | (16,449,271) |

As at 30 June 2018, the book value per one common share calculated in accordance with Kazakhstan Stock Exchange methodology is KZT 1,015.11 (31 December 2017: KZT 960.27):

| | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|---|---|-----------------------------------|
| Assets | 377,562,060 | 247,112,593 |
| Less intangible assets | (193,548) | (230,959) |
| Less liabilities | (216,341,701) | (94,553,915) |
| Net assets | 161,026,811 | 152,327,719 |
| Number of common shares, pieces | 158,630,371 | 158,630,371 |
| Book value per common share (in tenge) | 1,015.11 | 960.27 |

*(in thousands of tenge)***22. Credit loss expense**

The table below, shows the ECL charges on financial instruments recognized in the income statement for the six-month period ended 30 June 2018:

| | <i>Six-month period ended 30 June 2018 (unaudited)</i> | | | |
|--|--|--------------------|------------------|-------------------|
| | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>Total</i> |
| Cash and cash equivalents | (12,769) | – | – | (12,769) |
| Amounts due from credit institutions <i>(Note 6)</i> | 3,943,280 | 775,106 | 3,183,189 | 7,901,575 |
| Loans to customers <i>(Note 7)</i> | 1,578,322 | (3,523,153) | 4,221,912 | 2,277,081 |
| Investment securities | 316 | – | – | 316 |
| Other financial assets | (2,008) | – | – | (2,008) |
| Loan commitments <i>(Note 24)</i> | (87,232) | – | – | (87,232) |
| Loan loss expense | 5,419,909 | (2,748,047) | 7,405,101 | 10,076,963 |

23. Administrative and other operating expenses

Administrative and other operating expenses comprise:

| | <i>Six-month period ended 30 June</i> | |
|--|---------------------------------------|--------------------|
| | <i>2018</i> | <i>2017</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Personnel expenses and other payments | (1,174,419) | (943,263) |
| Social security costs | (109,233) | (84,980) |
| Personnel expenses | (1,283,652) | (1,028,243) |
| Legal and advisory services | (214,427) | (169,916) |
| Premises rent and maintenance | (197,196) | (178,221) |
| Depreciation and amortization | (82,965) | (70,494) |
| Business trip expenses | (42,912) | (28,537) |
| Insurance expenses | (22,666) | (12,995) |
| State duty | (21,916) | (26,352) |
| Charity and sponsorship | (20,153) | (5,091) |
| Materials including fuels and lubricants | (19,654) | (16,749) |
| Marketing and advertising | (12,375) | (18,127) |
| Communication | (11,921) | (11,779) |
| Expenses related to the assessment of collateral | (10,820) | (9,234) |
| Maintenance of property and equipment | (10,148) | (19,557) |
| Training of personnel | (8,994) | (5,349) |
| Bank services | (8,386) | (4,685) |
| Other | (60,444) | (38,636) |
| Other operating expenses | (744,977) | (615,722) |

24. Commitments and contingencies**Operating environment**

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2018, the volatility of the tenge's exchange rate against major foreign currencies continued to have a negative impact on the Kazakhstan economy.

The management of the Company believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Tax periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods.

*(in thousands of tenge)***24. Commitments and contingencies (continued)****Taxation (continued)**

The Company's management believes that as at 30 June 2018 and 31 December 2017 its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

Legal issues

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

Credit related commitments

As at 30 June 2018 and 31 December 2017 commitments and contingencies of the Company comprise:

| | <i>As at 30 June</i> | <i>As at 31 December</i> |
|--------------------------------------|----------------------|--------------------------|
| | <i>2018</i> | <i>2017</i> |
| | <i>(unaudited)</i> | |
| Credit related commitments | | |
| Undrawn loan commitments | 65,838,340 | 38,118,487 |
| Less provisions for ECL | (887,926) | - |
| Operating lease commitments | | |
| Not later than 1 year | 17,960 | 12,943 |
| Commitments and contingencies | 64,968,374 | 38,131,430 |

Many of these credit related contingencies can be terminated without their partial or full execution. As a result, the credit related commitments indicated in the table above do not represent the expected outflow of cash. Undrawn loan commitments do not constitute unconditional obligations of the Company.

Agreement on loan commitments provide for the right of the Company to unilaterally withdraw from the agreement in the event of occurrence of adverse conditions for the Company, as well as in the event of absence of resources for lending.

25. Fair value of financial instruments

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

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

*(in thousands of tenge)***25. Fair value of financial instruments (continued)**

The following table shows an analysis of financial instruments whose fair value is disclosed by levels of the fair value hierarchy:

| | <i>Date of measurement</i> | <i>Fair value measurement with the use of</i> | | | <i>Total</i> |
|---|--------------------------------|--|--|---|--------------|
| | | <i>Quoted prices in active markets (Level 1)</i> | <i>Significant observable inputs (Level 2)</i> | <i>Significant non- observable inputs (Level 3)</i> | |
| As at 30 June 2018 (unaudited) | | | | | |
| Assets for which fair values are disclosed | | | | | |
| Cash and cash equivalents | 30 June 2018 | 62,123,101 | - | - | 62,123,101 |
| Amounts due from credit institutions | 30 June 2018 | - | 32,749,775 | - | 32,749,775 |
| Loans to customers | 30 June 2018 | - | - | 230,102,885 | 230,102,885 |
| Investment securities | 30 June 2018 | 40,472,107 | - | - | 40,472,107 |
| Other assets | 30 June 2018 | - | - | 274,227 | 274,227 |
| Liabilities for which fair values are disclosed | | | | | |
| Amounts due to the Shareholder | 30 June 2018 | - | 62,446,797 | - | 62,446,797 |
| Amounts due to the Government of the Republic of Kazakhstan | 30 June 2018 | - | 60,002,617 | - | 60,002,617 |
| Amounts due to state and budget organizations | 30 June 2018 | - | 19,809,946 | - | 19,809,946 |
| Amounts payable under the cession agreements | 30 June 2018 | - | 3,096,417 | - | 3,096,417 |
| Debt securities issued | 30 June 2018 | 63,728,852 | - | - | 63,728,852 |
| Other liabilities | 30 June 2018 | - | - | 190,692 | 190,692 |
| As at 31 December 2017 | | | | | |
| Assets for which fair values are disclosed | | | | | |
| Cash and cash equivalents | 31 December 2017 | 7,046,982 | - | - | 7,046,982 |
| Amounts due from credit institutions | 31 December 2017 | - | 16,650,563 | - | 16,650,563 |
| Loans to customers | 31 December 2017 | - | - | 139,301,951 | 139,301,951 |
| Investment securities | 31 December 2017 | 51,175,874 | - | - | 51,175,874 |
| Other assets | 31 December 2017 | - | - | 545,151 | 545,151 |
| Liabilities for which fair values are disclosed | | | | | |
| Amounts due to the Shareholder | 31 December 2017 | - | 12,417,053 | - | 12,417,053 |
| Amounts due to state and budget organizations | 31 December 2017 | - | 10,428,072 | - | 10,428,072 |
| Amounts due to credit institutions | 31 December 2017 | - | 1,448,683 | - | 1,448,683 |
| Amounts payable under the cession agreements | 31 December 2017 | - | 1,192,453 | - | 1,192,453 |
| Debt securities issued | 31 December 2017 | 63,945,176 | - | - | 63,945,176 |
| Other liabilities | 31 December 2017 | - | - | 96,530 | 96,530 |

*(in thousands of tenge)***25. Fair value of financial instruments (continued)****Financial instruments not carried at fair value in the statement of financial position**

Set out below is a comparison of the current amounts and fair values of the Company's financial instruments recorded in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

| | <i>Carrying value</i> | <i>Fair value</i> | <i>Unrecognised (loss)/gain</i> |
|--|---------------------------|-----------------------|-------------------------------------|
| As at 30 June 2018 (unaudited) | | | |
| Financial assets | | | |
| Cash and cash equivalents | 62,123,101 | 62,123,101 | - |
| Amounts due from credit institutions | 35,321,369 | 32,749,775 | (2,571,594) |
| Loans to customers | 235,296,892 | 230,102,885 | (5,194,007) |
| Investment securities | 40,472,107 | 40,472,107 | - |
| Other assets | 274,227 | 274,227 | - |
| Financial liabilities | | | |
| Amounts due the Shareholder | 62,733,329 | 62,446,797 | 286,532 |
| Amounts due to the Government of the Republic of Kazakhstan | 60,002,617 | 60,002,617 | - |
| Amounts due to state and budget organizations | 18,772,898 | 19,809,946 | (1,037,048) |
| Amounts payable under the cession agreements | 3,152,363 | 3,096,417 | 55,946 |
| Debt securities issued | 67,791,129 | 63,728,852 | 4,062,277 |
| Other liabilities | 190,692 | 190,692 | - |
| Total unrecognised change in unrealised fair value | | | (4,397,894) |
| As at 31 December 2017 | | | |
| Financial assets | | | |
| Cash and cash equivalents | 7,046,982 | 7,046,982 | - |
| Amounts due from credit institutions | 21,671,412 | 16,650,563 | (5,020,849) |
| Loans to customers | 163,555,462 | 139,301,951 | (24,253,511) |
| Investment securities | 51,175,874 | 51,175,874 | - |
| Other assets | 545,151 | 545,151 | - |
| Financial liabilities | | | |
| Amounts due to the Shareholder | 13,745,153 | 12,417,053 | 1,328,100 |
| Amounts due to state and budget organizations | 9,891,167 | 10,428,072 | (536,905) |
| Amounts due to credit institutions | 1,515,288 | 1,448,683 | 66,605 |
| Amounts payable under the cession agreements | 1,282,221 | 1,192,453 | 89,768 |
| Debt securities issued | 66,867,978 | 63,945,176 | 2,922,802 |
| Other liabilities | 96,530 | 96,530 | - |
| Total unrecognised change in unrealised fair value | | | (25,403,990) |

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in these interim condensed financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the current amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

In the event of quoted debt instruments, the fair value is based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(in thousands of tenge)

26. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

The Government of the Republic of Kazakhstan controls the activities of the Company through the Shareholder.

The outstanding balance of related party transactions at the period-end and related expense and income is as follows:

| | As at 30 June 2018 (unaudited) | | | As at 31 December 2017 | | |
|---|---|-------------|--|---|-------------|--|
| | Entities under common control of the | | Government- related organi- zations | Entities under common control of the | | Government- related organi- zations |
| | Shareholder | Shareholder | | Shareholder | Shareholder | |
| Investment securities | - | - | 40,472,107 | - | - | 51,175,874 |
| Loans received | 62,733,329 | - | 78,775,515 | 13,745,153 | - | 9,891,167 |
| Amounts payable under the cession agreements | - | 1,333,231 | - | - | 1,282,221 | - |
| Debt securities issued | 56,368,340 | 797,174 | - | 55,958,522 | 797,174 | - |
| | Six-month period ended 30 June | | | | | |
| | 2018 (unaudited) | | | 2017 (unaudited) | | |
| | Entities under common control of the | | Government- related organi- zations | Entities under common control of the | | Government- related organi- zations |
| | Shareholder | Shareholder | | Shareholder | Shareholder | |
| Interest income on investment securities | - | - | 2,180,606 | - | - | 1,534,134 |
| Interest expenses on loans received | (648,219) | - | (601,618) | (464,293) | - | (194,628) |
| Interest expenses under the cession agreements | - | (65,345) | - | - | - | - |
| Interest expenses on debt securities issued | (2,444,700) | (31,791) | - | (2,094,700) | - | - |

Compensation of key management personnel

Compensation of key management personnel consisting of 5 persons was comprised of the following:

| | Six-month period ended 30 June | |
|--|--------------------------------|---------------------|
| | 2018 (unaudited) | 2017 (unaudited) |
| Salary and other short-term benefits | 47,812 | 30,390 |
| Social security contributions | 4,436 | 3,014 |
| Total key management personnel compensation | 52,248 | 33,404 |

27. Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the ratios established by the National Bank of the Republic of Kazakhstan.

As at 30 June 2018 and 31 December 2017, the Company had complied in full with all its externally imposed capital requirements.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

*(in thousands of tenge)***27. Capital adequacy (continued)**

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK requires entities engaged in certain types of banking activities to maintain a capital adequacy ratio of 1 level (k1) of at least 6% of assets; capital adequacy ratio (k1-2) in the amount of not less than 6% of risk weighted assets and contingent liabilities; and the total capital adequacy ratio (k1-3) in the amount of at least 12% of risk/operational weighted assets and contingent and possible liabilities and operational risk. As at 30 June 2018 and 31 December 2017 the capital adequacy ratios of the Company calculated in accordance with the requirements of the NBRK were as follows:

| | <i>As at 30 June 2018 (unaudited)</i> | <i>As at 31 December 2017</i> |
|-------------------------------|---|-----------------------------------|
| Tier 1 capital | 143,989,087 | 145,409,627 |
| Tier 2 capital | 17,097,398 | 6,982,809 |
| Total equity | 161,086,485 | 152,392,436 |
| Risk weighted assets | 327,964,740 | 193,652,341 |
| Commitments and contingencies | 32,919,170 | 19,059,244 |
| Operational risk | 10,400,816 | 10,867,218 |
| Capital adequacy ratio (k1) | 38.1% | 58.8% |
| Capital adequacy ratio (k1-2) | 39.9% | 68.4% |
| Capital adequacy ratio (k1-3) | 43.4% | 68.2% |