

**Joint Stock Company
Agrarian Credit Corporation**

Interim condensed financial statements

*For the six-month period ended 30 June 2019
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 "Company"), which comprise the interim condensed statement of financial position as at 30 June 2019 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 of Joint Stock Company Agrarian Credit Corporation 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



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

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

18 September 2019



Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

(in thousands of tenge)

	<i>Note</i>	<i>As at 30 June 2019 (unaudited)</i>	<i>As at 31 December 2018</i>
Assets			
Cash and cash equivalents	4	63,221,154	70,889,857
Amounts due from credit institutions	5	57,174,690	32,815,837
Loans to customers	6	342,847,713	265,103,066
Assets held for sale		659,712	864,739
Investment securities	7	13,457,774	–
Investment property	8	339,845	345,724
Property and equipment	9	338,366	362,767
Intangible assets	10	262,325	297,828
Current corporate income tax assets		33,243	359,009
Deferred corporate income tax assets	19	42,062	982,220
Other assets		424,331	274,320
Total assets		478,801,215	372,295,367
Liabilities			
Amounts due to the Shareholder	11	162,499,160	127,888,348
Amounts due to the Government of the Republic of Kazakhstan	12	60,002,650	–
Amounts due to state and budget organizations	13	35,306,070	22,634,685
Amounts due to credit institutions	14	9,889,696	9,546,645
Debt securities issued	15	57,314,010	56,898,981
Short-term provisions		412,827	344,507
Other liabilities		4,743,570	3,688,523
Total liabilities		330,167,983	221,001,689
Equity			
Share capital	16	158,630,371	158,630,371
Additional paid-in capital	16	43,954,728	34,670,854
Reserve fund	16	5,339,751	5,339,751
Reserve for notional distribution	16	(54,190,643)	(46,219,772)
Accumulated deficit		(5,100,975)	(1,127,526)
Total equity		148,633,232	151,293,678
Total liabilities and equity		478,801,215	372,295,367
Book value per common share (tenge)	16	935.32	951.87

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

Daribayev Murat Amankeldiyevich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 September 2019

The accompanying selected explanatory notes on pages 6 to 24 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS

for the six-month period ended 30 June 2019

(in thousands of tenge)

	Note	For the six-month period ended 30 June	
		2019 (unaudited)	2018 (unaudited)*
Interest income calculated using effective interest rate			
Cash and cash equivalents		2,623,496	1,764,534
Amounts due from credit institutions		2,372,070	1,756,387
Loans to customers		19,172,716	10,390,718
Investment securities		1,994,094	2,180,606
		<u>26,162,376</u>	<u>16,092,245</u>
Other interest income			
Finance lease receivables		1,771	4,527
		<u>26,164,147</u>	<u>16,096,772</u>
Interest expense			
Amounts due to the Shareholder		(5,751,232)	(648,219)
Amounts due to the Government of the Republic of Kazakhstan		(2,650)	(2,617)
Amounts due to state and budget organizations		(1,108,240)	(599,201)
Amounts due to credit institutions		(383,646)	(35,582)
Debt securities issued		(2,542,371)	(3,050,492)
Other liabilities		(58,258)	(65,345)
		<u>(9,846,397)</u>	<u>(4,401,456)</u>
Net interest income		16,317,750	11,695,316
Credit loss expense	17	(5,766,101)	9,936,306
Net interest income after credit loss expense		10,551,649	21,631,622
Net gains/(losses) from foreign currencies		7	(113)
Other income		65,341	47,644
Personnel expenses	18	(1,825,443)	(1,283,652)
Other operating expenses	18	(918,097)	(744,977)
Other expenses		(45,280)	(1,292)
Non-interest expenses		(2,723,472)	(1,982,390)
Profit before corporate income tax expense		7,828,177	19,649,232
Corporate income tax expense	19	(1,426,009)	(2,551,834)
Profit for the period		6,402,168	17,097,398
Basic and diluted earnings per common share (in tenge)		40.36	107.78

* Certain amounts given in this column do not agree to the interim condensed financial statements for the six-month period ended 30 June 2018 as they reflect reclassifications made and disclosed in Note 2.

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

Daribayev Murtaz Xmankeldyevich  Chairman of the Management Board

Zaitullayeva Irina Nikolayevna  Chief Accountant

18 September 2019

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INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**for the six-month period ended 30 June 2019***(in thousands of tenge)*

	<i>For the six-month period ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit for the period	6,402,168	17,097,398
Other comprehensive income for the period	–	–
Total comprehensive income for the period	6,402,168	17,097,398

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

Daribayev Murat Amankeldyevich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 September 2019

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INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2019

(in thousands of tenge)

	<i>Notes</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Reserve fund</i>	<i>Reserve for notional distribution</i>	<i>Accumulated deficit</i>	<i>Total</i>
As at 1 January 2018		158,630,371	12,538,954	2,546,627	(24,051,401)	2,894,127	152,558,678
Effect of adopting IFRS 9		-	-	-	-	(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 period (unaudited)		-	-	-	-	17,097,398	17,097,398
Gain on initial recognition of loans from the Shareholder at fair value, net of tax (unaudited)	16	-	9,048,288	-	-	-	9,048,288
Reserve for notional distribution for the period, net of tax (unaudited)	16	-	-	-	(5,879,859)	-	(5,879,859)
Increase in reserve fund (unaudited)	16	-	-	2,793,124	-	(2,793,124)	-
Dividends declared (unaudited)	16	-	-	-	-	(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
As at 1 January 2019		158,630,371	34,670,854	5,339,751	(46,219,772)	(1,127,526)	151,293,678
Total comprehensive income for the period (unaudited)		-	-	-	-	6,402,168	6,402,168
Gain on initial recognition of loans from the Shareholder at fair value, net of tax (unaudited)	16	-	9,283,874	-	-	-	9,283,874
Reserve for notional distribution for the period, net of tax (unaudited)	16	-	-	-	(7,970,871)	-	(7,970,871)
Dividends declared (unaudited)	16	-	-	-	-	(10,375,617)	(10,375,617)
As at 30 June 2019 (unaudited)		158,630,371	43,954,728	5,339,751	(54,190,643)	(5,100,975)	148,633,232

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

Daribayev Murat Amanzeldayevich



Chairman of the Management Board

Zaitillayeva Irina Nikolayevna

Chief Accountant

18 September 2019

The accompanying selected explanatory notes on pages 6 to 24 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS**for the six-month period ended 30 June 2019***(in thousands of tenge)*

	Notes	For the six-month period ended 30 June	
		2019 (unaudited)	2018 (unaudited)
Cash flows from operating activities			
Interest received		13,838,114	11,971,790
Interest paid		(5,218,803)	(2,352,099)
Personnel expenses paid		(1,256,315)	(862,331)
Other operating expenses paid		(867,426)	(934,151)
Cash flows from operating activities before changes in operating assets and liabilities		6,495,570	7,823,209
<i>Net (increase)/ decrease in operating assets</i>			
Amounts due from credit institutions		(18,839,393)	(12,172,359)
Loans to customers		(87,490,941)	(69,982,050)
Other assets		77,112	(262,220)
<i>Net increase/ (decrease) in operating liabilities</i>			
Other liabilities		803,887	(313,990)
Net cash used in operating activities before corporate income tax		(98,953,765)	(74,907,410)
Corporate income tax paid		(482,337)	(436,783)
Net cash used in operating activities		(99,436,102)	(75,344,193)
Cash flows from investing activities			
Proceeds from redemption of investment securities		262,176,976	310,656,808
Purchase of investment securities		(275,466,269)	(299,915,669)
Purchase of property and equipment		(26,654)	(108,403)
Purchase of intangible assets		(92,512)	(37,234)
Net cash flows (used in)/from investing activities		(13,408,459)	10,595,502
Cash flows from financing activities			
Proceeds from loans from the Government of the Republic of Kazakhstan		60,000,000	60,000,000
Proceeds from loans from credit institutions		9,800,000	—
Repayment of loans from credit institutions		(9,477,051)	(1,553,480)
Proceeds from loans from the Shareholder		41,071,695	54,782,674
Repayment of loans from the Shareholder		(3,288,592)	(1,133,601)
Proceeds from loans from state and budget organisations		17,453,687	11,932,941
Dividends paid	16	(10,375,617)	(4,189,685)
Net cash flow from financing activities		105,184,122	119,838,849
Effect of changes in expected credit losses on cash and cash equivalents	4	(8,264)	(14,039)
Net change in cash and cash equivalents		(7,668,703)	55,076,119
Cash and cash equivalents, beginning		70,889,857	7,046,982
Cash and cash equivalents, ending		63,221,154	62,123,101

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

Daribayev Murtat Amanisheleovich



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 September 2019

The accompanying selected explanatory notes on pages 6 to 24 are an integral part of these interim condensed financial statements.

(in thousands of tenge)

1. Principal activities

Joint Stock Company Agrarian Credit Corporation (hereinafter, the “Company”) 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 (hereinafter, the “NBRK”).

The core 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 lending 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.

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

As at 30 June 2019 and 31 December 2018, 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 2019 and 31 December 2018 the Company has 16 registered branches throughout the Republic of Kazakhstan.

The address of the Company’s registered office is: 11, Imanov str., Nur-Sultan, Republic of Kazakhstan.

2. Basis of preparation

The interim condensed financial statements for the six months ended 30 June 2019 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 2018.

Reclassifications

The following changes were made to the interim condensed statement of profit or loss for six-month period ended 30 June 2018 to conform to the presentation as at 30 June 2019:

<i>Interim condensed statement of profit or loss for the six-month period ended 30 June 2018 (unaudited)</i>	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>
Credit loss expense	10,076,963	(140,657)	9,936,306
Other impairment and provisions on financial assets	(140,657)	140,657	–

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 2018, except for the adoption of new Standards effective as of 1 January 2019. The nature and the effect of these changes are disclosed below. The Company has not adopted standards, interpretations or amendments that have been issued but are not yet effective.

In 2019, some other amendments and interpretations are applied for the first time but do not have an impact on the interim condensed financial statements of the Company.

IAS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

(in thousands of tenge)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

IAS 16 Leases (continued)

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

(a) Nature of the effect of adoption of IFRS 16

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

The Company applies the short-term lease recognition exemption to its short-term leases, those leases that have a lease term of 12 months or less from the commencement date. As at 1 January 2019, lease agreements of the Company were short-term and did not contain a purchase option.

Based on the foregoing, the application of IFRS 16 as of 1 January 2019 did not affect the Company's interim condensed financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- ▶ Whether an entity considers uncertain tax treatments separately;
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- ▶ How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates only in the Republic of Kazakhstan, the interpretation had no impact on its interim financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim condensed financial statements of the Company.

(in thousands of tenge)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the interim condensed financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the interim condensed financial statements as the Company does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the interim condensed financial statements of the Company as there were no such transactions.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the interim condensed financial statements of the Company as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

(in thousands of tenge)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Annual IFRS improvements 2015-2017 cycle (continued)

IAS 12 Income Taxes (continued)

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Company current practice is in line with these amendments, they had no impact on the interim condensed financial statements of the Company.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Company current practice is in line with these amendments, they had no impact on the interim condensed financial statements of the Company.

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 accounting estimates, which have the most significant effect on the amounts recognised in the interim condensed financial statements.

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the interim condensed 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 measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining the ECL and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

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. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	<i>30 June</i> <i>2019</i> <i>(unaudited)</i>	<i>31 December</i> <i>2018</i>
Cash on current accounts with banks	63,236,285	70,896,723
Cash on hand	–	1
	<u>63,236,285</u>	<u>70,896,724</u>
Less allowance for expected credit losses (ECL)	(15,131)	(6,867)
Cash and cash equivalents	<u>63,221,154</u>	<u>70,889,857</u>

All balances of cash equivalents are allocated to Stage 1. The analysis of changes in the ECL for the six-month period ended 30 June is as follows:

	<i>2019</i> <i>(unaudited)</i>	<i>2018</i> <i>(unaudited)</i>
ECL allowance as at 1 January	6,867	1,270
Change in ECL for the period	8,264	12,769
ECL allowance as at 30 June	<u>15,131</u>	<u>14,039</u>

Concentration of cash and cash equivalents

As at 30 June 2019, cash held on current accounts with banks included funds on current accounts with ForteBank JSC in the amount of KZT 31,725,401 thousand or 50% of the total cash and cash equivalents (as at 31 December 2018: cash on current accounts with Citibank Kazakhstan JSC of KZT 28,569,603 thousand or 40% of the total amount of cash and cash equivalents).

5. Amounts due from credit institutions

Amounts due from credit institutions comprise the following:

	<i>30 June</i> <i>2019</i> <i>(unaudited)</i>	<i>31 December</i> <i>2018</i>
Loans to the second-tier banks	52,789,813	37,142,226
Deposits with contractual maturity of over 90 days	4,823,929	1,009,342
	<u>57,613,742</u>	<u>38,151,568</u>
Less allowance for ECL	(439,052)	(5,335,731)
Amounts due from credit institutions	<u>57,174,690</u>	<u>32,815,837</u>

As at 30 June 2019, amounts due from credit institutions include loans in tenge issued by SB Sberbank JSC, Halyk Bank Kazakhstan JSC, First Heartland Jysan Bank JSC, Nurbank JSC, Tengri Bank JSC, Bank RBK JSC, Bank CenterCredit JSC, ATFBank JSC, Subsidiary Bank VTB (Kazakhstan) JSC, Eurasian Bank JSC for lending to agroindustrial complex facilities, with maturity of up to 2028 and interest rates of 2.0% to 12.5% per annum (at 31 December 2018: of 2.8 to 13.2% per annum and maturity of up to 2028).

The analysis of changes in ECL allowances for the six-month period ended 30 June 2019 is as follows (unaudited):

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	251,551	–	5,084,180	5,335,731
New assets originated or purchased	203,051	–	–	203,051
Assets repaid	(60,358)	–	–	(60,358)
Transfers to Stage 1	4,719,657	–	(4,719,657)	–
Change in ECL for the period	(4,674,849)	–	(516,236)	(5,191,085)
Unwinding of discount (recognized in interest income)	–	–	151,713	151,713
As at 30 June 2019	<u>439,052</u>	<u>–</u>	<u>–</u>	<u>439,052</u>

*(in thousands of tenge)***5. Amounts due from credit institutions (continued)**

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

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2018	144,332	11,392,544	–	11,536,876
New assets originated or purchased	117,006	–	–	117,006
Assets repaid	(2,088)	–	(2,237,129)	(2,239,217)
Transfers to Stage 1	4,179,437	(4,179,437)	–	–
Transfers to Stage 3	–	(6,438,001)	6,438,001	–
Change in ECL for the period	(4,058,198)	(775,106)	(1,959,819)	(6,793,123)
Unwinding of discount (recognized in interest income)	–	–	241,133	241,133
As at 30 June 2018	380,489	–	2,482,186	2,862,675

During the six-month period ended 30 June 2019, the loss in the amount of KZT 628,461 thousand resulting from initial recognition of loans at fair value issued to second tier banks at below market rate, using the funds received from the Shareholder, was recognized within equity as increase in the reserve for notional distribution (*Note 16*).

6. Loans to customers

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

	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Loans to legal entities	349,835,929	264,496,999
Loans to individuals	43,340,169	40,342,502
	393,176,098	304,839,501
Less allowance for ECL	(50,328,385)	(39,736,435)
Loans to customers	342,847,713	265,103,066

Allowance for impairment of loans to customers

The analysis of changes in ECL allowances for the six-month period ended 30 June 2019 is as follows (unaudited):

<i>Legal entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL allowance as at 1 January 2019	2,156,348	–	36,071,917	14,755	38,243,020
New assets originated or purchased	5,662,833	–	–	568	5,663,401
Assets repaid	(152,514)	–	(1,768,261)	–	(1,920,775)
Transfers to Stage 1	7,893,324	(1,111,524)	(6,781,800)	–	–
Transfers to Stage 2	(1,686,135)	3,509,859	(1,823,724)	–	–
Transfers to Stage 3	(3,547,275)	(482,215)	4,029,490	–	–
Change in ECL for the period	(8,338,612)	1,338,734	12,117,079	637,025	5,754,226
Unwinding of discount (recognized in interest income)	–	–	1,356,101	–	1,356,101
Amounts written off	–	–	(1,366,680)	–	(1,366,680)
As at 30 June 2019	1,987,969	3,254,854	41,834,122	652,348	47,729,293
<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL allowance as at 1 January 2019	186,179	–	1,307,236	–	1,493,415
New assets originated or purchased	895,631	–	–	–	895,631
Assets repaid	(1,241)	(40)	(4,216)	–	(5,497)
Transfers to Stage 1	20,679	(3,322)	(17,357)	–	–
Transfers to Stage 2	(4,377)	4,695	(318)	–	–
Transfers to Stage 3	(425,831)	(3,405)	429,236	–	–
Change in ECL for the period	(357,210)	7,453	542,289	–	192,532
Unwinding of discount (recognized in interest income)	–	–	23,011	–	23,011
As at 30 June 2019	313,830	5,381	2,279,881	–	2,599,092

*(in thousands of tenge)***6. Loans to customers (continued)****Allowance for impairment of loans to customers (continued)**

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

<i>Legal entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2018	1,089,879	130,166	27,607,329	28,827,374
New assets originated or purchased	3,256,093	–	–	3,256,093
Assets repaid	(28,925)	(2,934)	–	(31,859)
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	–
Change in ECL for the period	(4,670,105)	3,560,880	(3,216,153)	(4,325,378)
Unwinding of discount (recognized in interest income)	–	–	455,926	455,926
Amounts written off	–	–	(2,849,057)	(2,849,057)
As at 30 June 2018	1,086,168	2,520,343	21,726,588	25,333,099

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2018	33,240	73,045	1,223,745	1,330,030
New assets originated or purchased	37,220	–	–	37,220
Assets repaid	(5,566)	(1,569)	(3,528)	(10,663)
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	–
Change in ECL for the period	(167,039)	(33,224)	11,528	(188,735)
Unwinding of discount (recognized in interest income)	–	–	30,770	30,770
As at 30 June 2018	69,548	10,816	1,118,258	1,198,622

During the six-month period ended 30 June 2019, the loss in the amount of KZT 9,335,128 thousand resulting from recognition of loans at fair value issued to customers at below market rate, using the funds received from the Shareholder, was recognized within equity as increase in the reserve for notional distribution (*Note 16*).

7. Investment securities

Investment securities comprise:

	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Notes of the NBRK	10,347,708	–
Corporate bonds	3,112,653	–
	13,460,361	–
Less allowance for ECL	(2,587)	–
Investment securities	13,457,774	–

As at 30 June 2019, debt securities measured at amortized cost are allocated to Stage 1 for the purposes of estimating ECLs.

*(in thousands of tenge)***8. Investment property**

Below is movement of investment property items:

	<i>Buildings</i>
Cost	
As at 31 December 2017	426,300
Additions (unaudited)	-
As at 30 June 2018 (unaudited)	<u>426,300</u>
As at 31 December 2018	445,266
Additions (unaudited)	-
As at 30 June 2019 (unaudited)	<u>445,266</u>
Accumulated depreciation	
As at 31 December 2017	(88,606)
Depreciation charge (unaudited)	(5,468)
As at 30 June 2018	<u>(94,074)</u>
As at 31 December 2018	(99,542)
Depreciation charge (unaudited)	(5,879)
As at 30 June 2019 (unaudited)	<u>(105,421)</u>
Net book value	
As at 31 December 2018	345,724
As at 30 June 2019 (unaudited)	<u>339,845</u>

Income from lease of investment property for the six-month period ended 30 June 2019 amounted to KZT 23,109 thousand (the six-month period ended 30 June 2018: KZT 21,542 thousand).

9. Property and equipment

The movements in property and equipment were as follows:

	<i>Land</i>	<i>Machinery and equipment</i>	<i>Vehicles</i>	<i>Other</i>	<i>Total</i>
Cost					
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)	<u>5,397</u>	<u>349,390</u>	<u>170,418</u>	<u>96,920</u>	<u>622,125</u>
As at 31 December 2018	5,397	370,581	201,015	117,486	694,479
Additions (unaudited)	-	23,723	-	1,102	24,825
Disposals (unaudited)	-	(8,489)	(16,671)	(2,341)	(27,501)
As at 30 June 2019 (unaudited)	<u>5,397</u>	<u>385,815</u>	<u>184,344</u>	<u>116,247</u>	<u>691,803</u>
Accumulated depreciation					
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)	<u>-</u>	<u>(216,263)</u>	<u>(43,926)</u>	<u>(50,221)</u>	<u>(310,410)</u>
As at 31 December 2018	-	(232,041)	(47,278)	(52,393)	(331,712)
Depreciation charge (unaudited)	-	(26,626)	(12,360)	(5,292)	(44,278)
Disposals (unaudited)	-	8,455	12,110	1,988	22,553
As at 30 June 2019 (unaudited)	<u>-</u>	<u>(250,212)</u>	<u>(47,528)</u>	<u>(55,697)</u>	<u>(353,437)</u>
Net book value					
As at 31 December 2018	5,397	138,540	153,737	65,093	362,767
As at 30 June 2019 (unaudited)	<u>5,397</u>	<u>135,603</u>	<u>136,816</u>	<u>60,550</u>	<u>338,366</u>

*(in thousands of tenge)***10. Intangible assets**

The movements in intangible assets were as follows:

	<i>Software</i>
Cost	
As at 31 December 2017	615,750
Additions (unaudited)	1,071
As at 30 June 2018 (unaudited)	616,821
As at 31 December 2018	759,659
Additions (unaudited)	-
As at 30 June 2019 (unaudited)	759,659
Accumulated amortization	
As at 31 December 2017	(384,791)
Amortization charge (unaudited)	(38,482)
As at 30 June 2018 (unaudited)	(423,273)
As at 31 December 2018	(461,831)
Amortization charge (unaudited)	(35,503)
As at 30 June 2019 (unaudited)	(497,334)
Net book value	
As at 31 December 2018	297,828
As at 30 June 2019 (unaudited)	262,325

11. 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>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Loan under Agreement No. 81	28 June 2020	14.5-15.5%	Tenge	37,657,956	36,061,366
Loan under Agreement No. 32	14 December 2025	1.0%	Tenge	24,747,350	-
Loan under Agreement No. 61	13 May 2031	0.32-1.02%	Tenge	21,686,586	14,465,214
Loan under Agreement No. 76	14 December 2025	1.0%	Tenge	16,257,283	15,770,443
Loan under Agreement No. 85	14 December 2025	1.0%	Tenge	12,277,915	11,915,618
Loan under Agreement No. 135	14 December 2025	1.0%	Tenge	12,225,346	11,868,865
Loan under Agreement No. 136	14 December 2025	1.0%	Tenge	12,225,346	11,868,865
Loan under Agreement No. 122	14 December 2025	1.0%	Tenge	12,218,583	11,860,276
Investment loan under Agreement No. 36	30 December 2023	1.02%	Tenge	5,013,463	5,586,770
Loan under Cession agreement dated 3 July 2018	20 December 2024	5.0%	Tenge	3,040,159	2,932,227
Loan under Cession agreement No. 35-4/322 dated 1 August 2018	20 October 2019	5.0%	Tenge	1,765,204	1,702,360
Loan under Agreement No. 148	9 December 2019	9.0%	Tenge	1,137,630	1,507,991
Loan under Debt transfer agreement dated 3 July 2018	9 December 2024	3.0%	Tenge	1,131,065	1,199,325
Loan under Agreement No. 70	13 October 2024	1.02%	Tenge	834,855	801,542
Loan under Agreement No. 124	1 December 2022	10.0%	Tenge	241,041	269,642
Loan under Agreement No. 148	9 December 2019	1.0%	Tenge	39,378	77,844
Amounts due to the Shareholder				162,499,160	127,888,348

(in thousands of tenge)

11. Amounts due to the Shareholder (continued)

Loan under Agreement No. 32

On 27 February 2019, the Company entered into the Loan Agreement No. 32 with the Shareholder. The loan is intended for lending to agribusiness entities to finance projects related to development of livestock farming, the dairy industry, the processing of meat and crop products, food production, and to purchase systems of irrigation as well as crop production. During the six-month period ended 30 June 2019 the amount of KZT 30,000,000 thousand was received under this Agreement. The interest rate used by the Company to estimate the value of the loan at the date of initial recognition was 7.3% per annum.

Loan under Agreement No. 61

On the 24 August 2017 the Company entered into the Loan Agreement No. 61 with the Shareholder. During the six-month period ended 30 June 2019, additional funding in the amount of KZT 11,071,695 thousand was received under this Agreement. The interest rates used by the Company to estimate the value of the loans at the date of initial recognition were 7.6%-8.6% per annum. The loans are 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 the six-month period ended 30 June 2019, the difference between the nominal and fair values of loans obtained from the Shareholder at the date of initial recognition, including the effect from changes in the terms of loan agreements, totaling KZT 5,714,839 thousand was recognized by the Company within additional paid-in capital (Note 16).

As at 30 June 2019 and 31 December 2018, there are no obligations to comply with financial covenants under loan agreement with the Shareholder.

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

As at 30 June 2019, 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 in accordance with the Agreement No. 9 ППЧ 985 dated 22 January 2019 to support the agro-industrial complex by financing spring-field and harvesting works with maturity on 20 December 2019 and a nominal interest rate of 0.01% per annum.

13. Amounts due to state and budget organizations

The program for the development of productive employment and large scale entrepreneurship for 2018-2021

During the six-month period ended 30 June 2019, the Company entered into twenty loan agreements with local executive bodies as part of the implementation of the Program for the Development of Productive Employment and Large Scale 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 the purposes of funding microfinance organizations and credit partnerships for lending to business projects under the Program. The interest rates used by the Company in estimating the value of loans at the date of initial recognition were 7.13%-7.41% per annum. As at 30 June 2019, amounts due by the Company under this Program were KZT 32,399,762 thousand (31 December 2018: KZT 19,897,208 thousand).

Employment roadmap 2020

In August 2016, the Company entered into two loan agreements with the State Institution "Administration of entrepreneurship, industrial innovation development and tourism of the South Kazakhstan oblast" and the Akimat of Almaty oblast as part of the implementation of the Road Map 2020 approved by the Government of the Republic of Kazakhstan No. 162 dated 30 June 2015. The funds received under the above agreements have nominal interest rates of 0.01% 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 as part of the Employment Roadmap 2020. The interest rates used by the Company in estimating the value of loans at the date of initial recognition were 7.13%-7.41% per annum. As at 30 June 2019, amounts due by the Company under these agreements were KZT 2,906,308 thousand (as at 31 December 2018: KZT 2,737,477 thousand).

During the six-month period ended 30 June 2019, the difference between the nominal and fair values of loans obtained from the state and budget organizations at the date of initial recognition totaling KZT 5,890,003 thousand was recognized by the Company within additional paid-in capital (Note 16).

*(in thousands of tenge)***14. Amounts due to credit institutions**

Amounts due to credit institutions include loans raised from the following banks:

	<i>Maturity date</i>	<i>Nominal interest rate per annum, %</i>	<i>Currency</i>	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
ATFBank JSC	3 February 2020	10.5%	Tenge	9,889,696	6,981,087
Bank CenterCredit JSC	19 April 2019	10.5%	Tenge	–	2,565,558
				9,889,696	9,546,645

On 25 April 2019 and 21 May 2019, the Company received short-term loans from ATFBank JSC in total amount of KZT 9,800,000 thousand with maturity till 3 February 2020 within the framework of the Credit line agreement No. MK020-2019 dated 27 February 2019.

15. Debt securities issued

Debt securities issued comprise:

	<i>Maturity date</i>	<i>Rate per annum, %</i>	<i>Currency</i>	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Fixed coupon bonds (1st issue of the 3d bond Programme)	30 December 2021	8.5%	Tenge	23,864,355	23,854,501
Fixed coupon bonds (2nd issue of the 2d bond Programme)	17 December 2022	8.0%	Tenge	17,928,356	17,890,515
Fixed coupon bonds (1st issue of the 2d bond Programme)	20 February 2023	8.5%	Tenge	10,155,451	10,138,235
Fixed coupon bonds (2nd issue of the 3d bond programme)	22 June 2026	14%	Tenge	5,365,848	5,015,730
Debt securities issued				57,314,010	56,898,981

16. Equity

As at 30 June 2019 and 31 December 2018, authorized 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 KZT 1 thousand per one common share.

During the six-month period ended 30 June 2019, in accordance with the decision of the sole Shareholder dated 31 May 2019, the Company declared and paid dividends in the amount of KZT 10,375,617 thousand or KZT 65.41 per one common share for the year ended 31 December 2018.

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 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.

*(in thousands of tenge)***16. Equity (continued)**

Presented below is movement in additional paid-in capital and reserves for the six-month period ended 30 June 2019:

	<i>Reserve fund</i>	<i>Additional paid-in capital</i>	<i>Reserve for notional distribution</i>
As at 1 January 2019	5,339,751	34,670,854	(46,219,772)
Reserve for notional distribution for the period (Notes 5, 6) (unaudited)	-	-	(9,963,589)
Tax effect of recognition of reserve for notional distribution (unaudited)	-	-	1,992,718
Gain on initial recognition of loans from the Shareholder, state and budget organizations at fair value (Notes 11, 13) (unaudited)	-	11,604,842	-
Tax effect of initial recognition of loans from the Shareholder, state and budget organizations at fair value (unaudited)	-	(2,320,968)	-
As at 30 June 2019 (unaudited)	5,339,751	43,954,728	(54,190,643)

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 (Notes 5, 6) (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, state and budget organizations at fair value (Notes 11, 13) (unaudited)	-	11,310,360	-
Tax effect of initial recognition of loans from the Shareholder, state and budget organizations at fair value (unaudited)	-	(2,262,072)	-
Increase in reserve fund against the retained earnings (unaudited)	2,793,124	-	-
As at 30 June 2018 (unaudited)	5,339,751	21,587,242	(29,931,260)

The book value per common share calculated in accordance with the Kazakhstan Stock Exchange methodology is presented below:

	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Assets	478,801,215	372,295,367
Less intangible assets	(262,325)	(297,828)
Less liabilities	(330,167,983)	(221,001,689)
Net assets	148,370,907	150,995,850
Number of common shares, pieces	158,630,371	158,630,371
Book value per common share (tenge)	935.32	951.87

*(in thousands of tenge)***17. Credit loss expense**

The table below shows credit loss expense on financial instruments recognized in profit or loss for the six-month period ended 30 June 2019:

	Note	For the six-month period ended 30 June 2019 (unaudited)				Total
		Stage 1	Stage 2	Stage 3	POCI	
Cash and cash equivalents	4	(8,264)	–	–	–	(8,264)
Amounts due from credit institutions	5	4,532,156	–	516,236	–	5,048,392
Loans to customers	6	2,291,113	(1,346,147)	(10,886,891)	(637,593)	(10,579,518)
Investment securities		(2,587)	–	–	–	(2,587)
Other financial assets		255	–	–	–	255
Loan commitments	20	(224,379)	–	–	–	(224,379)
Credit loss expense		6,588,294	(1,346,147)	(10,370,655)	(637,593)	(5,766,101)

The table below shows credit loss expense on financial instruments recognized in profit or loss for the six-month period ended 30 June 2018:

	Note	For the six-month period ended 30 June 2018 (unaudited)				Total
		Stage 1	Stage 2	Stage 3	POCI	
Cash and cash equivalents	4	(12,769)	–	–	–	(12,769)
Amounts due from credit institutions	5	3,943,280	775,106	4,196,948	–	8,915,334
Loans to customers	6	1,578,322	(3,523,153)	3,208,153	–	1,263,322
Investment securities		316	–	–	–	316
Other financial assets		(2,008)	–	(140,657)	–	(142,665)
Loan commitments	20	(87,232)	–	–	–	(87,232)
Credit loss expense		5,419,909	(2,748,047)	7,264,444	–	9,936,306

18. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	For the six-month period ended 30 June	
	2019 (unaudited)	2018 (unaudited)
Personnel expenses and other payments	(1,671,982)	(1,174,419)
Social security costs	(153,461)	(109,233)
Personnel expenses	(1,825,443)	(1,283,652)
Legal and advisory services	(272,585)	(214,427)
Premises rent and maintenance	(203,596)	(197,196)
Depreciation and amortisation	(85,660)	(82,965)
Business trip expenses	(47,613)	(42,912)
Insurance expenses	(44,552)	(22,666)
Marketing and advertising	(24,609)	(12,375)
Maintenance of property and equipment	(22,190)	(10,148)
Communication services	(19,810)	(11,921)
Materials	(19,073)	(19,654)
State duty	(13,540)	(21,916)
Valuation of collateral	(10,140)	(10,820)
Bank services	(8,984)	(8,386)
Charity and sponsorship	(7,655)	(20,153)
Training of personnel	(4,903)	(8,994)
Other	(133,187)	(60,444)
Other operating expenses	(918,097)	(744,977)

*(in thousands of tenge)***19. Corporate income tax**

Corporate income tax expense comprises the following:

	<i>For the six-month period ended 30 June</i>	
	<i>2019 (unaudited)</i>	<i>2018 (unaudited)</i>
Current corporate income tax charge	(814,101)	(2,163,450)
Deferred corporate income tax charge – origination and reversal of temporary differences	(940,158)	(1,180,491)
Less deferred tax recognized in equity (<i>Note 16</i>)	328,250	792,107
Corporate income tax expense	(1,426,009)	(2,551,834)

20. Commitments and contingencies**Operating environment**

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 2019, the volatility of the tenge's exchange rate against major foreign currencies continues 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

Tax, currency and customs legislation of the Republic of Kazakhstan 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. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Company's management believes that as at 30 June 2019 and 31 December 2018 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. The 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 2019 the Company's commitments and contingencies comprised the following:

	<i>30 June 2019</i>	<i>31 December 2018</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Credit related commitments		
Undrawn loan commitments	68,971,521	59,741,155
Less allowance for ECL	(1,047,378)	(822,999)
	67,924,143	58,918,156
Operating lease commitments		
Not later than 1 year	27,344	16,029
Commitments and contingencies	67,951,487	58,934,185

*(in thousands of tenge)***20. Commitments and contingencies (continued)****Credit related commitments (continued)**

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

Agreements 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.

The analysis of changes in ECL allowances for the six-month period ended 30 June 2019 is as follows:

	<u>Stage 1</u>
ECL allowance as at 1 January 2019	(822,999)
Change in ECL for the period (unaudited)	<u>(224,379)</u>
As at 30 June 2019 (unaudited)	<u>(1,047,378)</u>

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

	<u>Stage 1</u>
ECL allowance as at 1 January 2018	(800,694)
Change in ECL for the period (unaudited)	<u>(87,232)</u>
As at 30 June 2018 (unaudited)	<u>(887,926)</u>

21. Fair values 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)***21. Fair values 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 using</i>			<i>Total</i>
		<i>inputs Level 1</i>	<i>inputs Level 2</i>	<i>inputs Level 3</i>	
As at 30 June 2019 (unaudited)					
Assets for which fair values are disclosed					
Cash and cash equivalents	30 June 2019	–	63,221,154	–	63,221,154
Amounts due from credit institutions	30 June 2019	–	56,365,377	–	56,365,377
Loans to customers	30 June 2019	–	–	338,054,708	338,054,708
Investment securities	30 June 2019	10,347,116	3,110,658	–	13,457,774
Other financial assets	30 June 2019	–	–	246,256	246,256
Liabilities for which fair values are disclosed					
Amounts due to the Shareholder	30 June 2019	–	161,941,264	–	161,941,264
Amounts due to the Government of the Republic of Kazakhstan	30 June 2019	–	60,002,650	–	60,002,650
Amounts due to state and budget organizations	30 June 2019	–	35,713,638	–	35,713,638
Amounts due to credit institutions	30 June 2019	–	10,001,029	–	10,001,029
Debt securities issued	30 June 2019	–	57,452,602	–	57,452,602
Other financial liabilities	30 June 2019	–	1,464,497	183,703	1,648,200
As at 31 December 2018					
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	–	70,889,857	–	70,889,857
Amounts due from credit institutions	31 December 2018	–	32,908,280	–	32,908,280
Loans to customers	31 December 2018	–	–	263,148,038	263,148,038
Other financial assets	31 December 2018	–	–	123,611	123,611
Liabilities for which fair values are disclosed					
Amounts due to the Shareholder	31 December 2018	–	128,345,631	–	128,345,631
Amounts due to state and budget organizations	31 December 2018	–	23,599,252	–	23,599,252
Amounts due to credit institutions	31 December 2018	–	9,591,776	–	9,591,776
Debt securities issued	31 December 2018	–	58,272,543	–	58,272,543
Other financial liabilities	31 December 2018	–	1,377,167	238,645	1,615,812

*(in thousands of tenge)***21. Fair value of financial instruments (continued)****Financial instruments not carried at fair value in the condensed statement of financial position**

Set out below is a comparison of the carrying amount and fair value 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>30 June 2019 (unaudited)</i>		
	<i>Carrying value</i>	<i>Fair value</i>	<i>Unrecognized gains/(losses)</i>
Financial assets			
Cash and cash equivalents	63,221,154	63,221,154	–
Amounts due from credit institutions	57,174,690	56,365,377	(809,313)
Loans to customers	342,847,713	338,054,708	(4,793,005)
Investment securities	13,457,774	13,457,774	–
Other financial assets	246,256	246,256	–
Financial liabilities			
Amounts due to the Shareholder	162,499,160	161,941,264	557,896
Amounts due to the Government of the Republic of Kazakhstan	60,002,650	60,002,650	–
Amounts due to state and budget organizations	35,306,070	35,713,638	(407,568)
Amounts due to credit institutions	9,889,696	10,001,029	(111,333)
Debt securities issued	57,314,010	57,452,602	(138,592)
Other financial liabilities	2,225,235	1,648,200	577,035
Total unrecognised change in unrealised fair value			(5,124,880)

	<i>31 December 2018</i>		
	<i>Carrying value</i>	<i>Fair value</i>	<i>Unrecognized gains/(losses)</i>
Financial assets			
Cash and cash equivalents	70,889,857	70,889,857	–
Amounts due from credit institutions	32,815,837	32,908,280	92,443
Loans to customers	265,103,066	263,148,038	(1,955,028)
Other financial assets	123,611	123,611	–
Financial liabilities			
Amounts due to the Shareholder	127,888,348	128,345,631	(457,283)
Amounts due to state and budget organizations	22,634,685	23,599,252	(964,567)
Amounts due to credit institutions	9,546,645	9,591,776	(45,131)
Debt securities issued	56,898,981	58,272,543	(1,373,562)
Other financial liabilities	2,221,917	1,615,812	606,105
Total unrecognised change in unrealised fair value			(4,097,023)

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 current 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

For quoted debt instruments, the fair values are determined 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)***22. 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 balance of related party transactions at the year-end and related expense and income is as follows:

	<i>As at 30 June 2019 (unaudited)</i>			<i>As at 31 December 2018</i>		
	<i>Shareholder</i>	<i>Entities under common control of the Shareholder</i>	<i>Government-related entities</i>	<i>Shareholder</i>	<i>Entities under common control of the Shareholder</i>	<i>Government-related entities</i>
Investment securities	–	10,347,116	–	–	–	–
Loans issued	–	10,448,565	–	–	9,795,170	–
Loans received	162,499,160	–	95,308,720	127,888,348	–	22,634,685
Debt securities issued	56,496,173	797,220	–	56,081,191	797,174	–
Amounts due under cession agreements	–	1,306,947	–	–	1,274,804	–

	<i>Six-month period ended 30 June</i>					
	<i>2019 (unaudited)</i>			<i>2018 (unaudited)</i>		
	<i>Shareholder</i>	<i>Entities under common control of the Shareholder</i>	<i>Government-related entities</i>	<i>Shareholder</i>	<i>Entities under common control of the Shareholder</i>	<i>Government-related entities</i>
Interest income on investment securities	–	1,835,657	–	–	–	2,180,606
Interest income on loans issued	–	642,335	–	–	–	–
Interest expenses on loans received	(5,751,232)	–	(1,110,890)	(648,219)	–	(601,818)
Interest expenses on debt securities issued	(2,376,715)	(31,791)	–	(2,444,700)	(31,791)	–
Interest expenses on amounts due under cession agreements	–	(58,258)	–	–	(65,345)	–

Loans received from the Shareholder as at 30 June 2019 have effective interest rates from 4.5% to 11.6% per annum (as at 31 December 2018: from 4.5% to 11.6% per annum).

Loans received from state and budget organizations as at 30 June 2019 have effective interest rates from 7.1% to 13.3% per annum (as at 31 December 2018: from 7.5% to 13.3% per annum).

Compensation to the key management personnel

Compensation to the key management personnel comprised of the following:

	<i>Six-month period ended 30 June</i>	
	<i>2019 (unaudited)</i>	<i>2018 (unaudited)</i>
Salaries and other short-term benefits	56,074	47,812
Social security contributions	5,196	4,436
Total key management personnel compensation	61,270	52,248

(in thousands of tenge)

23. 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 2019 and 31 December 2018, 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 Fund complies with externally imposed capital requirements and that the Fund maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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.

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 2019 and 31 December 2018 the capital adequacy ratios of the Company calculated in accordance with the requirements of the NBRK were as follows:

	<i>30 June 2019</i> <i>(unaudited)</i>	<i>31 December</i> <i>2018</i>
Tier 1 capital	142,115,703	140,779,730
Tier 2 capital	6,402,168	10,375,617
Shares in capital of legal entities	—	—
Total capital	148,517,871	151,155,347
Risk weighted assets	464,791,784	370,467,718
Commitments and contingencies	34,485,761	29,870,578
Operational risk	15,274,773	15,274,773
Capital adequacy ratio (k1)	29.7%	37.8%
Capital adequacy ratio (k1-2)	28.5%	35.2%
Capital adequacy ratio (k1-3)	28.9%	36.4%

24. Events after the end of the interim period

On 19 June 2019 the Board of Directors of the Company approved the issuance of bonds with a total nominal value of KZT 40,000,000 thousand with maturity of up to 360 days for lending to agricultural entities and financing agricultural producers. On 4 July 2019, these bonds were included into the official listing of the Kazakhstan Stock Exchange. As at 30 June 2019, these bonds were not placed.

On 19 June 2019 the Board of Directors of the Company approved the fourth issuance of bonds as part of the third bond program with a total nominal value of KZT 40,000,000 thousand with maturity of up to 5 years for lending to agricultural entities and financing agricultural producers. On 25 July 2019, these bonds were included into the official listing of the Kazakhstan Stock Exchange. As at 30 June 2019, these bonds were not placed.

On 25 July 2019 the Board of Directors of the Company approved the issuance of the fourth bond program with a total nominal value of KZT 500,000,000 thousand, as well as the first issue of bonds under this bond program with a total nominal value of KZT 70,000,000 thousand for lending to private enterprises operating in the agro-industrial complex in accordance with the decree of the Government of the Republic of Kazakhstan No. 820 *On Certain Issues of Ensuring Long-term Tenge Liquidity to Solve the Problem of Affordable Lending* dated 11 December 2018. On 8 August 2019, the state registration of the fourth bond program with a total nominal value of KZT 500,000,000 thousand was performed. On 19 August 2019, the first issue of bonds under the fourth bond program with a total nominal value of KZT 70,000,000 thousand was included into the official listing of the Kazakhstan Stock Exchange. As at 30 June 2019, these bonds were not placed.