

SB JSC “Bank Home Credit”

Financial Statements
for the year ended 31 December 2017

Contents

Independent Auditors’ Report

Statement of Profit or Loss and Other Comprehensive Income 7

Statement of Financial Position 8

Statement of Cash Flows 9

Statement of Changes in Equity 10

Notes to the Financial Statements 11-62



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Independent Auditors' Report

To the Board of Directors and Management Board of SB JSC “Bank Home Credit”

Opinion

We have audited the financial statements of SB JSC “Bank Home Credit” (the “Bank”), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans to customers

Please refer to Notes 3 (f) and 13 in the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The assessment of the Bank’s estimate of impairment losses against loans to customers is considered to be a key audit matter due to the significance of loans to customers, and the significant judgments it requires the Bank to make.</p> <p>Calculation of the collective loss allowance uses statistical models based on historical delinquency rates, and also requires the application of management judgement, with the key assumptions being the probability of loans falling into arrears and subsequently defaulting and the recovery rates for these loans.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> - assessing the design and operating effectiveness of the controls in respect of the Bank’s loan underwriting process, management review process over impaired loans; - re-performing calculations and agreeing a sample of data inputs to source documentation; this included involving our in-house IT specialists; - assessing whether the data used in the models is complete and accurate through testing a sample of relevant data fields and their aggregate amounts against data in the source systems; - challenging the appropriateness of the key assumptions used for collective impairment against our understanding of the Bank and its recent performance. This involved recalculation of provisioning rates based on the Bank’s actual historic experience; - considering the adequacy of the Bank’s disclosures about credit risk, structure and quality of the loan portfolio and impairment allowance.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors’ report thereon. The annual report is expected to be made available to us after the date of this auditors’ report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

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


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


Yelena Kim
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000042 of 8 August 2011



KPMG Audit LLC

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


Assel Khairova
General Director of KPMG Audit LLC
acting on the basis of the Charter



7 March 2018

SB JSC "Bank Home Credit"
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

		2017	2016
	Note	KZT'000	KZT'000
Interest income	4	54,093,618	37,309,270
Interest expense	4	(15,100,538)	(11,407,161)
Net interest income		38,993,080	25,902,109
Fee and commission income	5	14,569,000	17,957,688
Fee and commission expense	6	(1,667,112)	(1,260,131)
Net fee and commission income		12,901,888	16,697,557
Net loss on financial instruments at fair value through profit or loss	7	(515,063)	(542,819)
Net foreign exchange (loss) gain	8	(166,115)	164,267
Other operating income		356,034	285,583
Operating income		51,569,824	42,506,697
Impairment recoveries (losses)	9	668,219	(1,004,264)
General administrative expenses	10	(24,522,592)	(19,792,756)
Profit before income tax		27,715,451	21,709,677
Income tax expense	11	(5,735,946)	(4,390,273)
Profit for the year		21,979,505	17,319,404
Other comprehensive income, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(33,922)	-
Other comprehensive income for the year, net of income tax		(33,922)	-
Total comprehensive income for the year		21,945,583	17,319,404
Earnings per share, in KZT (basic and diluted)	27	629,966	496,400

The financial statements as set out on pages 7 to 62 were signed by Management on 7 March 2018 by:


Narine Nadirova
Acting Chairman of the Board


Gaukhar Massangaliyeva
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

SB JSC “Bank Home Credit”
Statement of Financial Position as at 31 December 2017

	Note	2017 KZT'000	2016 KZT'000
ASSETS			
Cash and cash equivalents	12	14,211,027	16,428,817
Loans to customers	13	188,109,945	117,697,312
Financial assets available-for-sale	14		
- Pledged under sale and repurchase agreements		11,488,680	-
Financial instruments at fair value through profit or loss	18	145,635	-
Property, equipment and intangible assets	16	7,349,792	6,822,854
Other assets	17	3,723,593	2,420,361
Total assets		225,028,672	143,369,344
LIABILITIES			
Financial instruments at fair value through profit or loss	18	238,057	212,431
Deposits and balances from banks	19	35,368,377	20,276,333
Current accounts and deposits from customers			
- Current accounts and deposits from retail customers	20	62,309,097	39,389,258
- Current accounts and deposits from corporate customers	20	34,615,178	34,129,269
Debt securities issued	21	22,158,530	6,920,282
Other borrowed funds	22	14,911,830	-
Certificates of deposit	23	850,223	318,616
Other liabilities	24	9,446,036	5,937,345
Total liabilities		179,897,328	107,183,534
EQUITY			
Share capital	25	5,199,503	5,199,503
Retained earnings	25	39,965,763	30,986,307
Revaluation reserve for financial assets available-for-sale		(33,922)	-
Total equity		45,131,344	36,185,810
Total liabilities and equity		225,028,672	143,369,344
Book value per share, in KZT	26	1,171,393	916,989

SB JSC “Bank Home Credit”
Statement of Cash Flows for the year ended 31 December 2017

	2017	2016
	KZT'000	KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	56,738,291	35,948,336
Interest payments	(14,949,707)	(11,299,337)
Fee and commission receipts	14,619,328	17,522,131
Fee and commission payments	(1,705,382)	(1,208,193)
Net payments from financial instruments at fair value through profit or loss	(635,072)	(330,388)
Net receipts from foreign exchange	33,479	1,420,536
Other income receipts, net	356,034	285,583
General administrative expenses	(21,471,882)	(17,223,888)
Increase in operating assets		
Loans to customers	(69,817,734)	(18,817,366)
Financial assets available-for-sale	(11,822,926)	-
Other assets	(443,082)	(248,357)
Increase (decrease) in operating liabilities		
Current accounts and deposits from customers	23,412,084	28,920,564
Sale and repurchase agreements	11,083,833	-
Deposits and balances from banks	4,171,579	(4,110,269)
Certificates of deposit	494,900	314,600
Other liabilities	48,303	(144,994)
Net cash (used in) from operating activities before income tax paid	(9,887,954)	31,028,958
Income tax paid	(6,054,855)	(4,072,800)
Cash flows (used in) from operating activities	(15,942,809)	26,956,158
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(3,154,470)	(3,160,151)
Proceeds from sale of property and equipment	22,691	29,918
Cash flows used in investing activities	(3,131,779)	(3,130,233)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	14,881,203	-
Issue of debt securities	14,931,927	-
Redemption of debt securities	-	(7,000,000)
Dividends paid	(13,000,049)	(13,000,037)
Cash flows from (used in) financing activities	16,813,081	(20,000,037)
Net (decrease) increase in cash and cash equivalents	(2,261,507)	3,825,888
Effect of changes in exchange rates on cash and cash equivalents	43,717	(587,357)
Cash and cash equivalents as at the beginning of the year	16,428,817	13,190,286
Cash and cash equivalents as at the end of the year (note 12)	14,211,027	16,428,817

SB JSC “Bank Home Credit”
Statement of Changes in Equity for the year ended 31 December 2017

KZT'000	Share capital	Revaluation reserve for financial assets available-for-sale	Retained earnings	Total equity
Balance as at 1 January 2016	5,199,503	-	26,666,940	31,866,443
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	17,319,404	17,319,404
Transactions with owners, recorded directly in equity				
Dividends declared	-	-	(13,000,037)	(13,000,037)
Balance as at 31 December 2016	5,199,503	-	30,986,307	36,185,810
Balance as at 1 January 2017	5,199,503	-	30,986,307	36,185,810
Total comprehensive income				
Profit for the year	-	-	21,979,505	21,979,505
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Net change in fair value of available-for-sale financial assets, net of deferred tax assets/deferred tax liabilities	-	(33,922)	-	(33,922)
Total other comprehensive income	-	(33,922)	-	(33,922)
Total comprehensive income for the year	5,199,503	(33,922)	52,965,812	58,131,393
Transactions with owners, recorded directly in equity				
Dividends declared	-	-	(13,000,049)	(13,000,049)
Balance as at 31 December 2017	5,199,503	(33,922)	39,965,763	45,131,344

1 Reporting entity

(a) Organisation and operations

Private Bank FTD was established in 1993 and subsequently renamed to Bank Alma-Ata in December 1994. In December 1995, the Bank was re-registered as Open Joint Stock Company International Bank Alma-Ata. Due to a change in legislation, the Bank was re-registered as a joint stock company in November 2004. On 4 November 2008, International Bank Alma-Ata JSC was renamed to Home Credit Bank JSC. In January 2013 the Bank was acquired by Home Credit and Finance Bank incorporated in the Russian Federation, in this connection the Bank was renamed to Subsidiary Bank Joint Stock Company Home Credit and Finance Bank (short name SB JSC “Bank Home Credit”) on 4 April 2013.

The principal activities of the Bank are retail lending, deposit taking and customer accounts maintenance, issuing guarantees, cash and settlement operations and foreign exchange. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the “NBRK”). The Bank holds license #1.2.36/40 dated 11 January 2016 to carry out banking activity and activity on securities market.

The registered address of the Bank’s head office is 248, Nursultan Nazarbayev av., Almaty, Republic of Kazakhstan, 050059. As at 31 December 2017, the Bank had 17 branches and 41 bank offices (31 December 2016: 17 branches and 41 bank offices).

Debt securities issued by the Bank are listed on Kazakhstan Stock Exchange (KASE).

As at 31 December 2017 and 2016 the Bank was 100% owned by Home Credit and Finance Bank incorporated in the Russian Federation. The ultimate controlling owner of the Bank is Petr Kellner, who exercises control over Home Credit and Finance Bank through PPF Group N.V. registered in the Netherlands.

(b) Kazakhstan business environment

The Bank’s operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan, which display emerging market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. In addition, the depreciation of the Kazakhstan tenge which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment. The financial statements reflect the management’s assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Bank. The future business environment may differ from the management’s assessment.

2 Basis of accounting

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan Tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

2 Basis of accounting, continued

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- commission income from insurance – Notes 3(j) and 5;
- loan impairment estimates – Note 9 and Note 13.

(e) Changes in accounting policies

The Bank has adopted the following amendments to standards with a date of initial application of 1 January 2017:

Disclosure Initiative (Amendments to IAS 7). IAS 7 *Statement of Cash Flows* has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.

3 Significant accounting policies

The accounting policies set out below are applied by the Bank consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

3 Significant accounting policies, continued

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, mandatory reserve deposit with the NBRK, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) *Classification, continued*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) *Recognition*

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) *Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) *Amortised cost*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) *Fair value measurement principles*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in the transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) *Derecognition, continued*

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectable.

(viii) *Derivative financial instruments*

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, commodities and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) *Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

3 Significant accounting policies, continued

(d) Property and equipment, continued

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Computers	2-5 years
Vehicles	7 years
Leasehold improvements	7-10 years
Other assets	2-10 years.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 7 years.

(f) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loan is uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Non financial assets*

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

3 Significant accounting policies, continued

(g) Credit related commitments, continued

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

(h) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the year when they are declared.

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 Significant accounting policies, continued

(j) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Bank’s contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Bank does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Bank provides the agency service to the insurance company.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank), whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(l) Comparative information

Prior period reclassification

During the preparation of the Bank’s financial statements for the year ended 31 December 2017, management made certain reclassifications affecting the corresponding figures to conform to the presentation of the financial statements for the year ended 31 December 2017.

In the comparative information for the year ended 31 December 2016 in the statement of profit or loss and other comprehensive income other income from customers due to early repayment of loans in the amount of KZT 346,926 thousand was reclassified from other operating income to fee and commission income. Corresponding reclassification was also made in the comparative information in the statement of cash flows. Management believes that this presentation is more appropriate presentation in accordance with IFRS.

Following these amendments presentation of statement of profit or loss and statement of cash flows was changed as follows:

KZT'000	As reclassified	Effect of reclassifications	As previously reported
Statement of profit or loss for the year ended			
31 December 2016			
Other operating income, net	285,583	(346,926)	632,509
Fee and commission income	17,957,688	346,926	17,610,762
Statement of cash flows for the year ended			
31 December 2016			
Other income receipts, net	285,583	(346,926)	632,509
Fee and commission receipts	17,522,131	346,926	17,175,205

3 Significant accounting policies, continued

(l) Comparative information, continued

Prior period reclassification, continued

The above reclassifications do not impact the Bank’s results or equity.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2017 and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank’s operations. The Bank plans to adopt these pronouncements when they become effective. The Bank is in the process of analysing the likely impact on its financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2018)

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

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank’s equity at 1 January 2018 is approximately KZT 1,113,769 thousand, representing:

- a reduction of approximately KZT 1,372,561 thousand related to impairment requirements (see (ii));
- an increase of approximately KZT 258,792 thousand related to deferred tax impacts.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- the Bank is refining and finalizing its models for expected credit loss (ECL) calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalizes its first financial statements that include the date of initial application.

(i) *Classification – Financial assets*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

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

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(i) Classification – Financial assets, continued

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Bank will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

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

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

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(i) *Classification – Financial assets, continued*

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

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

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

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

All of the Bank’s retail loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- Loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9.

(ii) *Impairment – Financial assets, loan commitments and financial guarantee contracts*

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently, more timely information is required to be provided about expected credit losses.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(ii) *Impairment – Financial assets, loan commitments and financial guarantee contracts, continued*

Under IAS 39, an entity may only consider losses that arise from past events and current conditions. The effects of possible future credit loss events could not be considered, even when they were expected. IFRS 9 broadens the information that an entity may consider when determining its ECLs. Specifically, IFRS 9 allows an entity to base its measurement of ECLs on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

In accordance with IFRS 9, the Bank will recognise loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn and the cash flows that the Bank expects to receive from this commitment; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(ii) *Impairment – Financial assets, loan commitments and financial guarantee contracts, continued*

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when there is available information that:

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

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

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

Credit risk grades

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades and client's score will be primary inputs into the determination of the probability of default (PD) development for exposures. The Bank will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

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

This analysis is planned to include – where reasonable and supportable information is available – the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis consisting - based on availability and complexity - of the Bank's historical experience, expert credit assessment and forward-looking information.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(ii) *Impairment – Financial assets, loan commitments and financial guarantee contracts, continued*

Determining whether credit risk has increased significantly, continued

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment – subject to materiality threshold – has not been received.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining probability of default (PD) as at the reporting date; with
- the PD that was estimated on initial recognition of the exposure.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if the remaining lifetime PD is determined to have increased – since initial recognition – more than is defined for the respective exposure class.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards), the date when the facility was firstly used could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

The Bank will monitor the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines and settings.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified due to borrowers financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:

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

The Bank is planning to renegotiate loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Loan forbearance would be granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(ii) *Impairment – Financial assets, loan commitments and financial guarantee contracts, continued*

Modified financial assets, continued

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are – in general – the following variables:

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

These parameters will be derived – alone or together – from internally developed statistical models based on own historical data or derived from available market data.

For retail portfolio PD and EAD is usually estimated together using statistical models (stochastic Markov chain based model of simple Roll Rate model) based on internally compiled data. Where it is available, market data may also be used to derive the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

For retail credit card facilities that include both a loan and an undrawn commitment component, the Bank will measure ECLs over a period when the Bank's ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This period will be estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments shall be grouped on the basis of shared risk characteristics, such as product type.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information will be used to supplement the internally available data.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(ii) *Impairment – Financial assets, loan commitments and financial guarantee contracts, continued*

Forward-looking information

Under IFRS 9, the Bank plans to incorporate forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities.

The Bank plans – based on data availability and credibility of sources – using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers may include variables such as interest rates, unemployment rates, GDP forecasts and other.

(iii) *Classification – Financial liabilities*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

(iv) *Derecognition and contract modification*

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Bank expects an immaterial impact from adopting these new requirements.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted, continued

(v) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs.

(vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The determination of the business model within which a financial asset is held have to be made on the basis of the facts and circumstances that exist at the date of initial application.

If a debt investment security has low credit risk at 1 January 2018, then the Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in 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*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

4 Net interest income

	2017 KZT'000	2016 KZT'000
Interest income		
Loans to customers	53,133,092	35,882,843
Cash and cash equivalents	921,841	1,426,427
Financial assets available-for-sale	38,685	-
	54,093,618	37,309,270
Interest expense		
Current accounts and deposits from customers	10,707,008	5,902,264
Deposits and balances from banks	2,218,542	4,234,360
Debt securities issued	1,699,329	1,266,521
Sale and repurchase agreements	350,036	-
Certificates of deposit	95,071	4,016
Other borrowed funds	30,552	-
	15,100,538	11,407,161
	38,993,080	25,902,109

Included within various line items under interest income in 2017 is a total of KZT 1,152,801 thousand (2016: KZT 999,250 thousand) accrued on impaired loans to customers.

5 Fee and commission income

	2017	2016
	KZT'000	KZT'000
Commission income from insurance	9,907,197	12,039,838
Fees from retailers	2,113,138	2,966,357
Contractual penalties from customers	1,477,576	2,357,769
Cards' operations	122,664	118,589
Transfer operations	90,621	32,538
Cash withdrawal	2,112	2,603
Other	855,692	439,994
	14,569,000	17,957,688

6 Fee and commission expense

	2017	2016
	KZT'000	KZT'000
Commissions paid for verification services	628,757	415,180
Commissions paid to partners	608,521	574,140
Deposit insurance fund contributions	202,393	91,995
Card processing	158,692	87,690
Settlements	43,924	31,011
Other	24,825	60,115
	1,667,112	1,260,131

7 Net loss on financial instruments at fair value through profit or loss

For the year ended 31 December 2017 the Bank recognised net gain on financial instruments at fair value through profit or loss on short-term currency swap operations concluded on the Kazakhstan stock exchange in the amount of KZT 301,748 thousand (for the year ended 31 December 2016: net gain of KZT 732,606 thousand), and net loss on 1-year currency swap operations concluded with PPF Banka A.S. in the amount of KZT 816,811 thousand (Note 18) (for the year ended 31 December 2016: net loss on short-term swap operations concluded with Home Credit and Finance Bank equalled to KZT 1,057,994 thousand and net loss on long-term swap operations concluded with PPF Banka A.S. equalled to KZT 217,431 thousand).

8 Net foreign exchange (loss) gain

	2017	2016
	KZT'000	KZT'000
Translation differences, net	(181,643)	113,069
Dealing, net	15,528	51,198
	(166,115)	164,267

9 Impairment recoveries (losses)

	2017	2016
	KZT'000	KZT'000
Loans to customers	905,308	(772,819)
Other assets	(237,089)	(231,445)
	668,219	(1,004,264)

10 General administrative expenses

	2017	2016
	KZT'000	KZT'000
Employee compensation and payroll related taxes	12,880,998	10,240,847
Depreciation and amortisation	2,408,825	1,953,998
Information technology	2,016,656	1,384,704
Occupancy	1,168,892	1,043,776
Telecommunication and postage	1,164,832	770,546
Professional services	1,134,287	726,166
Collectors' services	1,090,090	1,100,940
Advertising and marketing	890,809	1,078,026
Taxes other than income tax	793,220	701,417
Travel expenses	317,169	239,842
Other	656,814	552,494
	24,522,592	19,792,756

11 Income tax expense

	2017	2016
	KZT'000	KZT'000
Current tax expense		
Current year tax expense	6,124,181	4,961,070
Current tax expense overprovided in prior years	(54,073)	(216,239)
	6,070,108	4,744,831
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	(334,162)	(354,558)
Total income tax expense	5,735,946	4,390,273

In 2017, the applicable tax rate for current and deferred tax was 20% (2016: 20%).

Reconciliation of effective tax rate:

	2017		2016	
	KZT'000	%	KZT'000	%
Profit before income tax	27,715,451		21,709,677	
Income tax at the applicable tax rate	5,543,090	20.0	4,341,935	20.0
Non-deductible costs	246,929	0.9	264,577	1.2
Overprovided in prior years	(54,073)	(0.2)	(216,239)	(1.0)
	5,735,946	20.7	4,390,273	20.2

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax assets as at 31 December 2017 and 31 December 2016. These deferred tax assets are recognised in these financial statements.

11 Income tax expense, continued

Deferred tax asset and liability, continued

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences in 2017 and 2016 are presented below.

2017 KZT'000	Balance 1 January 2017	Recognised in profit or loss	Balance 31 December 2017
Property, equipment and intangible assets	(374,379)	(37,113)	(411,492)
Other assets	(115,866)	(151,907)	(267,773)
Financial instruments at fair value through profit or loss	42,486	(16,893)	25,593
Deposits and balances from banks	156,575	(80,199)	76,376
Other liabilities	490,532	620,274	1,110,806
	199,348	334,162	533,510

2016 KZT'000	Balance 1 January 2016	Recognised in profit or loss	Balance 31 December 2016
Property, equipment and intangible assets	(290,997)	(83,382)	(374,379)
Other assets	(99,597)	(16,269)	(115,866)
Financial instruments at fair value through profit or loss	-	42,486	42,486
Deposits and balances from banks	6,160	150,415	156,575
Other liabilities	229,224	261,308	490,532
	(155,210)	354,558	199,348

12 Cash and cash equivalents

	2017 KZT'000	2016 KZT'000
Cash on hand	4,486,752	3,850,221
Nostro accounts with the NBRK	5,274,332	465,487
Nostro accounts with other banks		
- rated from A- to A+	1,865,287	-
- rated from BBB- to BBB+	-	561,490
- rated from BB- to BB+	85,528	68,977
- rated below B+	97,278	75,298
Cash equivalents		
Term deposits with the NBRK with original maturities of less than three months	2,401,850	10,406,356
Term deposits with other banks with original maturities of less than three months		
- rated B	-	1,000,988
	14,211,027	16,428,817

The credit ratings are presented by reference to the credit ratings of Standard and Poor's credit rating agency or analogues of similar international agencies.

No cash and cash equivalents were impaired or past due.

As at 31 December 2017 the Bank had exposure towards one banking counterparty (31 December 2016: one banking counterparty) exceeding 10% of the Bank's equity with the gross value of KZT 7,676,182 thousand (31 December 2016: KZT 10,871,843 thousand).

12 Cash and cash equivalents, continued

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements. As at 31 December 2017, the minimum reserve is KZT 1,802,515 thousand (31 December 2016: KZT 792,733 thousand).

13 Loans to customers

	2017 KZT'000	2016 KZT'000
Loans to individuals		
Cash loans	105,048,786	73,549,504
POS loans	79,681,855	44,948,116
Credit cards	10,415,922	5,997,194
Total loans to individuals	195,146,563	124,494,814
Impairment allowance	(7,036,618)	(6,797,502)
Net loans to individuals	188,109,945	117,697,312

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2017 are as follows:

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the year	4,071,398	2,479,704	246,400	6,797,502
Net (reversals)/charge	(3,274,772)	2,063,605	305,859	(905,308)
Net write-offs	2,349,369	(989,152)	(215,793)	1,144,424
Balance at the end of the year	3,145,995	3,554,157	336,466	7,036,618

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 are as follows:

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the year	8,015,372	3,096,131	131,832	11,243,335
Net (reversals)/charge	(738,287)	1,294,859	216,247	772,819
Net write-offs	(3,205,687)	(1,911,286)	(101,679)	(5,218,652)
Balance at the end of the year	4,071,398	2,479,704	246,400	6,797,502

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2017:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to individuals				
- not overdue	180,989,818	(895,525)	180,094,293	0.49
- overdue less than 90 days	6,893,179	(1,768,053)	5,125,126	25.65
- overdue 90-360 days	7,263,566	(4,373,040)	2,890,526	60.21
Total loans to individuals	195,146,563	(7,036,618)	188,109,945	3.61

13 Loans to customers, continued

(a) Credit quality of loans to customers, continued

The following table provides information on the credit quality of the loans to customers as at 31 December 2016:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to individuals				
- not overdue	112,384,312	(787,558)	111,596,754	0.70
- overdue less than 90 days	5,615,726	(1,768,196)	3,847,530	31.49
- overdue 90-360 days	6,494,776	(4,241,748)	2,253,028	65.31
Total loans to individuals	124,494,814	(6,797,502)	117,697,312	5.46

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 31 December 2017 total impairment allowance to non-performing loans is 97% (31 December 2016: 105%).

Loans overdue 360 days are written off.

(b) Key assumptions and judgments for estimating loan impairment

The Bank estimates the impairment on loans to customers in accordance with the accounting policy as described in Note 3(f)(i). The key assumptions used in estimating impairment losses for the current year are as follows:

- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past twelve months;
- unsecured loans which borrowers are unable to repay in full can be partially recovered through further collection actions for 23%-28% of the loan's outstanding principal balances.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment allowance on loans to customers as at 31 December 2017 would be KZT 1,881,099 thousand lower/higher (31 December 2016: KZT 1,176,973 thousand).

(c) Loan collateral

The recoverability of loans is primarily dependent on the creditworthiness of the borrowers. Loans to customers are not secured.

(d) Significant credit exposures

As at 31 December 2017, the Bank had no borrowers whose loan balances exceed 10% of the Bank's equity (31 December 2016: none).

(e) Loan maturities

The maturity of the loan portfolio is presented in note 27(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Financial assets available-for-sale

	31 December 2017 KZT'000	31 December 2016 KZT'000
Pledged under sale and repurchase agreements		
US government treasury discount bonds	11,488,680	-
	11,488,680	-

15 Transfers of financial assets

(a) Transferred financial assets that are not derecognised in their entirety

2017 KZT'000	Financial assets available-for-sale
Carrying amount of assets	11,488,680
Carrying amount of associated liabilities	11,433,870
2016 KZT'000	Financial assets available-for-sale
Carrying amount of assets	-
Carrying amount of associated liabilities	-

Securities

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Securities lending agreements are transactions in which the Bank lends securities for a fee and receives cash as a collateral.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Bank, but the counterparty has an obligation to return the securities when the contract matures. The Bank has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in note 14. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in deposits and balances from banks (note 23). Because the Bank sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

16 Property, equipment and intangible assets

KZT'000	Land and buildings	Computers	Vehicles	Leasehold improvements	Other fixed assets	Intangible assets	Equipment and software for installation	Total
Cost								
Balance at 1 January 2017	489,410	1,742,074	245,033	963,432	908,727	6,658,424	156,596	11,163,696
Additions	500	102,541	14,830	123,287	127,771	1,606,674	1,004,065	2,979,668
Disposals	-	(138,738)	(27,690)	(50,569)	(61,879)	-	(7,852)	(286,728)
Transfers	-	637,853	18,800	63,725	427,035	2,888	(1,150,301)	-
At 31 December 2017	489,910	2,343,730	250,973	1,099,875	1,401,654	8,267,986	2,508	13,856,636
Depreciation and amortisation								
Balance at 1 January 2017	(30,440)	(1,006,779)	(68,827)	(392,568)	(375,854)	(2,466,374)	-	(4,340,842)
Depreciation and amortisation for the year	(9,398)	(436,390)	(37,217)	(191,930)	(193,716)	(1,540,174)	-	(2,408,825)
Disposals	-	135,707	14,870	47,253	44,993	-	-	242,823
Balance at 31 December 2017	(39,838)	(1,307,462)	(91,174)	(537,245)	(524,577)	(4,006,548)	-	(6,506,844)
Carrying amounts at 31 December 2017	450,072	1,036,268	159,799	562,630	877,077	4,261,438	2,508	7,349,792
Cost								
Balance at 1 January 2016	489,410	1,587,737	174,488	750,232	857,695	4,664,967	156,734	8,681,263
Additions	-	-	-	39,347	9,205	653,631	2,425,509	3,127,692
Disposals	-	(132,473)	(40,780)	(163,858)	(93,238)	(199,298)	(15,612)	(645,259)
Transfers	-	286,810	111,325	337,711	135,065	1,539,124	(2,410,035)	-
At 31 December 2016	489,410	1,742,074	245,033	963,432	908,727	6,658,424	156,596	11,163,696
Depreciation and amortisation								
Balance at 1 January 2016	(21,050)	(762,895)	(73,142)	(256,870)	(278,043)	(1,408,847)	-	(2,800,847)
Depreciation and amortisation for the year	(9,390)	(372,050)	(27,260)	(135,709)	(155,520)	(1,254,069)	-	(1,953,998)
Disposals	-	128,166	31,575	11	57,709	196,542	-	414,003
Balance at 31 December 2016	(30,440)	(1,006,779)	(68,827)	(392,568)	(375,854)	(2,466,374)	-	(4,340,842)
Carrying amounts at 31 December 2016	458,970	735,295	176,206	570,864	532,873	4,192,050	156,596	6,822,854

There were no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2017 (2016: nil).

17 Other assets

	2017	2016
	KZT'000	KZT'000
Receivables from retailer fees	1,990,300	1,490,585
Loans and advances to banks	762	1,737
Total other financial assets	1,991,062	1,492,322
Deferred tax asset	533,510	199,348
Prepayments	500,328	434,240
Inventory	289,792	208,333
Receivables from employees	69,006	79,215
Prepayment of taxes other than income tax	14,498	14,090
Other	363,593	21,865
Impairment allowance	(38,196)	(29,052)
Total other non-financial assets	1,732,531	928,039
Total other assets	3,723,593	2,420,361

Analysis of movements in the impairment allowance

Movements in the impairment allowance for other assets for the year ended 31 December are as follows:

	2017	2016
	KZT'000	KZT'000
Balance at the beginning of the year	29,052	3,236
Net charge	237,089	231,445
Net write-offs	(227,945)	(205,629)
Balance at the end of the year	38,196	29,052

As at 31 December 2017 the Bank had gross overdue receivables of KZT 52,098 thousand (31 December 2016: KZT 32,098 thousand) included in other assets.

18 Financial instruments at fair value through profit or loss

As at 31 December 2017 and 2016, the resultant unrealised gains and losses on unmatured contracts, together with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate, as follows:

2017						
Type of instrument	Notional amount	Maturity	Payments to be made by the Bank	Payments to be received by the Bank	Fair value assets, KZT'000	Counter-party
Foreign currency swap	GBP 13,000,000	07/06/2018	EUR 14,951,121 at maturity	GBP 13,000,000 at maturity KZT 5,922,300 thousand at maturity	95,584	PPF Banka a.s.
Foreign currency swap	KZT 5,922,300 thousand	30/10/2018	EUR 15,000,000 at maturity	thousand at maturity	50,051	PPF Banka a.s.
Total					145,635	

18 Financial instruments at fair value through profit or loss, continued

2017						
Type of instrument	Notional amount	Maturity	Payments to be made by the Bank	Payments to be received by the Bank	Fair value liability, KZT'000	Counter-party
Foreign currency swap	KZT 3,329,000 thousand	17/08/2018	USD 10,000,000 at maturity	KZT 3,329,000 thousand at maturity	(64,174)	PPF Banka a.s.
Foreign currency swap	KZT 3,329,000 thousand	24/08/2018	USD 10,000,000 at maturity	KZT 3,329,000 thousand at maturity	(42,797)	PPF Banka a.s.
Foreign currency swap	KZT 3,357,500 thousand	19/09/2018	USD 10,000,000 at maturity	KZT 3,357,500 thousand at maturity	(47,857)	PPF Banka a.s.
Foreign currency swap	EUR 15,000,000	30/10/2018	USD 17,730,000 at maturity	EUR 15,000,000 at maturity	(19,074)	PPF Banka a.s.
Foreign currency swap	KZT 3,925,000 thousand	05/03/2018	EUR 10,000,000 at maturity	KZT 3,925,000 thousand at maturity	(7,825)	PPF Banka a.s.
Foreign currency swap	KZT 5,866,250 thousand	07/06/2018	GBP 13,000,000 at maturity	KZT 5,866,250 thousand at maturity	(56,330)	PPF Banka a.s.
			KZT 7,465,553 thousand			
Foreign currency swap	USD 22,500,000	31/12/2017	at maturity	USD 22,500,000 at maturity	-	Kazakhstan Stock Exchange
Total					(238,057)	

2016						
Type of instrument	Notional amount	Maturity	Payments to be made by the Bank	Payments to be received by the Bank	Fair value liability, KZT'000	Counter-party
Foreign currency swap	USD 20,000,000	19/09/2017	KZT 7,677,000 thousand at maturity	USD 20,000,000 at maturity	212,431	PPF Banka a.s.

19 Deposits and balances from banks

	2017 KZT'000	2016 KZT'000
Vostro accounts	66,513	2,802
Term deposits	23,867,994	20,273,531
Sale and repurchase agreements	11,433,870	-
	35,368,377	20,276,333

As at 31 December 2017 the Bank had two counterparties whose balances exceeded 10% of the Bank's equity (31 December 2016: had no counterparties). As at 31 December 2017 these balances amounted to KZT 18,152,540 thousand.

As at 31 December 2017 amounts payable under sale and repurchase agreements were secured by available-for-sale financial assets with fair value equal KZT 11,488,680 thousands (Note 14). These transactions are conducted under terms that are usual and customary to standard lending activities.

20 Current accounts and deposits from customers

	2017 KZT'000	2016 KZT'000
Corporate		
- Current accounts	414,616	1,104,082
- Term deposits	34,200,562	33,025,187
Current accounts and deposits from corporate customers	34,615,178	34,129,269
Retail		
- Current accounts	9,901,327	7,182,385
- Term deposits	52,407,770	32,206,873
Current accounts and deposits from retail customers	62,309,097	39,389,258
	96,924,275	73,518,527

As at 31 December 2017, the Bank had no customers, whose balances exceeded 10% of the Bank's equity (as at 31 December 2016: one customer whose balances amounted to KZT 5,231,356 thousand).

21 Debt securities issued

	Maturity	Coupon rate, %	2017 KZT'000	2016 KZT'000
Unsecured KZT denominated bonds of the 1 st issue program 2*	February 2019	9.5	6,962,759	6,920,282
Unsecured KZT denominated bonds of the 3 rd issue program 2*	October 2019	12.5	5,074,373	-
Unsecured KZT denominated bonds of the 2 nd issue program 2*	May 2020	15.0	10,121,398	-
			22,158,530	6,920,282

* Quoted on the Kazakhstan Stock Exchange

22 Other borrowed funds

	Issue date	Maturity date	Currency	Weighted-average effective interest rate, %	2017 KZT'000	2016 KZT'000
Other borrowed funds						
Unsecured loans	various tranches issued in the period of 29/12/2017-04/12/2017	various tranches maturing in the period of 29/12/2018-05/03/2018	KZT	12.2	4,930,416	-
Unsecured loans	12/12/2017	07/06/2018	EUR	4.0	9,981,414	-
					14,911,830	-

22 Other borrowed funds, continued

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities

KZT'000	Liabilities		Total
	Other borrowed funds	Debt securities issued	
Restated balance at 1 January 2017	-	6,920,282	6,920,282
Changes from financing cash flows			
Proceeds from other borrowed funds	14,905,750	-	14,905,750
Repayment of other borrowed funds	-	-	-
Proceeds from debt securities	-	14,931,927	14,931,927
Transaction costs related to other borrowed funds and debt securities	(24,547)	-	(24,547)
Total changes from financing cash flows	14,881,203	14,931,927	29,813,130
The effect of changes in foreign exchange rates	75	-	75
Other changes			
Interest expense	30,552	1,699,329	1,750,714
Interest paid	-	(1,393,008)	(1,393,008)
Balance at 31 December 2017	14,911,830	22,158,530	37,070,360

23 Certificates of deposit

During the year ended 31 December 2017 the Bank issued to individuals unsecured 1-year bank certificates of deposit with a total nominal value of KZT 809,500 thousand, which bear a fixed rate of 16% per annum paid at maturity (31 December 2016: 1-year bank certificates of deposit with a total nominal value of KZT 314,600 thousand, which bear a fixed rate of 18% per annum paid at maturity).

24 Other liabilities

	2017 KZT'000	2016 KZT'000
Payables to partners	5,317,766	2,627,539
Payables for services	1,098,690	869,901
Total other financial liabilities	6,416,456	3,497,440
Payables to employees	1,344,158	1,042,822
Vacation reserve	760,924	542,809
Current tax liability	613,323	598,070
Taxes payable other than income tax	278,756	245,232
Other non-financial liabilities	32,419	10,972
Total other non-financial liabilities	3,029,580	2,439,905
Total other liabilities	9,446,036	5,937,345

Payables to partners represent the Bank's liabilities to organisations which either sell the goods on bank credit or deliver financial means to the Bank's customers.

25 Equity

(a) Issued capital

As at 31 December 2017 the authorised share capital comprised 160,240 ordinary shares (31 December 2016: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2016: 34,890 ordinary shares). The shares do not have nominal value.

(b) Dividends

In accordance with Kazakhstan legislation the distributable dividend amount is limited to the balance of retained earnings including net profit for the year as recorded in the Bank’s statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Bank’s insolvency. Under Kazakhstan legislation, as at the reporting date, reserves available for distribution amounted to KZT 39,965,763 thousand (31 December 2016: KZT 30,986,307 thousand).

At the reporting date, the following dividends were declared and paid as follows:

	2017 KZT’000	2016 KZT’000
KZT 372,601 per ordinary share (2016: KZT 372,600.7)	13,000,049	13,000,037

(c) Statutory reserve capital

In accordance with Resolution of the NBRK #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank should establish a dynamic reserve calculated using a formula determined in the Resolution, and the value should not be less than zero.

In 2014, the dynamic reserve was temporarily fixed by the NBRK on the level recognised at 31 December 2013. As at 31 December 2017 and 2016 the non-distributable dynamic reserve is nil.

26 Book value per share

The calculation of book value per share as at 31 December 2017 is based on the number of outstanding ordinary shares of 34,890 (31 December 2016: 34,890) and net assets calculated in accordance with the Listing rules of Kazakhstan Stock Exchange as follows:

	2017 KZT’000	2016 KZT’000
Total assets	225,028,672	143,369,344
Intangible assets	(4,261,438)	(4,192,050)
Total liabilities	(179, 897,328)	(107,183,534)
Net assets	40,869,906	31,993,760

The following table shows the book value per share calculations as at 31 December 2017 and 31 December 2016:

	2017	2016
Net assets, KZT’000	40,869,906	31,993,760
Outstanding number of ordinary shares at the end of the year, share	34,890	34,890
Book value per share, in KZT	1,171,393	916,989

27 Earnings per share

The calculation of basic earnings per share as at 31 December 2017 is based on the net profit for the year attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	<u>2017</u>	<u>2016</u>
Net profit attributable to ordinary shareholders, KZT'000	21,979,505	17,319,404
Weighted average number of ordinary shares	<u>34,890</u>	<u>34,890</u>
Earnings per share, in KZT	<u>629,966</u>	<u>496,400</u>

There are no potentially dilutive shares for the year ended 31 December 2017 or 31 December 2016.

28 Analysis by segment

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 Segment Reporting. The Bank's assets are concentrated in the Republic of Kazakhstan, and the Bank's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Bank, the Chairman, only receives and reviews the information on the Bank as a whole.

29 Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

The Bank's Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Bank's Management Board is responsible for monitoring and implementing risk mitigation measures and ensuring that the Bank operates within the established risk parameters. The Chief Risk Officer (CRO) is responsible for the overall risk management, ensuring, together with the Head of Legal and Head of Compliance, the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The CRO reports directly to the Chairman of the Board and indirectly to the Board of Directors.

Credit, market and liquidity risks at the portfolio and transactional levels are under control of the Credit Committee, and an Assets and Liabilities Management Committee (ALCO).

Decisions made throughout the organisation take into account both external and internal risk factors, particularly, determination of assurance level over the current risk mitigation procedures. Apart from the standard credit and market risks, general risks management system of the Bank captures other risk frameworks related to liquidity, operational, IT, information security, compliance, equity and profitability risks which guarantee business continuity. All mentioned risk areas supported by internal control requirements fixed in each department within the organisation. Financial and non-financial risks are monitored through the regular meetings with operational units in order to obtain expert assessment in certain areas.

29 Risk management, continued

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk and interest rate risk. Market risk arises from volatile currency and interest rates together with adverse pricing of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

The Management Board is the authority for market risk control and strategy. Market risk limits such as open currency position volumes, currency gaps, net interest rate margins and spreads are under control of a Market risks unit reported to the local CRO. The Board of Directors approves market risk limits based on the recommendations of the Market risks unit.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The instruments used by the Bank for liquidity attraction purposes are swap contracts, which may have highly volatile rates in the market during stressed periods. All the other instruments are considered as fixed, in terms of their interest rates, which in fact keep financial position under low sensibility to market fluctuations. Net interest margin and interest rate spreads are controlled by the ALCO under early warning settings to timely impact the pricing strategies.

Interest rate gap analysis

The Management Board controls interest rate gaps and approves appropriate limits for negative gap volumes in order to maintain the proper balance between interest earning and bearing financial instruments. A summary of the interest gap position for major interest-bearing financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2017					
Interest-earning financial assets					
Cash and cash equivalents	2,401,850	-	-	-	2,401,850
Loans to customers	46,099,636	35,500,648	49,139,291	57,370,370	188,109,945
Financial assets available-for-sale	-	-	11,488,680	-	11,488,680
Other financial assets	-	-	762	-	762
	48,501,486	35,500,648	60,628,733	57,370,370	202,001,237
Interest-bearing financial liabilities					
Deposits and balances from banks	14,917,369	5,980,788	14,470,220	-	35,368,377
Term deposits from customers	19,936,047	10,676,742	38,476,977	17,518,566	86,608,332
Debt securities issued	248,272	274,306	-	21,635,952	22,158,530
Other borrowed funds	3,994,689	5,986,724	4,930,417	-	14,911,830
Certificates of deposit	148,166	97,171	604,886	-	850,223
	39,244,543	23,015,731	58,482,500	39,154,518	159,897,292
Net position as at 31 December 2017	9,256,943	12,484,917	2,146,233	18,215,852	42,103,945

29 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2016					
Interest-earning financial assets					
Cash and cash equivalents	11,407,344	-	-	-	11,407,344
Loans to customers	33,306,028	22,524,794	30,405,675	31,460,815	117,697,312
Other financial assets	-	-	1,737	-	1,737
	44,713,372	22,524,794	30,407,412	31,460,815	129,106,393
Interest-bearing financial liabilities					
Deposits and balances from banks	5,505,542	2,641,595	10,626,394	1,500,000	20,273,531
Term deposits from customers	11,307,299	4,561,578	34,439,908	14,923,275	65,232,060
Debt securities issued	248,272	-	-	6,672,010	6,920,282
Certificates of deposit	83	-	318,533	-	318,616
	17,061,196	7,203,173	45,384,835	23,095,285	92,744,489
Net position as at 31 December 2016	27,652,176	15,321,621	(14,977,423)	8,365,530	36,361,904

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2017 and 31 December 2016 is as follows:

	2017 KZT'000	2016 KZT'000
100 bp parallel fall	(131,516)	(160,367)
100 bp parallel rise	131,516	160,367

29 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS			
Cash and cash equivalents	2,706,277	75,875	2,782,152
Financial assets available-for-sale	11,488,680	-	11,488,680
Other financial assets	2,600	179,744	182,344
Total assets	14,197,557	255,619	14,453,176
LIABILITIES			
Deposits and balances from banks	15,760,279	-	15,760,279
Current accounts and deposits from customers	6,849,554	123,889	6,973,443
Other borrowed funds	-	9,981,414	9,981,414
Other financial liabilities	69,556	194,717	264,273
Total liabilities	22,679,389	10,300,020	32,979,409
Net position	(8,481,832)	(10,044,401)	(18,526,233)
Effect of derivatives held for risk management	8,509,310	9,895,819	18,405,129
Net position after derivatives held for risk management purposes	27,478	(148,582)	(121,104)

29 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the currency structure of financial assets and liabilities as at 31 December 2016:

	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS			
Cash and cash equivalents	2,661,791	100,980	2,762,771
Other financial assets	35,435	152,180	187,615
Total assets	2,697,226	253,160	2,950,386
LIABILITIES			
Deposits and balances from banks	4,344,086	-	4,344,086
Current accounts and deposits from customers	5,048,243	84,910	5,133,153
Other financial liabilities	-	163,868	163,868
Total liabilities	9,392,329	248,778	9,641,107
Net position	(6,695,103)	4,382	(6,690,721)
Effect of derivatives held for risk management	6,665,800	-	6,665,800
Net position after derivatives held for risk management purposes	(29,303)	4,382	(24,921)

Other currencies are mainly represented by EUR.

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2017 and 31 December 2016 would have reduced equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting year. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017 KZT'000	2016 KZT'000
20% appreciation of USD against KZT	4,396	(4,688)
20% appreciation of other currencies against KZT	(23,773)	701

A strengthening of the KZT against the above currencies at 31 December 2017 and 31 December 2016 would have had the equal but opposite effect on equity and profit or loss by the amounts shown above, on the basis that all other variables remained constant.

29 Risk management, continued

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan applications
- methodology for the credit assessment of borrowers (retail)
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The Portfolio reporting unit develops scoring models and data verification procedures for credit approval purposes.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2017	2016
	KZT'000	KZT'000
ASSETS		
Cash and cash equivalents	9,724,275	12,578,596
Loans to customers	188,109,945	117,697,312
Financial instruments at fair value through profit or loss	145,635	-
Financial assets available-for-sale	11,488,680	-
Other financial assets	1,991,062	1,492,322
Total maximum exposure	211,459,597	131,768,230

For the analysis of the concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 29.

29 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk of inability to deliver cash or trade financial asset in order to meet contractual obligations. Liquidity risk exists when the maturities of assets and liabilities do not match or when financial assets lose their trading options.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term deposits from other banks, core corporate and retail customer deposits and debt securities issued, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Financial markets unit receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Financial markets unit provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of swap agreements, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Market Risks Unit. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management.

29 Risk management, continued

(d) Liquidity risk, continued

The following tables show undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their remaining contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

As at 31 December 2017 KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	4,850,964	10,145,020	6,181,364	15,722,308	-	36,899,656	35,368,377
Current accounts and deposits from customers	17,152,119	15,498,184	12,560,185	41,193,286	18,298,764	104,702,538	96,924,275
Debt securities issued	-	321,503	1,058,334	1,399,976	24,859,690	27,639,503	22,158,530
Other borrowed funds	-	4,022,565	6,090,928	5,537,672	-	15,651,165	14,911,830
Certificates of deposit	28,536	122,496	103,588	684,400	-	939,020	850,223
Other financial liabilities	5,526,642	820,303	69,467	-	44	6,416,456	6,416,456
Derivative liabilities							
Net settled derivatives	11,872	-	-	1,742,547	-	1,754,419	238,057
<i>Gross settled derivatives</i>							
- Inflow	(7,465,553)	-	-	(37,687,933)	-	(45,153,486)	-
- Outflow	7,477,425	-	-	39,430,480	-	46,907,905	-
Total financial liabilities	27,570,133	30,930,071	26,063,866	66,280,189	43,158,498	194,002,757	176,867,748
Credit related commitments	13,866,137	-	-	-	-	13,866,137	13,866,137

29 Risk management, continued

(d) Liquidity risk, continued

As at 31 December 2016 KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	5,516,452	-	2,818,800	12,049,933	1,817,342	22,202,527	20,276,333
Current accounts and deposits from customers	11,241,905	10,551,558	6,355,336	36,912,703	16,176,509	81,238,011	73,518,527
Debt securities issued	-	323,290	-	323,290	7,652,596	8,299,176	6,920,282
Certificates of deposit	83	-	-	371,960	-	372,043	318,616
Other financial liabilities	854,339	2,643,101	-	-	-	3,497,440	3,497,440
Derivative liabilities							
Net settled derivatives	-	-	-	1,011,200	-	1,011,200	212,431
<i>Gross settled derivatives</i>							
- Inflow	-	-	-	(6,665,800)	-	(6,665,800)	-
- Outflow	-	-	-	7,677,000	-	7,677,000	-
Total financial liabilities	17,612,779	13,517,949	9,174,136	50,669,086	25,646,447	116,620,397	104,743,629
Credit related commitments	5,090,131	-	-	-	-	5,090,131	5,090,131

In accordance with the Kazakhstan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The breakdown of the carrying amount of such deposits, by each time band, is as follows:

	2017 KZT'000	2016 KZT'000
Demand and less than 1 month	5,958,942	2,175,091
From 1 to 3 months	13,977,105	9,132,208
From 3 to 6 months	10,676,742	4,561,578
From 6 to 12 months	38,476,977	34,439,908
More than 1 year	17,518,566	14,923,275
	86,608,332	65,232,060

29 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2017:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Assets							
Cash and cash equivalents	14,211,027	-	-	-	-	-	14,211,027
Loans to customers	9,525,580	28,558,404	84,639,939	57,370,370	-	8,015,652	188,109,945
Financial assets available-for-sale	-	-	11,488,680	-	-	-	11,488,680
Financial instruments at fair value through profit or loss			145,635				145,635
Property, equipment and intangible assets	-	-	-	-	7,349,792	-	7,349,792
Other assets	2,382,025	-	497,927	829,739	-	13,902	3,723,593
Total assets	26,118,632	28,558,404	96,772,181	58,200,109	7,349,792	8,029,554	225,028,672
Liabilities							
Financial instruments at fair value through profit or loss	-	-	238,057	-	-	-	238,057
Deposits and balances from banks	4,834,061	10,083,308	20,451,008	-	-	-	35,368,377
Current accounts and deposits from customers	16,274,885	13,977,105	49,153,719	17,518,566	-	-	96,924,275
Debt securities issued	-	248,272	274,306	21,635,952	-	-	22,158,530
Other borrowed funds	-	3,994,689	10,917,141	-	-	-	14,911,830
Certificates of deposit	28,718	119,448	702,057	-	-	-	850,223
Other liabilities	6,435,060	1,688,757	830,391	491,828	-	-	9,446,036
Total liabilities	27,572,724	30,111,579	82,566,679	39,646,346	-	-	179,897,328
Net position	(1,454,092)	(1,553,175)	14,205,502	18,553,763	7,349,792	8,029,554	45,131,344

29 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2016:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Assets							
Cash and cash equivalents	16,428,817	-	-	-	-	-	16,428,817
Loans to customers	12,175,368	18,396,619	52,930,469	31,460,815	-	2,734,041	117,697,312
Property, equipment and intangible assets	-	-	-	-	6,822,854	-	6,822,854
Other assets	1,143,414	437,005	445,231	394,711	-	-	2,420,361
Total assets	29,747,599	18,833,624	53,375,700	31,855,526	6,822,854	2,734,041	143,369,344
Liabilities							
Financial instruments at fair value through profit or loss	-	-	212,431	-	-	-	212,431
Deposits and balances from banks	5,508,344	-	13,267,989	1,500,000	-	-	20,276,333
Current accounts and deposits from customers	10,461,558	9,132,208	39,001,486	14,923,275	-	-	73,518,527
Debt securities issued	-	248,272	-	6,672,010	-	-	6,920,282
Certificates of deposit	83	-	318,533	-	-	-	318,616
Other liabilities	1,897,161	3,486,403	553,781	-	-	-	5,937,345
Total liabilities	17,867,146	12,866,883	53,354,220	23,095,285	-	-	107,183,534
Net position	11,880,453	5,966,741	21,480	8,760,241	6,822,854	2,734,041	36,185,810

30 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBRK the Bank has to maintain: a ratio of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2017, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk was 0.055 (31 December 2016: 0.050) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 0.080 (31 December 2016: 0.075). The Bank was in compliance with the statutory capital requirements as at 31 December 2017 and 31 December 2016.

The following table shows the composition of the capital position calculated in accordance with the requirements of the NBRK:

	2017 KZT'000	2016 KZT'000
Tier 1 capital		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	17,986,258	13,666,903
Profit for the period	21,979,505	17,319,404
Intangible assets	(4,261,438)	(4,192,050)
Revaluation reserve for financial assets available-for-sale	(33,922)	-
Total tier 1 capital	40,869,906	31,993,760
Total tier 2 capital	-	-
Total capital	40,869,906	31,993,760
Total credit risk-weighted assets	279,422,608	137,995,557
Total credit risk-weighted assets and liabilities, including market and operational risk	317,410,247	168,457,058
Total capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)	0.129	0.190
Total tier 1 capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)	0.129	0.190

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

31 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced.

	2017	2016
	KZT'000	KZT'000
Contracted amount		
Loan and credit line commitments	13,866,137	5,090,131
	13,866,137	5,090,131

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2017 the Bank had no counterparties whose commitment balances exceeded 10% of the Bank's equity (31 December 2016: none).

32 Operating leases

The Bank leases a number of premises under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Usually lease agreements are concluded on the terms that allow the Bank to cancel the lease at any time during the lease term. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2017 KZT 1,019,038 thousand was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2016: KZT 934,329 thousand).

As at 31 December 2017 the Bank reported KZT 1,671 thousand of prepayments included in the balance of other assets serving as security deposits in case of an early termination of lease agreements (31 December 2016: KZT 1,386 thousand).

33 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

33 Contingencies, continued

(c) Taxation contingencies

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

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

34 Related party transactions

(a) Control relationships

The Bank's parent company is Home Credit and Finance Bank (Russia). The Bank's ultimate controlling owner is Petr Kellner. Publicly available financial statements are produced by the Bank's parent company.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the year ended 31 December 2017 and 31 December 2016 was as follows:

	2017 KZT'000	2016 KZT'000
Members of the Board of Directors	362,577	267,922
Members of the Management Board	450,528	481,202
	813,105	749,124

The outstanding balances and average interest rates as at 31 December 2017 and 31 December 2016 for balances with members of the Board of Directors and the Management Board were as follows:

	2017 KZT'000	Average interest rate, %	2016 KZT'000	Average interest rate, %
Statement of financial position				
LIABILITIES				
Current accounts and deposits from customers	49,864	2.73	218,250	1.92

34 Related party transactions, continued

(b) Transactions with the members of the Board of Directors and the Management Board, continued

Total amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for 2017 and 2016 were as follows:

	2017 KZT'000	2016 KZT'000
Statement of profit or loss and other comprehensive income		
Interest expense	(1,813)	(1,083)
	(1,813)	(1,083)

(c) Transactions with the parent

As at 31 December 2017 and 31 December 2016 balances with the parent included in the statement of financial position were as follows:

	2017 KZT'000	Average interest rate, %	2016 KZT'000	Average interest rate, %
Statement of financial position				
ASSETS				
Cash and cash equivalents				
-In USD	120	-	120	-
-In EUR	126	-	112	-
-In RUB	42	-	40	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	10	-	-	-
-In USD	6,718,660	3.50	333	-

During 2017 and 2016 transactions with the parent included in the statement of profit or loss and other comprehensive income were as follows:

	2017 KZT'000	2016 KZT'000
Statement of profit or loss and other comprehensive income		
Interest expense		
Deposits and balances from banks		
-In KZT	-	(2,544,637)
-In USD	(75,434)	-
	(75,434)	(2,544,637)
Net foreign exchange income		
-In USD	14,829	-
	14,829	-
Net loss on financial instruments at fair value through profit or loss		
-In USD	-	(1,057,994)
	-	(1,057,994)

34 Related party transactions, continued

(d) Transactions with entities controlled by the ultimate controlling owner

As at 31 December 2017 and 31 December 2016 balances with entities controlled by the ultimate controlling owner included in the statement of financial position were as follows:

	2017 KZT'000	Average interest rate, %	2016 KZT'000	Average interest rate, %
Statement of financial position				
ASSETS				
Property, equipment and intangible assets*				
-In KZT	3,234,154	-	2,892,291	-
Financial instruments at fair value through profit or loss				
-In EUR	145,635	-	-	-
Other assets				
-In EUR	140,423	-	-	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	66,170	-	560,359	7.47
Other borrowed funds				
-In EUR	9,981,414	4.0	-	-
Current accounts and deposits from customers				
-In KZT	-	-	658,318	-
Financial instruments at fair value through profit or loss				
-In USD/GBP/EUR	238,057	-	212,431	-
Other financial liabilities				
-In EUR	681,748	-	132,862	-

*During 2017, the Bank purchased software licenses from the related party for the total amount of KZT 1,193,435 thousand (2016: KZT 1,477,603 thousand). These expenses were recognized as intangible assets.

34 Related party transactions, continued

(d) Transactions with entities controlled by the ultimate controlling owner, continued

During 2017 and 2016 transactions with entities controlled by the ultimate controlling owner included in the statement of profit or loss and other comprehensive income were as follows:

	2017	2016
	KZT'000	KZT'000
Statement of profit or loss and other comprehensive income		
Interest income		
Cash and cash equivalents		
-In USD	-	48,575
	-	48,575
Interest expense		
Other borrowed funds		
-In EUR	(25,385)	-
	(25,385)	-
Deposits and balances from banks		
-In KZT	(11,223)	(82,025)
	(11,223)	(82,025)
Current accounts and deposits from customers		
-In KZT	-	(8,948)
	-	(8,948)
Net loss on financial instruments at fair value through profit or loss		
-In USD	(816,811)	(217,431)
	(816,811)	(217,431)
General administrative expenses		
General administrative expenses	(3,270,443)	(2,311,642)
	(3,270,443)	(2,311,642)

35 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

KZT'000	Held for trading	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	9,724,275	-	9,724,275	9,724,275
Loans to customers	-	188,109,945	-	188,109,945	188,109,945
Financial assets available-for-sale	11,488,680	-	-	11,488,680	11,488,680
Financial instruments at fair value through profit or loss	145,635	-	-	145,635	145,635
Other financial assets	-	1,991,062	-	1,991,062	1,991,062
	11, 634,315	199,825,282	-	211,459,597	211,459,597
Financial instruments at fair value through profit or loss	238,057	-	-	238,057	238,057
Deposits and balances from banks	-	-	35,368,377	35,368,377	36,103,231
Current accounts and deposits from customers	-	-	96,924,275	96,924,275	99,391,653
Debt securities issued	-	-	22,158,530	22,158,530	22,383,242
Other borrowed funds	-	-	14,911,830	14,911,830	15,560,676
Certificates of deposit	-	-	850,223	850,223	850,223
Other financial liabilities	-	-	6,416,456	6,416,456	6,416,456
	238,057	-	176,629,691	176, 867,748	180,943,538

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

KZT'000	Held for trading	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	12,578,596	-	12,578,596	12,578,596
Loans to customers	-	117,697,312	-	117,697,312	117,697,312
Other financial assets	-	1,492,322	-	1,492,322	1,492,322
	-	131,768,230	-	131,768,230	131,768,230
Financial instruments at fair value through profit or loss	212,431	-	-	212,431	212,431
Deposits and balances from banks	-	-	20,276,333	20,276,333	21,120,783
Current accounts and deposits from customers	-	-	73,518,527	73,518,527	76,578,502
Debt securities issued	-	-	6,920,282	6,920,282	6,737,587
Certificates of deposit	-	-	318,616	318,616	318,616
Other financial liabilities	-	-	3,497,440	3,497,440	3,497,440
	212,431	-	104,531,198	104,743,629	108,465,359

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of assets or transfer of liabilities.

35 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank has a control framework with respect to the measurement of fair values. This framework includes a Financial markets unit function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- a review and approval process for new models and changes to models involving both quarterly calibration and the back testing of models against observed market transactions
- analysis and investigation of significant daily valuation movements
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 2 instruments compared to previous month, by the Financial markets unit

35 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Financial markets unit assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- understanding how the fair value has arrived at and the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes

Significant valuation issues are reported to the Management Board.

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	2017 KZT'000	2016 KZT'000
	Level 1	
Financial assets available-for-sale		
- Pledged under sale and repurchase agreements	11,488,680	-
	11,488,680	-
	Level 2	
Financial instruments at fair value through profit or loss		
- Derivative assets	145,635	-
	145,635	-
- Derivative liabilities	238,057	212,431
	238,057	212,431

35 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

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

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	9,724,275	-	9,724,275	9,724,275
Loans to customers	180,094,293	8,015,652	188,109,945	188,109,945
Other financial assets	1,991,062	-	1,991,062	1,991,062
Liabilities				
Deposits and balances from banks	36,103,231	-	36,103,231	35,368,377
Current accounts and deposits from customers	99,391,653	-	99,391,653	96,924,275
Debt securities issued	22,383,242	-	22,383,242	22,158,530
Other borrowed funds	15,560,676	-	15,560,676	14,911,831
Certificates of deposit	850,223	-	850,223	850,223
Other financial liabilities	6,416,456	-	6,416,456	6,416,456

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2016:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	12,578,596	-	12,578,596	12,578,596
Loans to customers	111,596,754	6,100,558	117,697,312	117,697,312
Other financial assets	1,492,322	-	1,492,322	1,492,322
Liabilities				
Deposits and balances from banks	21,120,783	-	21,120,783	20,276,333
Current accounts and deposits from customers	76,578,502	-	76,578,502	73,518,527
Debt securities issued	6,737,587	-	6,737,587	6,920,282
Certificates of deposit	318,616	-	318,616	318,616
Other financial liabilities	3,497,440	-	3,497,440	3,497,440