

SB JSC “Bank Home Credit”

Interim Condensed
Financial Information
for the six-month period
ended 30 June 2018

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Independent Auditors' Report on Review of Interim Condensed Financial Information

To the Board of Directors of SB JSC "Bank Home Credit"

Introduction

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

Scope of Review

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

Conclusion

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

Assel Urdabayeva
Authorised representative (Partner)

KPMG Audit LLC

Almaty, Republic of Kazakhstan

28 August 2018

SB JSC "Bank Home Credit"
Interim Condensed Statement of Profit or Loss and Other Comprehensive Income
for the six-month period ended 30 June 2018

		Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 * KZT'000
	Note		
Interest income calculated using the effective interest method	6	33,438,609	24,460,513
Interest expense	6	(9,987,354)	(6,954,617)
Net interest income		23,451,255	17,505,896
Fee and commission income	7	7,157,092	7,081,582
Fee and commission expense	8	(813,211)	(766,796)
Net fee and commission income		6,343,881	6,314,786
Net loss on financial instruments at fair value through profit or loss	9	(1,089,341)	(778,117)
Net foreign exchange gain		421,247	213,220
Other operating income, net		208,104	174,313
Operating income		29,335,146	23,430,098
Impairment (losses)/recoveries on loans to customers		(1,143,102)	1,067,567
Other impairment losses on other assets		(198,399)	(79,596)
General administrative expenses	10	(14,306,009)	(10,555,438)
Profit before income tax		13,687,636	13,862,631
Income tax expense	11	(2,859,945)	(2,931,735)
Profit and total comprehensive income for the period		10,827,691	10,930,896
Other comprehensive income, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve (debt instruments):			
- Net change in fair value		17,526	-
Other comprehensive income for the period, net of income tax		17,526	-
Total comprehensive income for the period		10,845,217	10,930,896
Earnings per share, in KZT	20	310,338	313,296

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The interim condensed financial information as set out on pages 4 to 44 was approved by the Management on 28 August 2018 and was signed on its behalf by:



Marina Nadirova
Acting Chairman of the Board

Gaukhar Massangaliyeva
 Chief Accountant

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

SB JSC “Bank Home Credit”
Interim Condensed Statement of Financial Position as at 30 June 2018

	Note	Unaudited 30 June 2018 KZT'000	31 December 2017* KZT'000
ASSETS			
Cash and cash equivalents	12	33,681,864	14,211,027
Placements with banks and other financial institutions		605,126	-
Loans to customers	13	211,840,223	188,109,945
Financial assets at fair value through other comprehensive income:			
- Pledged under sale and repurchase agreements		11,884,655	-
Financial assets available-for-sale:			
- Pledged under sale and repurchase agreements		-	11,488,680
Financial instruments at fair value through profit or loss	14	278,424	145,635
Property, equipment and intangible assets		7,587,207	7,349,792
Other assets		4,159,713	3,723,593
Total assets		270,037,212	225,028,672
LIABILITIES			
Financial instruments at fair value through profit or loss	14	902,268	238,057
Deposits and balances from banks	15	30,899,406	35,368,377
Current accounts and deposits from customers	16		
- Current accounts and deposits from retail customers		77,800,692	62,309,097
- Current accounts and deposits from corporate customers		49,055,755	34,615,178
Debt securities issued		22,199,779	22,158,530
Other borrowed funds	17	26,090,689	14,911,830
Certificates of deposit		1,436,525	850,223
Other liabilities		6,789,306	9,446,036
Total liabilities		215,174,420	179,897,328
EQUITY			
Share capital	18	5,199,503	5,199,503
Retained earnings	18	49,679,685	39,965,763
Fair value reserve		(16,396)	(33,922)
Total equity		54,862,792	45,131,344
Total liabilities and equity		270,037,212	225,028,672
Book value per share, in KZT	19	1,444,599	1,171,393

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

SB JSC “Bank Home Credit”
Interim Condensed Statement of Cash Flows for the six-month period ended 30 June 2018

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017* KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	32,463,602	24,931,971
Interest payments	(9,453,994)	(6,157,473)
Fee and commission receipts	7,281,706	6,393,924
Fee and commission payments	(721,815)	(755,772)
Net (payments)/receipts from financial instruments at fair value through profit or loss	(557,919)	57,621
Net receipts/(payments) from foreign exchange transactions	761,383	(273,639)
Other income receipts, net	208,104	174,313
General administrative expenses	(11,959,790)	(9,588,775)
(Increase)/decrease in operating assets		
Loans and advances to banks	762	61
Loans to customers	(28,518,269)	(16,511,226)
Placements with banks and other financial institutions	(605,126)	-
Financial assets at fair value through other comprehensive income	(757,498)	-
Other assets	(317,744)	(96,909)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	(5,029,854)	(6,442,308)
Current accounts and deposits from customers	29,963,614	11,219,004
Certificates of deposit	547,900	196,100
Other liabilities	367,541	175,499
Net cash flows from operations before income tax paid	13,672,603	3,322,391
Income tax paid	(3,325,524)	(3,019,019)
Cash flows from operating activities	10,347,079	303,372
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(2,099,629)	(1,771,282)
Proceeds from sale of property and equipment	4,158	8,169
Cash flows used in investing activities	(2,095,471)	(1,763,113)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	11,203,484	-
Receipts from the debt securities issue	-	10,000,000
Dividends paid	-	(9,000,015)
Cash flows from financing activities	11,203,484	999,985
Net increase/(decrease) in cash and cash equivalents	19,455,092	(459,756)
Effect of changes in exchange rates on cash and cash equivalents	15,745	(20,837)
Cash and cash equivalents as at the beginning of the period	14,211,027	16,428,817
Cash and cash equivalents as at the end of the period (Note 12)	33,681,864	15,948,224

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

SB JSC “Bank Home Credit”
Interim Condensed Statement of Changes in Equity for the six-month period ended 30 June 2018

KZT'000	Share capital	Fair value reserve	Retained earnings	Total equity
Balance as at 1 January 2017	5,199,503	-	30,986,307	36,185,810
Profit and total comprehensive income for the period (unaudited)	-	-	10,930,896	10,930,896
Dividends paid (unaudited)	-	-	(9,000,015)	(9,000,015)
Balance as at 30 June 2017 (unaudited)	5,199,503	-	32,917,188	38,116,691
Balance as at 1 January 2018*	5,199,503	(33,922)	39,965,763	45,131,344
Impact of adopting IFRS 9 as at 1 January 2018 (unaudited)	-	-	(1,113,769)	(1,113,769)
Restated balance as at 1 January 2018 (unaudited)	5,199,503	(33,922)	38,851,994	44,017,575
Total comprehensive income (unaudited)				
Profit for the period (unaudited)	-	-	10,827,691	10,827,691
Other comprehensive income (unaudited)				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Net change in fair value of financial assets at fair value through other comprehensive income, net of deferred tax assets/deferred tax liabilities (unaudited)	-	17,526	-	17,526
Total other comprehensive income (unaudited)	-	17,526	-	17,526
Total comprehensive income for the period (unaudited)	-	(17,526)	10,827,691	10,845,217
Balance as at 30 June 2018 (unaudited)	5,199,503	(16,396)	49,679,685	54,862,792

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

1 Background

(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 30 June 2018, the Bank had 17 branches and 41 bank offices (31 December 2017: 17 branches and 41 bank offices).

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

As at 30 June 2018 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 the Republic of Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of the Republic of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Kazakhstan. The interim condensed financial information reflect management’s assessment of the impact of the Republic of Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from the management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These interim condensed financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Bank since the last annual financial statements as at and for the year ended 31 December 2017. These interim condensed financial information does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). This is the first set of the Bank’s financial statements where IFRS 9 have been applied. Changes to significant accounting policies are described in Notes 2(e) and 3.

(b) Basis of measurement

The interim condensed financial information is prepared on the historical cost basis except that financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets available-for-sale are stated at fair value.

2 Basis of preparation, continued

(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 this interim condensed financial information. Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

In preparing this interim condensed financial information, management has made judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Bank’s accounting policies are the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017, except for the areas described below.

Assumptions and estimations uncertainty

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

- impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL – Note 4.

(e) Changes in accounting policies and presentation

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*’.

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

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

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Bank’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(b)(i).

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

Classification of financial assets and financial liabilities, continued

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

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

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 3(b)(i).

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(b)(iv).

Transition

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

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the six-month period ended 30 June 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the six-month period ended 30 June 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.
- For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

3 Significant accounting policies

The accounting policies applied by the Bank in this interim condensed financial information are the same as those applied in the last annual financial statements, except as explained below, related to the Bank’s adoption of IFRS 9 (Note 2(e)), which is applicable from 1 January 2018.

(a) Interest

Effective interest rate

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

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

3 Significant accounting policies, continued

(a) Interest, continued

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see (b) (iv).

Presentation

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

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

(b) Financial assets and financial liabilities

(i) Classification

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

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

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

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(i) Classification, continued

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the 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.

Business model assessment

The Bank made 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

(b) Financial assets and financial liabilities, continued

(i) Classification, 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 considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- 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.

Reclassification

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

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised separately as asset or liability.

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in (b)(i).

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iii) Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

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

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

Financial liabilities

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

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

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

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

Financial liabilities, continued

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

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

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

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

See also Note 4.

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

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

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and are 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.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Impairment – financial assets, loan commitments and financial guarantee contracts, continued

Measurement of ECLs, continued

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (b)(iii)) and ECLs are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.
- The country’s ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as ‘lender of last resort’ to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Impairment – financial assets, loan commitments and financial guarantee contracts, continued

Measurement of ECLs, continued

Presentation of allowance for ECL in the interim condensed statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the interim condensed statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

(c) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(d) Loans to customers

'Loans to customers' caption in the condensed statement of financial position include loans to customers measured at amortised cost (see b(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(e) Standards issued but not yet adopted

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

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

4 Financial risk review

This note presents information about the Bank’s exposure to financial risks. For information on the Bank’s financial risk management framework, see Note 21.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(b)(iv).

Significant increase in credit risk

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 considers 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.

The Bank primarily identifies 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 deems 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 monitors 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.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses 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 is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades and client’s score are primary inputs into the determination of the probability of default (PD) development for exposures. The Bank collects 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 employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes – 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 rates.

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Determining whether credit risk has increased significantly

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

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

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

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 in accordance with the accounting policy set out in Note 3(b)(iii).

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 renegotiates 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.

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.

Definition of default

The Bank considers a financial asset to be in default when:

- 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 past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Definition of default, continued

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

Incorporating of forward-looking information

The Bank incorporates 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 uses – based on data availability and credibility of sources – 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.

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 are 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 measures 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 is 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 and credit risk gradings (past due grading).

The groupings is 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 is used to supplement the internally available data.

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Inputs into measurement of ECLs, continued

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure at 30 June 2018 KZT'000	External benchmarks used	
		PD	LGD
Cash and cash equivalents	33,681,864		For local bank exposures
Placements with banks and other financial institutions	605,126	Moody's default study	LGD statistics is based on
Financial assets at fair value through other comprehensive income	11,884,655		recovery of defaults of banks and financial institutions in Kazakhstan / Moody's
Other financial assets	2,159,630		recovery studies

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments as at 30 June 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(b)(iv).

KZT'000	30 June 2018 (unaudited)			Total
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	
Cash and cash equivalents				
National Bank of the Republic of Kazakhstan	5,239,031	-	-	5,239,031
Cash on hand	4,022,975	-	-	4,022,975
Nostro accounts with other banks:				
rated from BBB- to BBB+	24,166,430	-	-	24,166,430
rated from BB- to BB+	253,428	-	-	253,428
	33,681,864	-	-	33,681,864
Loss allowance	-	-	-	-
Carrying amount	33,681,864	-	-	33,681,864
Financial assets at fair value through other comprehensive income				
Rated AA+	11,901,575	-	-	11,901,575
Loss allowance	-	-	-	-
Gross carrying amount	11,901,575	-	-	11,901,575
Carrying amount – fair value	11,884,655	-	-	11,884,655
Placements with banks				
Rated BBB-	605,126	-	-	605,126
Loss allowance	-	-	-	-
Carrying amount	605,126	-	-	605,126
Loans to customers at amortised cost:				
Cash loans				
Not overdue	99,215,225	15,565,869	-	114,781,094
Overdue less than 30 days	1,323,301	2,131,722	-	3,455,023
Overdue 30-89 days	-	1,739,675	-	1,739,675
Overdue 90-179 days	-	-	1,818,591	1,818,591
Overdue 180-360 days	-	-	2,159,940	2,159,940
	100,538,526	19,437,266	3,978,531	123,954,323
Loss allowance	(1,245,560)	(963,198)	(2,121,383)	(4,330,141)
Carrying amount	99,292,966	18,474,068	1,857,148	119,624,182

4 Financial risk review, continued

Credit quality analysis, continued

KZT'000	30 June 2018 (unaudited)			Total
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	
<i>POS loans</i>				
Not overdue	72,850,328	3,057,132	-	75,907,460
Overdue less than 30 days	1,408,686	643,218	-	2,051,904
Overdue 30-89 days	-	1,601,480	-	1,601,480
Overdue 90-179 days	-	-	1,867,847	1,867,847
Overdue 180-360 days	-	-	2,058,339	2,058,339
	74,259,014	5,301,830	3,926,186	83,487,030
Loss allowance	(1,549,743)	(742,114)	(2,355,416)	(4,647,273)
Carrying amount	72,709,271	4,559,716	1,570,770	78,839,757
<i>Credit cards</i>				
Not overdue	12,632,067	137,861	-	12,769,928
Overdue less than 30 days	257,301	22,214	-	279,515
Overdue 30-89 days	-	185,261	-	185,261
Overdue 90-179 days	-	-	189,113	189,113
Overdue 180-360 days	-	-	261,989	261,989
	12,889,368	345,336	451,102	13,685,806
Loss allowance	(42,357)	(44,868)	(222,297)	(309,522)
Carrying amount	12,847,011	300,468	228,805	13,376,284
<i>Other financial assets</i>				
Not overdue	1,742,727	-	-	1,742,727
Overdue less than 30 days	415,280	-	-	415,280
Overdue more than 30 days	-	977	646	1,623
	2,158,007	977	646	2,159,630
Loss allowance	-	-	-	-
Carrying amount	2,158,007	977	646	2,159,630

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank’s financial assets and financial liabilities as at 1 January 2018.

KZT’000	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
Financial assets							
Cash and cash equivalents	12	Loans and receivables	Amortised cost	14,211,027	-	-	14,211,027
Loans to customers	13	Loans and receivables	Amortised cost	188,109,945	-	(1,293,960)	186,815,985
Financial assets available-for-sale		Available for sale	FVOCI (debt instruments)	11,488,680	(11,488,680)	-	-
Financial assets at fair value through other comprehensive income		Available for sale	FVOCI (debt instruments)	-	11,488,680	-	11,488,680
Financial instruments at fair value through profit or loss	14	FVTPL	(mandatory)	145,635	-	-	145,635
Other financial assets		Loans and receivables	Amortised cost	1,991,062	-	-	1,991,062
Total financial assets				216,720,043	-	(1,293,960)	215,426,083
Financial liabilities							
Financial instruments at fair value through profit or loss	14	FVTPL	(mandatory)	238,057	-	-	238,057
Deposits and balances from banks	15	Amortised cost	Amortised cost	35,368,377			35,368,377
Current accounts and deposits from customers	16	Amortised cost	Amortised cost	96,924,275	-	-	96,924,275
Debt securities issued		Amortised cost	Amortised cost	22,158,530	-	-	22,158,530
Other borrowed funds	17	Amortised cost	Amortised cost	14,911,830	-	-	14,911,830
Certificates of deposit		Amortised cost	Amortised cost	850,223	-	-	850,223
Other financial liabilities		Amortised cost	Amortised cost	6,416,456	-	-	6,416,456
Total financial liabilities				176,867,748	-	-	176,867,748

5 Transition to IFRS 9, continued

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9, continued

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings:

KZT'000	Impact of adopting IFRS 9 at 1 January 2018
Retained earnings:	
Closing balance under IAS 39 (31 December 2017)	39,965,763
Recognition of expected credit losses under IFRS 9	(1,372,561)
Income tax effect	258,792
Opening balance under IFRS 9 (1 January 2018)	38,851,994

The following table reconciles:

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

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

KZT'000	Impairment allowance and provisions			
	31 December 2017 (IAS 39/ IAS 37)	Reclassi- fication	Remeasu- rement	1 January 2018 (IFRS 9)
Loans to customers under IAS 39 of financial assets at amortised cost under IFRS 9	(7,036,618)	-	(1,293,960)	(8,330,578)
Subtotal	(7,036,618)	-	(1,293,960)	(8,330,578)
Loan commitments	-	-	(78,601)	(78,601)
Subtotal	-	-	(78,601)	(78,601)
Total	(7,036,618)	-	(1,372,561)	(8,409,179)

6 Net interest income

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Interest income calculated using the effective interest method		
Loans to customers	32,979,597	23,884,046
Cash and cash equivalents	386,536	576,467
Financial assets at fair value through other comprehensive income	72,476	-
	33,438,609	24,460,513
Interest expense		
Current accounts and deposits from customers	6,669,977	5,235,429
Deposits and balances from banks	1,449,200	1,214,471
Debt securities issued	1,425,252	467,912
Other borrowed funds	373,486	-
Certificates of deposit	69,439	36,805
	9,987,354	6,954,617
	23,451,255	17,505,896

7 Fee and commission income

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Commission income from insurance	4,228,261	4,880,674
Fees from retailers	1,251,547	1,071,627
Contractual penalties from customers	919,094	642,200
Transfer operations	96,793	26,347
Card operations	76,495	58,421
Cash withdrawal	952	950
Other	583,950	401,363
	7,157,092	7,081,582

8 Fee and commission expense

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Commissions paid for verification services	339,307	259,741
Deposit insurance fund contributions	145,231	92,113
Commissions paid to partners	129,085	324,671
Card processing	117,845	67,146
Settlements	65,982	16,653
Other	15,761	6,472
	813,211	766,796

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

For the six-month period ended 30 June 2018 the Bank recognised net loss 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 56,541 thousand (six-month period ended 30 June 2017: net gain of KZT 57,621 thousand, unaudited), and net loss on 1-year currency swap operations concluded with PPF Bank a.s. in the amount of KZT 1,032,800 thousand (Note 14) (six-month period ended 30 June 2017: net loss on 1-year currency swap operations concluded with PPF Bank a.s. in the amount of KZT 835,738 thousand), unaudited.

10 General administrative expenses

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Employee compensation and payroll related taxes	7,415,159	5,592,107
Depreciation and amortisation	1,465,771	1,146,549
Information technology	963,852	815,872
Professional services	933,825	422,334
Telecommunication and postage	896,311	482,541
Occupancy	655,958	549,730
Taxes other than income tax	568,708	364,918
Collectors' services	495,924	566,809
Advertising and marketing	412,978	217,545
Travel expenses	161,241	155,534
Other	336,282	241,499
	14,306,009	10,555,438

11 Income tax expense

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Current tax expense		
Current tax expense	2,883,125	3,086,072
Current tax expense overprovided in prior periods	(170,924)	(21,847)
	2,712,201	3,064,225
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	147,744	(132,490)
Total income tax expense	2,859,945	2,931,735

11 Income tax expense, continued

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

Reconciliation of effective tax rate:

	Unaudited six-month period ended 30 June 2018 KZT'000	%	Unaudited six-month period ended 30 June 2017 KZT'000	%
Profit before income tax	13,687,636		13,862,631	
Income tax at the applicable tax rate	2,737,527	20.0	2,772,526	20.0
Non-deductible costs	293,342	2.1	181,056	1.3
Overprovided in prior periods	(170,924)	(1.2)	(21,847)	(0.2)
	2,859,945	20.9	2,931,735	21.1

12 Cash and cash equivalents

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Cash on hand	4,022,975	4,486,752
Nostro accounts with the NBRK	1,087,187	5,274,332
Nostro accounts with other banks		
- rated from A- to A+	-	1,865,287
- rated from BBB- to BBB+	24,166,430	-
- rated from BB- to BB+	253,428	85,528
- rated below B+	-	97,278
Cash equivalents		
Term deposits with the NBRK with original maturities of less than three months	4,151,844	2,401,850
	33,681,864	14,211,027

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 30 June 2018 the Bank had exposure towards one banking counterparty (31 December 2017: one banking counterparty) exceeding 10% of the Bank's equity with the gross value of KZT 24,034,974 thousand, unaudited (31 December 2017: KZT 7,676,182 thousand).

13 Loans to customers

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Loans to individuals		
Cash loans	123,954,323	105,048,786
POS loans	83,487,030	79,681,855
Credit cards	13,685,806	10,415,922
Total loans to individuals	221,127,159	195,146,563
Impairment allowance	(9,286,936)	(7,036,618)
Net loans to individuals	211,840,223	188,109,945

13 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers and by 3 ECL stages for the six-month period ended 30 June 2018, unaudited, were as follows:

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the period	3,145,995	3,554,157	336,466	7,036,618
Impact of adopting IFRS 9 as at 1 January 2018	598,228	780,137	(84,405)	1,293,960
Net (reversals)/charge	(300,936)	1,252,808	191,230	1,143,102
Net (write-offs)/recoveries	886,854	(939,829)	(133,769)	(186,744)
Balance at the end of the period	4,330,141	4,647,273	309,522	9,286,936

	Six-month period ended 30 June 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	KZT'000
Balance at the beginning of the period	1,331,015	1,332,563	4,373,040	7,036,618
Effect of initial application of IFRS 9	1,479,082	(61,559)	(123,563)	1,293,960
Net charge	29,822	488,636	624,644	1,143,102
Net write-offs	(2,259)	(9,460)	(175,025)	(186,744)
Balance at the end of the period	2,837,660	1,750,180	4,699,096	9,286,936

Comparative amounts for the six-month period ended 30 June 2017 reflect measurement basis under IAS 39. Movements in the loan impairment allowance by classes of loans to customers for the six-month period ended 30 June 2017, unaudited, were as follows:

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the period	4,071,398	2,479,704	246,400	6,797,502
Net (reversals)/charge	(2,019,306)	822,030	129,709	(1,067,567)
Net (write-offs)/recoveries	1,078,295	(420,752)	(110,734)	546,809
Balance at the end of the period	3,130,387	2,880,982	265,375	6,276,744

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 30 June 2018, unaudited:

	POS loans KZT'000	Cash loans KZT'000	Credit cards KZT'000	Total 30 June 2018 KZT'000
Collective ECL				
Gross amount - Stage 1 (12M ECL)	74,259,014	100,538,526	12,889,368	187,686,908
Gross amount - Stage 2 (LT ECL)	5,301,830	19,437,266	345,336	25,084,432
Gross amount - Stage 3 (LT ECL)	3,926,186	3,978,531	451,102	8,355,819
-Past due more than 90 days	3,926,186	3,978,531	451,102	8,355,819
Total gross amount	83,487,030	123,954,323	13,685,806	221,127,159
Allowance for impairment – Stage 1 (12M ECL)	(1,549,743)	(1,245,560)	(42,357)	(2,837,660)
Allowance for impairment – Stage 2 (LT ECL)	(742,114)	(963,198)	(44,868)	(1,750,180)
Allowance for impairment – Stage 3 (LT ECL)	(2,355,416)	(2,121,383)	(222,297)	(4,699,096)
Total carrying amount – collective ECL	(4,647,273)	(4,330,141)	(309,522)	(9,286,936)
Total carrying amount	78,839,757	119,624,182	13,376,284	211,840,223

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 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

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 30 June 2018 total impairment allowance to non-performing loans was 111% (31 December 2017: 97%).

Loans overdue for 360 days are written off. The recoverability of loans is primarily dependent on the creditworthiness of the borrowers. Loans to customers are not secured.

14 Financial instruments at fair value through profit or loss

As at 30 June 2018 and 31 December 2017, 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:

Type of instrument	Notional amount'000	Maturity	30 June 2018		Fair value assets, KZT'000	Counterparty
			Payments to be made by the Bank'000	Payments to be received by the Bank'000		
Foreign currency swap	GBP 13,000	07/12/2018	EUR 14,798 at maturity	GBP 13,000 at maturity	14,916	PPF Banka a.s.
Foreign currency swap	EUR 15,000	30/10/2018	USD 17,730 at maturity	EUR 15,000 at maturity	199,228	PPF Banka a.s.
Foreign currency swap	KZT 5,720,000	07/12/2018	GBP 13,000 at maturity	KZT 5,720,000 at maturity	64,280	PPF Banka a.s.
Total					278,424	

Type of instrument	Notional amount'000	Maturity	30 June 2018		Fair value liability, KZT'000	Counterparty
			Payments to be made by the Bank'000	Payments to be received by the Bank'000		
Foreign currency swap	KZT 3,329,000	17/08/2018	USD 10,000 at maturity	KZT 3,329,000 at maturity	(172,578)	PPF Banka a.s.
Foreign currency swap	KZT 3,329,000	24/08/2018	USD 10,000 at maturity	KZT 3,329,000 at maturity	(151,662)	PPF Banka a.s.
Foreign currency swap	KZT 3,357,500	19/09/2018	USD 10,000 at maturity	KZT 3,357,500 at maturity	(163,174)	PPF Banka a.s.
Foreign currency swap	KZT 5,922,300	30/10/2018	EUR 15,000 at maturity	KZT 5,922,300 at maturity	(389,545)	PPF Banka a.s.

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

30 June 2018						
Type of instrument	Notional amount'000	Maturity	Payments to be made by the Bank'000	Payments to be received by the Bank'000	Fair value liability, KZT'000	Counter-party
Foreign currency swap	EUR 2,800	16/07/2018	USD 3,310 at maturity	EUR 2,800 at maturity	(25,309)	PPF Banka a.s.
Foreign currency swap	USD 60,000	02/07/2018	KZT 20,463,600 at maturity	USD 60,000 at maturity	-	Kazakhstan Stock Exchange
Total					(902,268)	

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

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

15 Deposits and balances from banks

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Vostro accounts	78,464	66,513
Term deposits	18,704,416	23,867,994
Sale and repurchase agreements	12,116,526	11,433,870
	30,899,406	35,368,377

As at 30 June 2018 the Bank had two counterparties whose balances exceeded 10% of the Bank's equity (31 December 2017: two counterparties). As at 30 June 2018 these balances amounted to KZT 12,116,526 thousand (31 December 2017: KZT 18,152,540 thousand).

As at 30 June 2018 amounts payable under sale and repurchase agreements were secured by financial assets at fair value through other comprehensive income with fair value equal KZT 11,884,655 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 thousand). These transactions are conducted under terms that are usual and customary to standard lending activities.

16 Current accounts and deposits from customers

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Corporate		
- Current accounts	1,742,833	414,616
- Term deposits	47,312,922	34,200,562
Current accounts and deposits from corporate customers	49,055,755	34,615,178
Retail		
- Current accounts	10,759,989	9,901,327
- Term deposits	67,040,703	52,407,770
Current accounts and deposits from retail customers	77,800,692	62,309,097
	126,856,447	96,924,275

As at 30 June 2018 the Bank had no customers whose balances exceeded 10% of the Bank's equity, unaudited (31 December 2017: no customers).

17 Other borrowed funds

	Issue date	Maturity date	Currency	Weighted- average effective interest rate, %	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Other borrowed funds						
Unsecured loans	various tranches issued in the period of 29/12/2017	various tranches maturing in the period of 29/12/2018	KZT	12.2	4,939,382	4,930,416
Unsecured loans	28/06/2018	27/06/2019	USD	7.4	21,151,307	-
Unsecured loans	04/12/2017- 12/12/2017	05/03/2018- 07/06/2018*	EUR	4.0	-	9,981,414
					26,090,689	14,911,830

* Early repaid on 12.03.2018.

18 Equity

(a) Issued capital

As at 30 June 2018 the authorised share capital comprised 160,240 ordinary shares (31 December 2017: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2017: 34,890 ordinary shares). The shares do not have nominal value.

(b) Dividends

The amount of available for distribution reserves of the Bank is based on the actual values of the capital adequacy ratios of the bank k1, k1-2 and k2, taking into account the equity buffers, which must be at least equal to the capital adequacy ratios established by the legislation of the Republic of Kazakhstan, taking into account these equity buffers. In the event that the actual values of the Bank's capital ratios k1, k1-2 and k2 are not lower than those established by the legislation of the Republic of Kazakhstan, but any of these ratios is lower than the established values of capital adequacy ratios taking into account the equity buffers, then the use of retained earnings of the Bank is subject to a restriction according to the minimum amount of the restriction of undistributed net income in accordance with the legislation of the Republic of Kazakhstan, regarding the termination of payment of dividends and redemption of shares, except for cases stipulated by the law of the Republic of Kazakhstan "On Joint Stock Companies". As at the reporting date, reserves available for distribution amounted to KZT 9,935,936 thousand, unaudited (31 December 2017: KZT 7,993,153 thousand).

No dividends were declared and paid during the six-month period ended 30 June 2018 (six-month period ended 30 June 2017: KZT 9,000,015 thousand, KZT 257,954 per share).

19 Book value per share

The calculation of book value per share as at 30 June 2018 is based on number of outstanding ordinary shares of 34,890 (31 December 2017: 34,890) and net assets calculated in accordance with the Listing rules of Kazakhstan Stock Exchange as follows:

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Total assets	270,037,212	225,028,672
Intangible assets	(4,460,735)	(4,261,438)
Total liabilities	(215,174,420)	(179,897,328)
Net assets	50,402,057	40,869,906

The following table shows the book value per share calculations:

	Unaudited 30 June 2018	31 December 2017
Net assets, KZT'000	50,402,057	40,869,906
Outstanding number of ordinary shares at the end of the period	34,890	34,890
Book value per share, KZT	1,444,599	1,171,393

20 Earnings per share

The calculation of basic earnings per share for the six-month periods ended 30 June 2018 and 2017 is based on the net profit for the six-month period attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	Unaudited six-month period ended 30 June 2018	Unaudited six-month period ended 30 June 2017
Net profit attributable to ordinary shareholders, KZT'000	10,827,691	10,930,896
Weighted average number of ordinary shares	34,890	34,890
Earnings per share, KZT	310,338	313,296

There are no potentially dilutive shares for the six-month periods ended 30 June 2018 or 30 June 2017.

21 Risk management

Risk management is fundamental to the business of banking and is 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.

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.

For the analysis of the credit risk in respect of loans to customers refer to Notes 4 and 13.

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, interest rate risk and other price risks. 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.

No significant fluctuations in foreign currency exchange rates and/or interest rates took place from 31 December 2017, which is the date of the Bank's most recent financial statements.

21 Risk management, continued

Liquidity risk

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 flows on the financial liability or commitment.

As at 30 June 2018 KZT'000 (unaudited)	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	9,666,158	12,626,804	7,125,234	2,283,889	-	31,702,085	30,899,406
Current accounts and deposits from customers	17,973,957	15,904,007	37,907,647	44,488,698	19,931,271	136,205,580	126,856,447
Debt securities issued	-	321,503	1,074,306	8,128,470	16,772,470	26,296,749	22,199,779
Other borrowed funds	50,325	102,328	5,090,356	24,420,052	-	29,663,061	26,090,689
Certificates of deposit	115,884	70,180	531,280	857,240	-	1,574,584	1,436,525
Other financial liabilities	2,918,762	794,568	-	-	44	3,713,374	3,713,374
Derivative liabilities							
Net settled derivatives	(16,059)	-	1,235,523	-	-	1,219,464	902,268
<i>Gross settled derivatives</i>							
- Inflow	(20,480,859)	-	(35,142,230)	-	-	(55,623,089)	-
- Outflow	20,464,800	-	36,377,753	-	-	56,842,553	-
Total financial liabilities	30,709,027	29,819,390	52,964,346	80,178,349	36,703,785	230,374,897	212,098,488
Credit related commitments	18,657,833	-	-	-	-	18,657,833	18,657,833

21 Risk management, continued

Liquidity risk, continued

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

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

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Demand and less than 1 month	4,321,932	5,958,942
From 1 to 3 months	13,765,985	13,977,105
From 3 to 6 months	35,364,120	10,676,742
From 6 to 12 months	42,055,436	38,476,977
More than 1 year	18,846,152	17,518,566
	114,353,625	86,608,332

22 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 30 June 2018, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk was 0.055 (31 December 2017: 0.055) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 0.080 (31 December 2017: 0.080). The Bank was in compliance with the statutory capital requirements as at 30 June 2018, unaudited and 31 December 2017.

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

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Tier 1 capital		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	38,851,994	17,986,258
Profit for the period	10,827,691	21,979,505
Intangible assets	(4,460,735)	(4,261,438)
Fair value reserve	(16,396)	(33,922)
Total tier 1 capital	50,402,057	40,869,906
Total tier 2 capital	-	-
Total capital	50,402,057	40,869,906
Total credit risk-weighted assets	315,090,175	279,422,608
Total credit risk-weighted assets and liabilities, including market and operational risk	360,667,035	317,410,247
Ratio of total capital to credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)	0.140	0.129
Ratio of total tier 1 capital to credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)	0.140	0.129

23 Commitments

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

	Unaudited 30 June 2018 KZT'000	31 December 2017 KZT'000
Contracted amount		
Loan and credit line commitments	18,657,833	13,866,137
	18,657,833	13,866,137

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 30 June 2018 the Bank had no counterparties whose commitment balances exceeded 10% of the Bank's equity, unaudited (31 December 2017: none).

From 1 January 2018 the Bank calculates provisions in accordance with IFRS 9 on the undrawn credit limit on card products. As at 30 June 2018 the amount of provisions on the undrawn credit limit equalled to KZT 124,201 thousand, unaudited (1 January 2018: KZT 78,601 thousand).

24 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 the six-month period ended 30 June 2018 KZT 582,973 thousand was recognised as an expense in the interim condensed statement of profit or loss and other comprehensive income in respect of operating leases (six-month period ended 30 June 2017: KZT 489,478 thousand).

As at 30 June 2018 the Bank reported KZT 1,621 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 2017: KZT 1,671 thousand).

25 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. The Bank's parent company issues publicly available financial statements.

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

Total remuneration included in personnel expenses for the six-month periods ended 30 June 2018 and 2017 was as follows:

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Members of the Board of Directors	920,443	202,643
Members of the Management Board	234,766	235,121
	1,155,209	437,764

25 Related party transactions, continued

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

The outstanding balances and average interest rates as at 30 June 2018 and 31 December 2017 for transactions with members of the Board of Directors and the Management Board were as follows:

	Unaudited 30 June 2018 KZT'000	Average interest rate, %	31 December 2017 KZT'000	Average interest rate, %
Interim condensed statement of financial position				
LIABILITIES				
Current accounts and deposits from customers	29,527	1.34	49,864	2.73

Total amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for the six-month periods ended 30 June 2018 and 2017 were as follows:

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Interim condensed statement of profit or loss and other comprehensive income		
Interest expense	499	1,125
	499	1,125

(c) Transactions with the parent

As at 30 June 2018 and 31 December 2017 balances with the parent included in interim condensed statement of financial position were as follows:

	Unaudited 30 June 2018 KZT'000	Average interest rate, %	31 December 2017 KZT'000	Average interest rate, %
Interim condensed statement of financial position				
ASSETS				
Cash and cash equivalents				
-In USD	123	-	120	-
-In EUR	126	-	126	-
-In RUB	40	-	42	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	2	-	10	-
-In USD	341	-	6,718,660	3.5

25 Related party transactions, continued

(c) Transactions with the parent, continued

During the six-month periods ended 30 June 2018 and 2017 transactions with the parent included in the interim condensed statement of profit or loss and other comprehensive income were as follows:

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Interim condensed statement of profit or loss and other comprehensive income		
Interest expense		
Deposits and balances from banks		
- In USD	22,936	-
	22,936	-

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

As at 30 June 2018 and 31 December 2017 balances with entities controlled by the ultimate controlling owner included in the interim condensed statement of financial position were as follows:

	Unaudited 30 June 2018 KZT'000	Average interest rate, %	31 December 2017 KZT'000	Average interest rate, %
Interim condensed statement of financial position				
ASSETS				
Property, equipment and intangible assets*				
-In KZT	3,382,858	-	3,234,154	-
Financial instruments at fair value through profit or loss				
-In EUR	278,424	-	145,635	-
Other assets				
-In EUR	23,396	-	140,423	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	78,120	-	66,170	-
Other borrowed funds				
- In USD	21,151,307	7.4	-	-
-In EUR	-	-	9,981,414	4.0
Financial instruments at fair value through profit or loss				
-In USD/GBP/EUR	902,268	-	238,057	-
Other financial liabilities				
-In EUR	566,457	-	681,748	-

* During the six-month period ended 30 June 2018, the Bank purchased software licenses from the related party for the total amount of KZT 776,260 thousand (six-month period ended 30 June 2017: KZT 689,115 thousand), unaudited. These expenses were recognised as intangible assets.

25 Related party transactions, continued

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

During the six-month periods ended 30 June 2018 and 2017 transactions with entities controlled by the ultimate controlling owner included in the interim condensed statement of profit or loss and other comprehensive income were as follows:

	Unaudited six-month period ended 30 June 2018 KZT'000	Unaudited six-month period ended 30 June 2017 KZT'000
Interim condensed statement of profit or loss and other comprehensive income		
Interest expense		
Deposits and balances from banks		
-In KZT	-	11,223
	<u>-</u>	<u>11,223</u>
Other borrowed funds		
-In EUR	54,699	-
-In USD	8,700	-
	<u>63,399</u>	<u>-</u>
Net loss on financial instruments at fair value through profit or loss		
-In USD	1,032,800	835,738
	<u>1,032,800</u>	<u>835,738</u>
General administrative expenses		
General administrative expenses	<u>2,038,557</u>	<u>1,304,987</u>

26 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 30 June 2018, unaudited:

KZT'000	FVTPL	FVOCI	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	29,658,889	29,658,889	29,658,889
Placements with banks and other financial institutions	-	-	605,126	605,126	605,126
Loans to customers	-	-	211,840,223	211,840,223	211,840,223
Financial assets at fair value through other comprehensive income	-	11,884,655	-	11,884,655	11,884,655
Financial instruments at fair value through profit or loss	278,424	-	-	278,424	278,424
Other financial assets	-	-	2,159,630	2,159,630	2,159,630
	278,424	11,884,655	244,263,868	256,426,947	256,426,947
Financial instruments at fair value through profit or loss	902,268	-	-	902,268	902,268
Deposits and balances from banks	-	-	30,899,406	30,899,406	31,298,631
Current accounts and deposits from customers	-	-	126,856,447	126,856,447	131,144,541
Other borrowed funds	-	-	26,090,689	26,090,689	29,269,866
Debt securities issued	-	-	22,199,779	22,199,779	22,694,636
Certificates of deposit	-	-	1,436,525	1,436,525	1,436,525
Other financial liabilities	-	-	3,713,374	3,713,374	3,713,374
	902,268	-	211,196,220	212,098,488	220,459,841

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

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

(a) Accounting classifications and fair values, continued

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.

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 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 3 instruments compared to previous month, by the Financial markets unit.

26 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 at 30 June 2018, unaudited and 31 December 2017, 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:

	30 June 2018 KZT'000	31 December 2017 KZT'000
	Level 1	
Financial assets at fair value through other comprehensive income/financial assets available-for-sale		
- Pledged under sale and repurchase agreements	11,884,655	11,488,680
	11,884,655	11,488,680
	Level 2	
Financial instruments at fair value through profit or loss		
- Derivative assets	278,424	145,635
	278,424	145,635
- Derivative liabilities	902,268	238,057
	902,268	238,057

26 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 30 June 2018, unaudited:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	29,658,889	-	29,658,889	29,658,889
Placements with banks and other financial institutions	605,126	-	605,126	605,126
Loans to customers	200,384,233	11,455,990	211,840,223	211,840,223
Other financial assets	2,159,630	-	2,159,630	2,159,630
Liabilities				
Deposits and balances from banks	31,298,631	-	31,298,631	30,899,406
Current accounts and deposits from customers	131,144,541	-	131,144,541	126,856,447
Other borrowed funds	29,269,866	-	29,269,866	26,090,689
Debt securities issued	22,694,636	-	22,694,636	22,199,779
Certificates of deposit	1,436,525	-	1,436,525	1,436,525
Other financial liabilities	3,713,374	-	3,713,374	3,713,374

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	14,911,830
Certificates of deposit	850,223	-	850,223	850,223
Other financial liabilities	6,416,456	-	6,416,456	6,416,456

27 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 of the Board, only receives and reviews the information on the Bank as a whole.

28 Subsequent events

In July 2018 the Bank declared and paid out dividends in amount of KZT 5,000,002 thousand (KZT 143,308 per share) for the year ended 31 December 2017 in accordance with the decision of the Bank's sole shareholder.