

**SB JSC “Bank Home Credit”**

Interim Condensed  
Financial Information  
for the nine-month period  
ended 30 September 2018

## **Contents**

Interim Condensed Statement of Profit or Loss and Other Comprehensive Income	3
Interim Condensed Statement of Financial Position	4
Interim Condensed Statement of Cash Flows	5
Interim Condensed Statement of Changes in Equity	6
Notes to the Interim Condensed Financial Information	7-38

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

		Unaudited nine-month period ended 30 Sep 2018 KZT'000	Unaudited nine-month period ended 30 Sep 2017 KZT'000	Unaudited three-month period ended 30 Sep 2018 KZT'000	Unaudited three-month period ended 30 Sep 2017 KZT'000
	Note				
Interest income	6	52,844,691	38,373,853	19,406,082	13,913,340
Interest expense	6	(15,817,930)	(10,899,162)	(5,830,576)	(3,944,545)
<b>Net interest income</b>		<b>37,026,761</b>	<b>27,474,691</b>	<b>13,575,506</b>	<b>9,968,795</b>
Fee and commission income	7	12,060,245	11,070,083	4,903,153	3,988,501
Fee and commission expense	8	(1,275,831)	(1,203,831)	(462,620)	(437,035)
<b>Net fee and commission income</b>		<b>10,784,414</b>	<b>9,866,252</b>	<b>4,440,533</b>	<b>3,551,466</b>
Net gain (loss) on financial instruments at fair value through profit or loss	9	476,772	(72,516)	1,566,113	705,601
Net foreign exchange loss		(585,840)	(362,292)	(1,007,087)	(575,512)
Other operating income, net		533,743	261,254	325,639	86,941
<b>Operating income</b>		<b>48,235,850</b>	<b>37,167,389</b>	<b>18,900,704</b>	<b>13,737,291</b>
Impairment (losses)/recoveries on loans to customers		(2,828,643)	885,058	(1,685,541)	(182,509)
Impairment (losses)/recoveries on other assets		(190,123)	(155,770)	8,276	(76,174)
General administrative expenses	10	(20,656,490)	(16,982,941)	(6,350,481)	(6,427,503)
<b>Profit before income tax</b>		<b>24,560,594</b>	<b>20,913,736</b>	<b>10,872,958</b>	<b>7,051,105</b>
Income tax expense	11	(5,089,579)	(4,365,031)	(2,229,634)	(1,433,296)
<b>Profit and total comprehensive income for the period</b>		<b>19,471,015</b>	<b>16,548,705</b>	<b>8,643,324</b>	<b>5,617,809</b>
<b>Other comprehensive income, net of income tax</b>					
<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		20,251	(4,468)	2,725	(4,468)
<b>Other comprehensive income for the period, net of income tax</b>		<b>20,251</b>	<b>(4,468)</b>	<b>2,725</b>	<b>(4,468)</b>
<b>Total comprehensive income for the period</b>		<b>19,491,266</b>	<b>16,544,237</b>	<b>8,646,049</b>	<b>5,613,341</b>

\* 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 3 to 38 was approved by the Management on 21 November 2018 and was signed on its behalf by:



\_\_\_\_\_  
Gaukhar Massangaliyeva  
Chief Accountant

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

		<b>Unaudited</b>	
		<b>30 September 2018</b>	<b>31 December 2017*</b>
	<b>Note</b>	<b>KZT'000</b>	<b>KZT'000</b>
<b>ASSETS</b>			
Cash and cash equivalents	12	38,530,684	14,211,027
Loans to customers	13	238,948,063	188,109,945
Financial assets at fair value through other comprehensive income:			
- Pledged under sale and repurchase agreements		14,322,588	-
Financial assets available-for-sale:			
- Pledged under sale and repurchase agreements		-	11,488,680
Financial instruments at fair value through profit or loss		2,153,591	145,635
Property, equipment and intangible assets		7,998,351	7,349,792
Other assets		4,642,102	3,723,593
<b>Total assets</b>		<b>306,595,379</b>	<b>225,028,672</b>
<b>LIABILITIES</b>			
Financial instruments at fair value through profit or loss		716,081	238,057
Deposits and balances from banks	14	45,127,325	35,368,377
Current accounts and deposits from customers	15		
- Current accounts and deposits from retail customers		76,538,515	62,309,097
- Current accounts and deposits from corporate customers		54,474,657	34,615,178
Debt securities issued		24,695,023	22,158,530
Other borrowed funds	16	33,841,427	14,911,830
Certificates of deposit		1,795,519	850,223
Other liabilities		10,897,993	9,446,036
<b>Total liabilities</b>		<b>248,086,540</b>	<b>179,897,328</b>
<b>EQUITY</b>			
Share capital	17	5,199,503	5,199,503
Retained earnings	17	53,323,007	39,965,763
Fair value reserve		(13,671)	(33,922)
<b>Total equity</b>		<b>58,508,839</b>	<b>45,131,344</b>
<b>Total liabilities and equity</b>		<b>306,595,379</b>	<b>225,028,672</b>

\* 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 nine-month period ended 30 September 2018*

	<b>Unaudited nine-month period ended 30 September 2018 KZT'000</b>	<b>Unaudited nine-month period ended 30 September 2017* KZT'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	50,575,322	34,982,357
Interest payments	(12,996,196)	(10,102,450)
Fee and commission receipts	12,365,393	11,907,548
Fee and commission payments	(1,163,784)	(1,186,280)
Net payments from financial instruments at fair value through profit or loss	(1,053,160)	(758,718)
Net receipts/(payments) from foreign exchange transactions	838,588	(564,027)
Other income receipts, net	533,743	261,254
General administrative expenses	(17,888,798)	(14,787,723)
<b>(Increase)/decrease in operating assets</b>		
Loans and advances to banks	217	(1,292)
Loans to customers	(52,035,604)	(36,573,444)
Financial assets at fair value through other comprehensive income	(3,645,088)	(6,828,268)
Other assets	(1,119,171)	(956,101)
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances from banks	9,228,054	9,472,599
Current accounts and deposits from customers	33,144,620	15,300,319
Certificates of deposit	878,058	356,500
Other liabilities	450,669	252,446
<b>Net cash flows from operations before income tax paid</b>	<b>18,112,863</b>	<b>774,720</b>
Income tax paid	(5,007,130)	(4,236,937)
<b>Cash flows from (used in) operating activities</b>	<b>13,105,733</b>	<b>(3,462,217)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, equipment and intangible assets	(3,478,654)	(2,325,892)
Proceeds from sale of property and equipment	30,103	8,240
<b>Cash flows used in investing activities</b>	<b>(3,448,551)</b>	<b>(2,317,652)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts of other borrowed funds	18,886,752	-
Receipts from the debt securities issue	-	10,000,000
Dividends paid	(5,000,002)	(9,000,015)
<b>Cash flows from financing activities</b>	<b>13,886,750</b>	<b>999,985</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>23,543,932</b>	<b>(4,779,884)</b>
Effect of changes in exchange rates on cash and cash equivalents	775,725	176,907
Cash and cash equivalents as at the beginning of the period	14,211,027	16,428,817
<b>Cash and cash equivalents as at the end of the period</b> (Note 12)	<b>38,530,684</b>	<b>11,825,840</b>

\* 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 nine-month period ended 30 September 2018*

<b>KZT'000</b>	<b>Share capital</b>	<b>Fair value reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
Balance as at 1 January 2017	5,199,503	-	30,986,307	36,185,810
Profit and total comprehensive income for the period (unaudited)	-	-	16,548,705	16,548,705
Revaluation reserve for financial assets available for sale	-	(4,468)	-	(4,468)
Dividends paid (unaudited)	-	-	(9,000,015)	(9,000,015)
<b>Balance as at 30 September 2017 (unaudited)</b>	<b>5,199,503</b>	<b>(4,468)</b>	<b>38,534,997</b>	<b>43,730,032</b>
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
<b>Total comprehensive income (unaudited)</b>				
Profit for the period (unaudited)	-	-	19,471,015	19,471,015
<b>Other comprehensive income (unaudited)</b>				
<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)	-	20,251	-	20,251
Total other comprehensive income (unaudited)	-	20,251	-	20,251
<b>Total comprehensive income for the period (unaudited)</b>	<b>-</b>	<b>20,251</b>	<b>19,471,015</b>	<b>19,491,266</b>
Dividends paid (unaudited)	-	-	(5,000,002)	(5,000,002)
<b>Balance as at 30 September 2018 (unaudited)</b>	<b>5,199,503</b>	<b>(13,671)</b>	<b>53,323,007</b>	<b>58,508,839</b>

\* 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 September 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 September 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 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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.

### **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 September 2018 KZT'000	External benchmarks used	
		PD	LGD
Cash and cash equivalents	38,530,684		For local bank exposures
Financial assets at fair value through other comprehensive income	14,322,588	Moody's default study	LGD statistics is based on recovery of defaults of banks and financial institutions in Kazakhstan / Moody's recovery studies
Other financial assets	2,449,142		

### 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 September 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 September 2018 (unaudited)			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
<b>Cash and cash equivalents</b>				
National Bank of the Republic of Kazakhstan	23,205,234	-	-	23,205,234
Cash on hand	5,110,951	-	-	5,110,951
Nostro accounts with other banks:				
rated from BBB- to BBB+	6,450,216	-	-	6,450,216
rated from BB- to BB+	465,440	-	-	465,440
rated below B+	30,668	-	-	30,668
Placements with other banks				
rated below B+	3,268,175	-	-	3,268,175
	<b>38,530,684</b>	<b>-</b>	<b>-</b>	<b>38,530,684</b>
<b>Loss allowance</b>	-	-	-	-
<b>Carrying amount</b>	<b>38,530,684</b>	<b>-</b>	<b>-</b>	<b>38,530,684</b>
<b>Financial assets at fair value through other comprehensive income</b>				
Rated AA+	14,337,007	-	-	14,337,007
<b>Loss allowance</b>	-	-	-	-
<b>Gross carrying amount</b>	<b>14,337,007</b>	<b>-</b>	<b>-</b>	<b>14,337,007</b>
<b>Carrying amount – fair value</b>	<b>14,322,588</b>	<b>-</b>	<b>-</b>	<b>14,322,588</b>
<b>Loans to customers at amortised cost:</b>				
<b>Cash loans</b>				
Not overdue	112,184,435	18,940,054	-	131,124,489
Overdue less than 30 days	1,523,752	2,714,329	-	4,238,081
Overdue 31-90 days	-	1,928,178	-	1,928,178
Overdue 91-180 days	-	-	1,748,461	1,748,461
Overdue 181-360 days	-	-	2,669,179	2,669,179
	<b>113,708,187</b>	<b>23,582,561</b>	<b>4,417,640</b>	<b>141,708,388</b>
<b>Loss allowance</b>	<b>(1,675,223)</b>	<b>(988,081)</b>	<b>(2,410,128)</b>	<b>(5,073,432)</b>
<b>Carrying amount</b>	<b>112,032,964</b>	<b>22,594,480</b>	<b>2,007,512</b>	<b>136,634,956</b>

## 4 Financial risk review, continued

### Credit quality analysis, continued

	30 September 2018 (unaudited)			
KZT'000	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
<i>POS loans</i>				
Not overdue	78,090,121	4,136,375	-	82,226,496
Overdue less than 30 days	1,571,335	721,545	-	2,292,880
Overdue 31-90 days	-	1,524,172	-	1,524,172
Overdue 91-180 days	-	-	1,792,354	1,792,354
Overdue 181-360 days	-	-	2,680,553	2,680,553
	<b>79,661,456</b>	<b>6,382,092</b>	<b>4,472,907</b>	<b>90,516,455</b>
<b>Loss allowance</b>	<b>(1,611,609)</b>	<b>(724,573)</b>	<b>(2,726,882)</b>	<b>(5,063,064)</b>
<b>Carrying amount</b>	<b>78,049,847</b>	<b>5,657,519</b>	<b>1,746,025</b>	<b>85,453,391</b>
<i>Credit cards</i>				
Not overdue	15,864,308	181,913	-	16,046,221
Overdue less than 30 days	397,655	25,474	-	423,129
Overdue 31-90 days	-	274,693	-	274,693
Overdue 91-180 days	-	-	211,621	211,621
Overdue 181-360 days	-	-	285,483	285,483
	<b>16,261,963</b>	<b>482,080</b>	<b>497,104</b>	<b>17,241,147</b>
<b>Loss allowance</b>	<b>(64,290)</b>	<b>(70,066)</b>	<b>(247,075)</b>	<b>(381,431)</b>
<b>Carrying amount</b>	<b>16,197,673</b>	<b>412,014</b>	<b>250,029</b>	<b>16,859,716</b>
<i>Other financial assets</i>				
Not overdue	2,448,406	-	-	2,448,406
Overdue less than 30 days	-	-	-	-
Overdue more than 30 days	-	90	646	736
	<b>2,448,406</b>	<b>90</b>	<b>646</b>	<b>2,449,142</b>
<b>Loss allowance</b>	<b>-</b>	<b>(45)</b>	<b>(646)</b>	<b>(691)</b>
<b>Carrying amount</b>	<b>2,448,406</b>	<b>45</b>	<b>-</b>	<b>2,448,451</b>

## 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
<b>Financial assets</b>							
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
<b>Total financial assets</b>				<b>216,720,043</b>	<b>-</b>	<b>(1,293,960)</b>	<b>215,426,083</b>
<b>Financial liabilities</b>							
Financial instruments at fair value through profit or loss	14	FVTPL	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
<b>Total financial liabilities</b>				<b>176,867,748</b>	<b>-</b>	<b>-</b>	<b>176,867,748</b>

## 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:

<b>KZT'000</b>	<b>Impact of adopting IFRS 9 at 1 January 2018</b>
<b>Retained earnings:</b>	
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
<b>Opening balance under IFRS 9 (1 January 2018)</b>	<b>38,851,994</b>

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.

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

## 6 Net interest income

	Unaudited nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
<b>Interest income calculated using the effective interest method</b>		
Loans to customers	52,071,300	37,611,431
Cash and cash equivalents	645,426	630,576
Financial assets at fair value through other comprehensive income	127,965	3,428
Financial assets held to maturity	-	128,418
	<b>52,844,691</b>	<b>38,373,853</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	10,308,864	8,060,540
Deposits and balances from banks	2,201,075	1,758,592
Debt securities issued	2,152,247	1,016,325
Other borrowed funds	1,028,638	-
Certificates of deposit	127,106	63,705
	<b>15,817,930</b>	<b>10,899,162</b>
	<b>37,026,761</b>	<b>27,474,691</b>

## 7 Fee and commission income

	Unaudited nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
Commission income from insurance	7,542,986	7,725,376
Fees from retailers	1,909,354	1,555,572
Contractual penalties from customers	1,442,134	1,039,670
Transfer operations	198,086	54,104
Card operations	125,483	89,498
Cash withdrawal	1,464	1,560
Other	840,738	604,303
	<b>12,060,245</b>	<b>11,070,083</b>

## 8 Fee and commission expense

	Unaudited nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
Commissions paid for verification services	530,531	421,066
Deposit insurance fund contributions	220,204	143,449
Commissions paid to partners	189,287	477,578
Card processing	191,636	116,623
Settlements	104,260	26,593
Other	39,913	18,522
	<b>1,275,831</b>	<b>1,203,831</b>



## 9 Net gain (loss) on financial instruments at fair value through profit or loss

For the nine-month period ended 30 September 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 489,427 thousand (nine-month period ended 30 September 2017: net gain of KZT 152,582 thousand, unaudited), and net gain on 1-year currency swap operations concluded with PPF Bank a.s. in the amount of KZT 966,199 thousand (nine-month period ended 30 September 2017: net loss on 1-year currency swap operations concluded with PPF Bank a.s. in the amount of KZT 225,098 thousand), unaudited.

## 10 General administrative expenses

	Unaudited nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
Employee compensation and payroll related taxes	10,702,025	9,033,032
Depreciation and amortisation	2,208,608	1,758,588
Information technology	1,129,851	1,357,758
Professional services	1,311,517	803,728
Telecommunication and postage	1,384,321	793,388
Occupancy	1,004,786	840,966
Taxes other than income tax	852,436	547,301
Collectors' services	753,089	810,235
Advertising and marketing	581,844	436,068
Travel expenses	230,340	214,745
Other	497,673	387,132
	<b>20,656,490</b>	<b>16,982,941</b>

## 11 Income tax expense

	Unaudited nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
<b>Current tax expense</b>		
Current tax expense	4,545,432	4,297,344
Current tax expense overprovided in prior periods	(152,296)	(54,071)
	<b>4,393,136</b>	<b>4,243,273</b>
<b>Deferred tax expense</b>		
Deferred taxation movement due to origination and reversal of temporary differences	696,443	121,758
<b>Total income tax expense</b>	<b>5,089,579</b>	<b>4,365,031</b>

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

## 11 Income tax expense, continued

### Reconciliation of effective tax rate:

	Unaudited nine-month period ended 30 September 2018		Unaudited nine-month period ended 30 September 2017	
	KZT'000	%	KZT'000	%
<b>Profit before income tax</b>	<b>24,560,594</b>		<b>20,913,736</b>	
Income tax at the applicable tax rate	4,912,119	20.0	4,182,747	20.0
Non-deductible costs	329,756	1.3	236,355	1.1
Overprovided in prior periods	(152,296)	(0.6)	(54,071)	(0.3)
	<b>5,089,579</b>	<b>20.7</b>	<b>4,365,031</b>	<b>20.9</b>

## 12 Cash and cash equivalents

	Unaudited 30 September 2018	31 December 2017
	KZT'000	KZT'000
Cash on hand	5,110,951	4,486,752
Nostro accounts with the NBRK	18,552,134	5,274,332
Nostro accounts with other banks		
- rated from A- to A+	-	1,865,287
- rated from BBB- to BBB+	6,450,216	-
- rated from BB- to BB+	465,440	85,528
- rated below B+	30,668	97,278
<b>Cash equivalents</b>		
Term deposits with the NBRK with original maturities of less than three months	4,653,100	2,401,850
Term deposits with other banks with original maturities of less than three months		
- rated below B+	3,268,175	-
	<b>38,530,684</b>	<b>14,211,027</b>

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 September 2018 the Bank had exposure towards two banking counterparties (31 December 2017: one banking counterparty) exceeding 10% of the Bank's equity with the gross value of KZT 29,655,450 thousand, unaudited (31 December 2017: KZT 7,676,182 thousand).

### 13 Loans to customers

	Unaudited 30 September 2018 KZT'000	31 December 2017 KZT'000
<b>Loans to individuals</b>		
Cash loans	141,708,388	105,048,786
POS loans	90,516,455	79,681,855
Credit cards	17,241,147	10,415,922
<b>Total loans to individuals</b>	<b>249,465,990</b>	<b>195,146,563</b>
Impairment allowance	(10,517,927)	(7,036,618)
<b>Net loans to individuals</b>	<b>238,948,063</b>	<b>188,109,945</b>

Movements in the loan impairment allowance by classes of loans to customers and by 3 ECL stages for the nine-month period ended 30 September 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	209,979	2,142,029	357,546	2,709,554
Net (write-offs)/recoveries	1,119,230	(1,413,259)	(228,176)	(522,205)
<b>Balance at the end of the period</b>	<b>5,073,432</b>	<b>5,063,064</b>	<b>381,431</b>	<b>10,517,927</b>

				Nine-month period ended 30 September 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 (reversals)/charge	672,455	618,287	1,418,812	2,709,554
Net (write-offs)/recoveries	(131,430)	(106,571)	(284,204)	(522,205)
<b>Balance at the end of the period</b>	<b>3,351,122</b>	<b>1,782,720</b>	<b>5,384,085</b>	<b>10,517,927</b>

Comparative amounts for the nine-month period ended 30 September 2017 reflect measurement basis under IAS 39. Movements in the loan impairment allowance by classes of loans to customers for the nine-month period ended 30 September 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	(2,609,368)	1,495,583	228,727	(885,058)
Net (write-offs)/recoveries	1,707,785	(647,828)	(170,064)	889,893
<b>Balance at the end of the period</b>	<b>3,169,815</b>	<b>3,327,459</b>	<b>305,063</b>	<b>6,802,337</b>

### 13 Loans to customers, continued

#### (a) Credit quality of loans to customers

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

	POS loans KZT'000	Cash loans KZT'000	Credit cards KZT'000	Total KZT'000
<b>Collective ECL</b>				
Gross amount - Stage 1 (12M ECL)	79,661,456	113,708,187	16,261,963	209,631,606
Gross amount - Stage 2 (LT ECL)	6,382,092	23,582,561	482,080	30,446,733
Gross amount - Stage 3 (LT ECL)	4,472,907	4,417,640	497,104	9,387,651
-Past due more than 90 days	4,472,907	4,417,640	497,104	9,387,651
<b>Total gross amount</b>	<b>90,516,455</b>	<b>141,708,388</b>	<b>17,241,147</b>	<b>249,465,990</b>
Allowance for impairment – Stage 1 (12M ECL)	(1,611,609)	(1,675,223)	(64,290)	(3,351,122)
Allowance for impairment – Stage 2 (LT ECL)	(724,573)	(988,081)	(70,066)	(1,782,720)
Allowance for impairment – Stage 3 (LT ECL)	(2,726,882)	(2,410,128)	(247,075)	(5,384,085)
<b>Total carrying amount – collective ECL</b>	<b>(5,063,064)</b>	<b>(5,073,432)</b>	<b>(381,431)</b>	<b>(10,517,927)</b>
<b>Total carrying amount</b>	<b>85,453,391</b>	<b>136,634,956</b>	<b>16,859,716</b>	<b>238,948,063</b>

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, %
<b>Loans to individuals</b>				
- 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
<b>Total loans to individuals</b>	<b>195,146,563</b>	<b>(7,036,618)</b>	<b>188,109,945</b>	<b>3.61</b>

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 30 September 2018 total impairment allowance to non-performing loans was 112% (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 Deposits and balances from banks

	Unaudited 30 September 2018 KZT'000	31 December 2017 KZT'000
Vostro accounts	118,986	66,513
Term deposits	31,249,875	23,867,994
Sale and repurchase agreements	13,758,464	11,433,870
	<b>45,127,325</b>	<b>35,368,377</b>

## 14 Deposits and balances from banks, continued

As at 30 September 2018 the Bank had two counterparties whose balances exceeded 10% of the Bank's equity (31 December 2017: two counterparties). As at 30 September 2018 these balances amounted to KZT 31,979,054 thousand (31 December 2017: KZT 18,152,540 thousand).

As at 30 September 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 14,322,588 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.

## 15 Current accounts and deposits from customers

	<b>Unaudited</b>	
	<b>30 September 2018</b>	<b>31 December 2017</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Corporate		
- Current accounts	1,857,129	414,616
- Term deposits	52,617,528	34,200,562
<b>Current accounts and deposits from corporate customers</b>	<b>54,474,657</b>	<b>34,615,178</b>
Retail		
- Current accounts	10,907,708	9,901,327
- Term deposits	65,630,807	52,407,770
<b>Current accounts and deposits from retail customers</b>	<b>76,538,515</b>	<b>62,309,097</b>
	<b>131,013,172</b>	<b>96,924,275</b>

As at 30 September 2018 the Bank had one customer whose balances exceeded 10% of the Bank's equity with the gross value of KZT 5,998,488 thousand, unaudited (31 December 2017: no customers).

## 16 Other borrowed funds

	<b>Issue date</b>	<b>Maturity date</b>	<b>Currency</b>	<b>Weighted -average effective interest rate, %</b>	<b>Unaudited</b>	<b>31 December</b>
					<b>30 September</b>	<b>2017</b>
					<b>2018</b>	<b>2017</b>
					<b>KZT'000</b>	<b>KZT'000</b>
<b>Other borrowed funds</b>						
Unsecured loans	various tranches issued in the period of 07/08/2018	various tranches maturing in the period of 09/08/2019	USD	7.6	14,535,064	-
Unsecured loans	28/06/2018	27/06/2019	USD	7.4	7,992,466	-
Unsecured loans	28/06/2018	27/06/2019	EUR	4.8	6,315,334	-
Unsecured loans	29/12/2017	29/12/2018	KZT	12.2	4,998,563	4,930,416
Unsecured loans	12/12/2017	07/06/2018*	EUR	4.0	-	9,981,414
					<b>33,841,427</b>	<b>14,911,830</b>

\* Early repaid on 12.03.2018.

## 17 Equity

### (a) Issued capital

As at 30 September 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 9,802,071 thousand, unaudited (31 December 2017: KZT 7,993,153 thousand).

During the nine-month period ended 30 September 2018 dividends of KZT 5,000,002 thousand (KZT 143,308 per share), unaudited for the year ended 31 December 2017 were declared and paid in accordance with the decision of the Bank's sole shareholder (nine-month period ended 30 September 2017: KZT 9,000,015 thousand, KZT 257,954 per share, unaudited).

## 18 Book value per share

The calculation of book value per share as at 30 September 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:

	<b>Unaudited</b>	
	<b>30 September 2018</b>	<b>31 December 2017</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Total assets	306,595,379	225,028,672
Intangible assets	(4,447,439)	(4,261,438)
Total liabilities	(248,086,540)	(179,897,328)
<b>Net assets</b>	<b>54,061,400</b>	<b>40,869,906</b>

The following table shows the book value per share calculations:

	<b>Unaudited</b>	
	<b>30 September 2018</b>	<b>31 December 2017</b>
Net assets, KZT'000	54,061,400	40,869,906
Outstanding number of ordinary shares at the end of the period	34,890	34,890
<b>Book value per share, KZT</b>	<b>1,549,481</b>	<b>1,171,393</b>

## 19 Earnings per share

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

	Unaudited nine-month period ended 30 September 2018	Unaudited nine-month period ended 30 September 2017
Net profit attributable to ordinary shareholders, KZT'000	19,471,015	16,548,705
Weighted average number of ordinary shares	34,890	34,890
<b>Earnings per share, KZT</b>	<b>558,069</b>	<b>474,311</b>

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

## 20 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 September 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 September 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 September 2018 KZT'000	31 December 2017 KZT'000
<b>Tier 1 capital</b>		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	33,851,992	17,986,258
Profit for the period	19,471,015	21,979,505
Intangible assets	(4,447,439)	(4,261,438)
Fair value reserve	(13,671)	(33,922)
<b>Total tier 1 capital</b>	<b>54,061,400</b>	<b>40,869,906</b>
<b>Total tier 2 capital</b>	-	-
<b>Total capital</b>	<b>54,061,400</b>	<b>40,869,906</b>
<b>Total credit risk-weighted assets</b>	<b>361,544,524</b>	<b>279,422,608</b>
<b>Total credit risk-weighted assets and liabilities, including market and operational risk</b>	<b>407,084,378</b>	<b>317,410,247</b>
<b>Ratio of total capital to credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)</b>	<b>0.133</b>	<b>0.129</b>
<b>Ratio of total tier 1 capital to credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)</b>	<b>0.133</b>	<b>0.129</b>

## 21 Commitments

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

	<b>Unaudited 30 September 2018 KZT'000</b>	<b>31 December 2017 KZT'000</b>
<b>Contracted amount</b>		
Loan and credit line commitments	20,205,888	13,866,137
	<b>20,205,888</b>	<b>13,866,137</b>

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 September 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 September 2018 the amount of provisions on the undrawn credit limit equalled to KZT 197,689 thousand, unaudited (1 January 2018: KZT 78,601 thousand).

## 22 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 nine-month period ended 30 September 2018 KZT 1,004,786 thousand was recognised as an expense in the interim condensed statement of profit or loss and other comprehensive income in respect of operating leases (nine-month period ended 30 September 2017: KZT 748,058 thousand).

As at 30 September 2018 the Bank reported KZT 1,642 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).

## 23 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 nine-month periods ended 30 September 2018 and 2017 was as follows:

	<b>Unaudited nine-month period ended 30 September 2018 KZT'000</b>	<b>Unaudited nine-month period ended 30 September 2017 KZT'000</b>
Members of the Board of Directors	1,013,260	282,988
Members of the Management Board	306,673	344,235
	<b>1,319,933</b>	<b>627,223</b>



## 23 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 September 2018 and 31 December 2017 for transactions with members of the Board of Directors and the Management Board were as follows:

	Unaudited 30 September 2018 KZT'000	Average interest rate, %	31 December 2017 KZT'000	Average interest rate, %
<b>Interim condensed statement of financial position</b>				
<b>LIABILITIES</b>				
Current accounts and deposits from customers	23,531	1.30	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 nine-month periods ended 30 September 2018 and 2017 were as follows:

	Unaudited nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
<b>Interim condensed statement of profit or loss and other comprehensive income</b>		
Interest expense	(564)	(1,469)
	<b>(564)</b>	<b>(1,469)</b>

### (c) Transactions with the parent

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

	Unaudited 30 September 2018 KZT'000	Average interest rate, %	31 December 2017 KZT'000	Average interest rate, %
<b>Interim condensed statement of financial position</b>				
<b>ASSETS</b>				
Cash and cash equivalents				
-In USD	131	-	120	-
-In EUR	133	-	126	-
-In RUB	40	-	42	-
<b>LIABILITIES</b>				
Deposits and balances from banks				
-In KZT	3	-	10	-
-In USD	18,220,587	7.36	6,718,660	3.50

## 23 Related party transactions, continued

### (c) Transactions with the parent, continued

During the nine-month periods ended 30 September 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 nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
<b>Interim condensed statement of profit or loss and other comprehensive income</b>		
<b>Interest expense</b>		
Deposits and balances from banks		
- In USD	(89,430)	(12,577)
	<u>(89,430)</u>	<u>(12,577)</u>
 <b>Net foreign exchange income</b>		
- In USD	-	8,952
	<u>-</u>	<u>8,952</u>

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

As at 30 September 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 September 2018 KZT'000	Average interest rate, 31 December 2017 %	Average interest rate, 31 December 2017 KZT'000	Average interest rate, %
<b>Interim condensed statement of financial position</b>				
<b>ASSETS</b>				
Property, equipment and intangible assets				
-In KZT	3,366,605	-	3,234,154	-
Financial instruments at fair value through profit or loss				
- In USD/GBP/EUR	2,135,438	-	145,635	-
Other assets				
-In EUR	-	-	140,423	-
<b>LIABILITIES</b>				
Deposits and balances from banks				
-In KZT	118,620	-	66,170	-
Other borrowed funds				
- In USD	22,527,529	7.53	-	-
- In EUR	6,315,334	4.80	9,981,414	4.00
Financial instruments at fair value through profit or loss				
-In USD	697,908	-	238,057	-
Other financial liabilities				
-In EUR	217,937	-	681,748	-

## 23 Related party transactions, continued

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

During the nine-month periods ended 30 September 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 nine-month period ended 30 September 2018 KZT'000	Unaudited nine-month period ended 30 September 2017 KZT'000
<b>Interim condensed statement of profit or loss and other comprehensive income</b>		
<b>Interest expense</b>		
Deposits and balances from banks		
-In KZT	-	(11,223)
	-	(11,223)
Other borrowed funds		
-In USD	(429,406)	-
-In EUR	(129,036)	-
	(558,442)	-
<b>Net gain (loss) on financial instruments at fair value through profit or loss</b>		
-In USD	966,199	(225,098)
	966,199	(225,098)
<b>General administrative expenses</b>		
General administrative expenses	(2,658,345)	(2,264,311)

## 24 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 September 2018, unaudited:

<b>KZT'000</b>	<b>FVTPL</b>	<b>FVOCI</b>	<b>Amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	-	-	33,419,733	33,419,733	33,419,733
Loans to customers	-	-	238,948,063	238,948,063	238,948,063
Financial assets at fair value through other comprehensive income	-	14,322,588	-	14,322,588	14,322,588
Financial instruments at fair value through profit or loss	2,153,591	-	-	2,153,591	2,153,591
Other financial assets	-	-	2,449,142	2,449,142	2,449,142
	<b>2,153,591</b>	<b>14,322,588</b>	<b>274,816,938</b>	<b>291,293,117</b>	<b>291,293,117</b>
Financial instruments at fair value through profit or loss	716,081	-	-	716,081	716,081
Deposits and balances from banks	-	-	45,127,325	45,127,325	49,229,234
Current accounts and deposits from customers	-	-	131,013,172	131,013,172	134,647,896
Other borrowed funds	-	-	33,841,427	33,841,427	38,062,175
Debt securities issued	-	-	24,695,023	24,695,023	25,060,712
Certificates of deposit	-	-	1,795,519	1,795,519	1,795,519
Other financial liabilities	-	-	8,193,305	8,193,305	8,193,305
	<b>716,081</b>	<b>-</b>	<b>244,665,771</b>	<b>245,381,852</b>	<b>257,704,922</b>

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

<b>KZT'000</b>	<b>Held for trading</b>	<b>Loans and receivables</b>	<b>Other amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
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
	<b>11,634,315</b>	<b>199,825,282</b>	<b>-</b>	<b>211,459,597</b>	<b>211,459,597</b>
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
	<b>238,057</b>	<b>-</b>	<b>176,629,691</b>	<b>176,867,748</b>	<b>180,943,538</b>

## 24 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.

## **24 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.