SB JSC “Bank Home Credit”

Financial Statements
for the year ended 31 December 2016

Contents

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of SB JSC "Bank Home Credit" (the "Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans to customers	
Please refer to the Notes 3 (f) and 13 in the financial statements.	
The key audit matter	*How the matter was addressed in our audit*
The assessment of the Bank’s estimate of impairment losses against loans to customers is considered to be a key audit matter due to the significance of loans to customers, and the significant judgments it requires the Bank to make. Calculation of the collective loss allowance uses statistical models based on historical delinquency rates, and also requires the application of management judgement, with the key assumptions being the probability of loans falling into arrears and subsequently defaulting and the recovery rates for these loans.	Our audit procedures in this area included, among others: - assessing the design and operating effectiveness of the controls in respect of the Bank’s loan underwriting process, management review process over impaired loans; - re-performing calculations and agreeing a sample of data inputs to source documentation; this included involving our in-house IT specialists; - assessing whether the data used in the models is complete and accurate through testing a sample of relevant data fields and their aggregate amounts against data in the source systems; - challenging the appropriateness of the key assumptions used for collective impairment against our understanding of the Bank and its recent performance. This involved recalculation of provisioning rates based on the Bank’s actual historic experience; - considering the adequacy of the Bank’s disclosures about credit risk, structure and quality of loan portfolio and impairment allowance.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements, continued

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Yelena Kim.

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

KPMG Audit LLC

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

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

14 February 2017

	Note	2016 KZT'000	2015 KZT'000
Interest income	4	37,309,270	32,327,889
Interest expense	4	(11,407,161)	(6,928,157)
Net interest income		**25,902,109**	**25,399,732**
Fee and commission income	5	17,610,762	16,546,124
Fee and commission expense	6	(1,260,131)	(1,230,197)
Net fee and commission income		**16,350,631**	**15,315,927**
Net (loss) gain on financial instruments at fair value through profit or loss	7	(542,819)	7,457,303
Net foreign exchange gain (loss)	8	164,267	(10,703,746)
Other operating income (loss), net		632,509	(8,961)
Operating income		**42,506,697**	**37,460,255**
Impairment losses	9	(1,004,264)	(9,878,767)
General administrative expenses	10	(19,792,756)	(15,646,416)
Profit before income tax		**21,709,677**	**11,935,072**
Income tax expense	11	(4,390,273)	(3,448,930)
Profit and total comprehensive income for the year		**17,319,404**	**8,486,142**
Earnings per share, in KZT (basic and diluted)	24	496,400	243,226

The financial statements as set out on pages 7 to 53 were approved by the Board of Directors on 14 February 2017 and were signed on its behalf by:

Narine Nadirova
Acting Chairman of the Board

Gaukhar Massangaliyeva
Chief Accountant

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

	Note	2016 KZT’000	2015 KZT’000
ASSETS			
Cash and cash equivalents	12	16,428,817	13,190,286
Loans to customers	13	117,697,312	96,629,836
Property, equipment and intangible assets	14	6,822,854	5,880,416
Other assets	15	2,420,361	1,732,191
Total assets		**143,369,344**	**117,432,729**
LIABILITIES			
Financial instruments at fair value through profit or loss	16	212,431	-
Deposits and balances from banks	17	20,276,333	23,938,458
Current accounts and deposits from customers			
- Current accounts and deposits from corporate customers	18	34,129,269	26,218,643
- Current accounts and deposits from retail customers	18	39,389,258	18,083,301
Debt securities issued	19	6,920,282	13,891,769
Certificates of deposit	20	318,616	-
Other liabilities	21	5,937,345	3,434,115
Total liabilities		**107,183,534**	**85,566,286**
EQUITY			
Share capital	22	5,199,503	5,199,503
Retained earnings	22	30,986,307	26,666,940
Total equity		**36,185,810**	**31,866,443**
Total liabilities and equity		**143,369,344**	**117,432,729**
Book value per share, in KZT	23	916,989	820,015

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	2016 KZT'000	2015 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	35,948,336	31,336,748
Interest payments	(11,299,337)	(6,749,655)
Fee and commission receipts	17,175,205	16,520,965
Fee and commission payments	(1,208,193)	(1,207,992)
Net (payments) receipts from financial instruments at fair value through profit or loss	(330,388)	7,749,451
Net receipts (payments) from foreign exchange	1,420,536	(5,083,484)
Other income receipts (payments), net	632,509	(8,961)
General administrative expenses	(17,223,888)	(13,660,111)
(Increase) decrease in operating assets		
Loans to customers	(18,817,366)	(5,659,459)
Other assets	(248,357)	(279)
Increase (decrease) in operating liabilities		
Deposits and balances from banks	(4,110,269)	20,210,202
Current accounts and deposits from customers	28,920,564	(4,727,481)
Certificates of deposit	314,600	-
Other liabilities	(144,994)	3,576
Net cash provided from operating activities before income tax paid	**31,028,958**	**38,723,520**
Income tax paid	(4,072,800)	(3,350,022)
Cash flows from operations	**26,956,158**	**35,373,498**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(3,160,151)	(2,530,545)
Proceeds from sale of property and equipment	29,918	50,533
Cash flows used in investing activities	**(3,130,233)**	**(2,480,012)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of subordinated loan	-	(640,000)
Receipts of other borrowed funds	-	7,957,050
Repayment of other borrowed funds	-	(29,224,008)
Redemption of debt securities issued	(7,000,000)	-
Dividends paid	(13,000,037)	(6,002,481)
Cash flows used in financing activities	**(20,000,037)**	**(27,909,439)**
Net increase in cash and cash equivalents	**3,825,888**	**4,984,047**
Effect of changes in exchange rates on cash and cash equivalents	(587,357)	4,760,500
Cash and cash equivalents as at the beginning of the year	13,190,286	3,445,739
Cash and cash equivalents as at the end of the year (note 12)	**16,428,817**	**13,190,286**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

KZT'000	**Share capital**	**Retained earnings**	**Total equity**
Balance as at 1 January 2015	5,199,503	24,183,279	29,382,782
Profit and total comprehensive income for the year	-	8,486,142	8,486,142
Dividends paid	-	(6,002,481)	(6,002,481)
Balance as at 31 December 2015	**5,199,503**	**26,666,940**	**31,866,443**
Balance as at 1 January 2016	5,199,503	26,666,940	31,866,443
Profit and total comprehensive income for the year	-	17,319,404	17,319,404
Dividends paid	-	(13,000,037)	(13,000,037)
Balance as at 31 December 2016	**5,199,503**	**30,986,307**	**36,185,810**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

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, Furmanov Street, Almaty, Republic of Kazakhstan, 050059. As at 31 December 2016, the Bank had 17 branches and 41 bank offices (31 December 2015: 17 branches and 41 bank offices).

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

As at 31 December 2016 and 2015 the Bank was 100% owned by Home Credit and Finance Bank incorporated in the Russian Federation. The ultimate controlling owner of the Bank is Petr Kellner, who exercises control over Home Credit and Finance Bank through PPF Group N.V. registered in the Netherlands.

(b) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

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

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

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

2 Basis of preparation, continued

(d) Use of estimates and judgments

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

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

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

- commission income from insurance – Notes 3(j) and 5;
- financial instruments at fair value through profit or loss – Notes 7, 16 and 32;
- loan impairment estimates – Note 13.

(e) Changes in accounting policies and presentation

The Bank has adopted the following amendments to standards with a date of initial application of 1 January 2016:

Disclosure Initiative (Amendments to IAS 1). These amendments clarify the materiality principle. In particular, it has been made explicit that companies should disaggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income if this provides helpful information to users; and can aggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income if the line items specified by IAS 1 are immaterial. Following these amendments presentation of financial statements was changed as follows:

KZT'000	**As previously reported**	**Effect of reclassifications**	**As reclassified**
Statement of financial position as at 31 December 2015			
Loans and advances to banks	1,952	(1,952)	-
Current tax assets	73,961	(73,961)	-
Other assets	1,656,278	75,913	1,732,191
Current accounts and deposits from customers	44,301,944	(44,301,944)	-
- Current accounts and deposits from corporate customers	-	26,218,643	26,218,643
- Current accounts and deposits from retail customers	-	18,083,301	18,083,301
Deferred tax liability	155,210	(155,210)	-
Other liabilities	3,278,905	155,210	3,434,115

3 Significant accounting policies

The accounting policies set out below are applied by the Bank consistently to all periods presented in these financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

3 Significant accounting policies, continued

(a) Foreign currency

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

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

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

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

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iii) Measurement, continued

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

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

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

(viii) Derivative financial instruments

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(viii) Derivative financial instruments, continued

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

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

(ix) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

(e) Intangible assets

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

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

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

(f) Impairment

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

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

3 Significant accounting policies, continued

(f) Impairment, continued

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

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

(ii) Non financial assets

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

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

3 Significant accounting policies, continued

(f) Impairment, continued

(ii) Non financial assets, continued

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

(g) Credit related commitments

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

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

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

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

Loan commitments are not recognised, except for the followings:

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

(h) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

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

(i) Taxation

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

3 Significant accounting policies, continued

(i) Taxation, continued

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

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

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

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

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

(j) Income and expense recognition

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

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

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

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

(k) Segment reporting

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

3 Significant accounting policies, continued

(l) New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

IFRS 9 Financial instruments

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

(i) Classification and measurement

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). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. 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 not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

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 OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

(ii) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognised for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

(ii) Impairment, continued

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

(iii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

(iv) Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Bank does not intend to adopt the standard earlier.

The Bank has not started a formal assessment of potential impact on its financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Bank’s financial statements.

IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Group does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

Other amendments

The following new or amended standards are not expected to have a significant impact of the Bank’s financial statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*).

4 Net interest income

	2016 KZT'000	2015 KZT'000
Interest income		
Loans to customers	35,882,843	32,327,826
Cash and cash equivalents	1,426,427	63
	37,309,270	**32,327,889**
Interest expense		
Current accounts and deposits from customers	5,902,264	2,410,527
Deposits and balances from banks	4,234,360	1,831,129
Debt securities issued	1,266,521	1,358,548
Certificates of deposit	4,016	-
Other borrowed funds	-	1,320,273
Subordinated borrowings	-	7,680
	11,407,161	**6,928,157**
	25,902,109	**25,399,732**

Included within various line items under interest income in 2016 is a total of KZT 999,250 thousand (2015: KZT 1,680,422 thousand) accrued on impaired loans to customers.

5 Fee and commission income

	2016 KZT'000	2015 KZT'000
Commission income from insurance	12,039,838	11,539,126
Fees from retailers	2,966,357	1,031,335
Contractual penalties from customers	2,357,769	3,726,284
Cards' operations	118,589	122,526
Transfer operations	32,538	23,069
Cash withdrawal	2,603	2,965
Other	93,068	100,819
	17,610,762	**16,546,124**

6 Fee and commission expense

	2016 KZT'000	2015 KZT'000
Commissions paid to partners	574,140	582,451
Commissions paid for verification services	415,180	485,464
Deposit insurance fund contributions	91,995	33,990
Card processing	87,690	66,437
Settlements	31,011	19,645
Other	60,115	42,210
	1,260,131	**1,230,197**

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

Included in net loss on financial instruments at fair value through profit or loss for the year ended 31 December 2016 is a total of KZT 1,057,994 thousand loss recognised on short-term currency swaps with Home Credit and Finance Bank and KZT 217,431 thousand loss recognised on long-term currency swaps with PPF Banka. The Bank also recognised net gain of KZT 732,606 thousand on short-term currency swaps concluded on Kazakhstan Stock Exchange.

7 Net (loss) gain on financial instruments at fair value through profit or loss, continued

Included in net gain on financial instruments at fair value through profit or loss for the year ended 31 December 2015 is a total of KZT 2,943,652 thousand recognised on the 1-year currency swaps with the NBRK which matured in November 2015 and KZT 4,513,651 thousand recognised on overnight currency swaps contracted with the NBRK in 2015.

8 Net foreign exchange gain (loss)

	2016 KZT’000	2015 KZT’000
Translation differences, net	113,069	(10,708,938)
Dealing, net	51,198	5,192
	164,267	**(10,703,746)**

9 Impairment losses

	2016 KZT’000	2015 KZT’000
Loans to customers	772,819	9,883,555
Other assets	231,445	(4,788)
	1,004,264	**9,878,767**

10 General administrative expenses

	2016 KZT’000	2015 KZT’000
Employee compensation and payroll related taxes	10,240,847	8,255,305
Depreciation and amortisation	1,953,998	1,593,039
Information technology	1,384,704	918,769
Collectors’ services	1,100,940	812,607
Advertising and marketing	1,078,026	426,852
Occupancy	1,043,776	947,857
Telecommunication and postage	770,546	678,160
Professional services	726,166	866,929
Taxes other than income tax	701,417	602,853
Travel expenses	239,842	192,723
Other	552,494	351,322
	19,792,756	**15,646,416**

11 Income tax expense

	2016 KZT’000	2015 KZT’000
Current tax expense		
Current year tax expense	4,961,070	3,031,792
Current tax expense (over)/underprovided in prior years	(216,239)	381,178
	4,744,831	**3,412,970**
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	(354,558)	35,960
Total income tax expense	**4,390,273**	**3,448,930**

In 2016, the applicable tax rate for current and deferred tax was 20% (2015: 20%).

11 Income tax expense, continued

Reconciliation of effective tax rate:

	2016 KZT’000	%	2015 KZT’000	%
Profit before income tax	**21,709,677**		**11,935,072**	
Income tax at the applicable tax rate	4,341,935	20.0	2,387,014	20.0
Non-deductible costs	264,577	1.2	680,738	5.7
(Overprovided)/underprovided in prior years	(216,239)	(1.0)	381,178	3.2
	4,390,273	**20.2**	**3,448,930**	**28.9**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2016 and a net deferred tax liability as at 31 December 2015. These deferred tax assets and liabilities are recognised in these financial statements.

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

Movements in temporary differences in 2016 and 2015 are presented below.

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

2015 KZT’000	**Balance 1 January 2015**	**Recognised in profit or loss**	**Balance 31 December 2015**
Property, equipment and intangible assets	(123,721)	(167,276)	(290,997)
Other assets	(129,729)	30,132	(99,597)
Deposits and balances from banks	-	6,160	6,160
Other liabilities	134,200	95,024	229,224
	(119,250)	**(35,960)**	**(155,210)**

12 Cash and cash equivalents

	2016 KZT'000	2015 KZT'000
Cash on hand	3,850,221	2,296,857
Nostro accounts with the NBRK	465,487	5,950,930
Nostro accounts with other banks		
- rated from BBB- to BBB+	561,490	4,835,277
- rated from BB- to BB+	68,977	68,379
- rated below B+	75,298	38,843
Cash equivalents		
Term deposits with the NBRK with original maturities of less than three months	10,406,356	-
Term deposits with other banks with original maturities of less than three months		
- rated B	1,000,988	-
	16,428,817	**13,190,286**

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

No cash and cash equivalents were impaired or past due.

As at 31 December 2016 the Bank had exposure towards one banking counterparty (31 December 2015: two banking counterparties) exceeding 10% of the Bank's equity with the gross value of KZT 10,871,843 thousand (31 December 2015: KZT 10,683,127 thousand).

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements. As at 31 December 2016, the minimum reserve is KZT 792,733 thousand (31 December 2015: KZT 1,410,438 thousand).

13 Loans to customers

	2016 KZT'000	2015 KZT'000
Loans to individuals		
Cash loans	73,549,504	75,329,100
POS loans	44,948,116	31,127,604
Credit cards	5,997,194	1,416,467
Total loans to individuals	**124,494,814**	**107,873,171**
Impairment allowance	(6,797,502)	(11,243,335)
Net loans to individuals	**117,697,312**	**96,629,836**

13 Loans to customers, continued

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

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

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Collateralised loans KZT'000	Total KZT'000
Balance at the beginning of the year	10,477,013	2,087,839	163,125	-	12,727,977
Net charge/(reversals)	6,937,245	2,838,767	113,388	(5,845)	9,883,555
Net write-offs	(9,398,886)	(1,830,475)	(144,681)	5,845	(11,368,197)
Balance at the end of the year	**8,015,372**	**3,096,131**	**131,832**	**-**	**11,243,335**

(a) Credit quality of loans to customers

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

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

13 Loans to customers, continued

(a) Credit quality of loans to customers, continued

The following table provides information on the credit quality of the loans to customers as at 31 December 2015:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to individuals				
- not overdue	90,718,285	(1,100,209)	89,618,076	1.21
- overdue less than 90 days	6,042,455	(2,513,401)	3,529,054	41.60
- overdue 90-360 days	11,112,431	(7,629,725)	3,482,706	68.66
Total loans to individuals	**107,873,171**	**(11,243,335)**	**96,629,836**	**10.42**

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 31 December 2016 total impairment allowance to non-performing loans is 105% (31 December 2015: 101%).

Loans overdue 360 days are written off.

(b) Key assumptions and judgments for estimating loan impairment

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

- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past twelve months;

- unsecured loans which borrowers are unable to repay in full can be partially recovered through further collection actions for 23%-28% of the loan's outstanding principal balances.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment allowance on loans to customers as at 31 December 2016 would be KZT 1,176,973 thousand lower/higher (31 December 2015: KZT 966,298 thousand).

(c) Loan collateral

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

(d) Significant credit exposures

As at 31 December 2016, the Bank had no borrowers whose loan balances exceed 10% of the Bank's equity (31 December 2015: none).

(e) Loan maturities

The maturity of the loan portfolio is presented in note 26(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Property, equipment and intangible assets

KZT'000	Land and buildings	Computers	Vehicles	Leasehold improvements	Other assets	Intangible assets	Equipment and software for installation	Total
Cost								
Balance at 1 January 2016	489,410	1,587,737	174,488	750,232	857,695	4,664,967	156,734	8,681,263
Additions	-	-	-	39,347	9,205	653,631	2,425,509	3,127,692
Disposals	-	(132,473)	(40,780)	(163,858)	(93,238)	(199,298)	(15,612)	(645,259)
Transfers	-	286,810	111,325	337,711	135,065	1,539,124	(2,410,035)	-
At 31 December 2016	**489,410**	**1,742,074**	**245,033**	**963,432**	**908,727**	**6,658,424**	**156,596**	**11,163,696**
Depreciation and amortisation								
Balance at 1 January 2016	(21,050)	(762,895)	(73,142)	(256,870)	(278,043)	(1,408,847)	-	(2,800,847)
Depreciation and amortisation for the year	(9,390)	(372,050)	(27,260)	(135,709)	(155,520)	(1,254,069)	-	(1,953,998)
Disposals	-	128,166	31,575	11	57,709	196,542	-	414,003
Balance at 31 December 2016	**(30,440)**	**(1,006,779)**	**(68,827)**	**(392,568)**	**(375,854)**	**(2,466,374)**	**-**	**(4,340,842)**
Carrying amounts at 31 December 2016	**458,970**	**735,295**	**176,206**	**570,864**	**532,873**	**4,192,050**	**156,596**	**6,822,854**
Cost								
Balance at 1 January 2015	488,900	1,678,720	149,057	711,200	847,936	2,951,168	160,303	6,987,284
Additions	-	6,938	25,431	76,344	20,038	1,595,088	683,518	2,407,357
Disposals	-	(406,768)	-	(78,345)	(96,784)	(83,378)	(48,103)	(713,378)
Transfers	510	308,847	-	41,033	86,505	202,089	(638,984)	-
At 31 December 2015	**489,410**	**1,587,737**	**174,488**	**750,232**	**857,695**	**4,664,967**	**156,734**	**8,681,263**
Depreciation and amortisation								
Balance at 1 January 2015	(11,673)	(734,489)	(49,703)	(172,910)	(200,822)	(684,404)	-	(1,854,001)
Depreciation and amortisation for the year	(9,377)	(428,011)	(23,439)	(161,578)	(162,812)	(807,822)	-	(1,593,039)
Disposals	-	399,605	-	77,618	85,591	83,379	-	646,193
Balance at 31 December 2015	**(21,050)**	**(762,895)**	**(73,142)**	**(256,870)**	**(278,043)**	**(1,408,847)**	**-**	**(2,800,847)**
Carrying amounts at 31 December 2015	**468,360**	**824,842**	**101,346**	**493,362**	**579,652**	**3,256,120**	**156,734**	**5,880,416**

There were no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2016 (2015: nil).

15 Other assets

	2016 KZT’000	2015 KZT’000
Receivables from retailer fees	1,490,585	925,342
Loans and advances to banks	1,737	1,952
Total other financial assets	**1,492,322**	**927,294**
Prepayments	434,240	176,539
Inventory	208,333	155,457
Deferred tax asset	199,348	-
Receivables from employees	79,215	157,980
Prepayment of taxes other than income tax	14,090	238,739
Current tax asset	-	73,961
Other	21,865	5,457
Impairment allowance	(29,052)	(3,236)
Total other non-financial assets	**928,039**	**804,897**
Total other assets	**2,420,361**	**1,732,191**

Analysis of movements in the impairment allowance

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

	2016 KZT’000	2015 KZT’000
Balance at the beginning of the year	3,236	5,879
Net charge (recovery)	231,445	(4,788)
Net write-offs (recoveries)	(205,629)	2,145
Balance at the end of the year	**29,052**	**3,236**

As at 31 December 2016 the Bank had gross overdue receivables of KZT 32,098 thousand (31 December 2015: KZT 4,213 thousand) included in other assets.

16 Financial instruments at fair value through profit or loss

Type of instrument	Notional amount	Maturity	Payments to be made by the Bank	Payments to be received by the Bank	Fair value liability, KZT’000
Foreign currency swap	USD 20,000,000	19/09/2017	KZT 7,677,000 thousand at maturity	USD 20,000,000 at maturity	212,431

As at 31 December 2016, financial instruments at fair value through profit or loss include a currency swap agreement signed in 2016 with PPF Banka, under which the Bank should deliver KZT 7,677,000 thousand in 2017 in exchange for USD 20,000 thousand. The resultant unrealised gains and losses on these unmatured contracts, together with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

17 Deposits and balances from banks

	2016 KZT’000	2015 KZT’000
Vostro accounts	2,802	34,975
Term deposits	20,273,531	23,903,483
	20,276,333	**23,938,458**

As at 31 December 2016 the Bank had no counterparties whose balances exceeded 10% of the Bank’s equity (31 December 2015: one counterparty with amount of KZT 21,836,815 thousand).

18 Current accounts and deposits from customers

	2016 KZT'000	2015 KZT'000
Current accounts and demand deposits		
- Retail	7,182,385	8,982,845
- Corporate	1,104,082	3,736,131
Term deposits		
- Retail	32,206,873	9,100,456
- Corporate	33,025,187	22,482,512
	73,518,527	**44,301,944**

As at 31 December 2016, the Bank had one customer (31 December 2015: one customer), whose balances exceeded 10% of the Bank's equity. As at 31 December 2016 these balances amounted to KZT 5,231,356 thousand (31 December 2015: KZT 3,400,300 thousand).

19 Debt securities issued

	Maturity	Coupon rate, %	2016 KZT'000	2015 KZT'000
Unsecured KZT denominated bonds of the 1st issue program 1*	November 2016	8.5	-	7,009,921
Unsecured KZT denominated bonds of the 1st issue program 2*	February 2019	9.5	6,920,282	6,881,848
			6,920,282	**13,891,769**

* Quoted on the Kazakhstan Stock Exchange

20 Certificates of deposit

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

21 Other liabilities

	2016 KZT'000	2015 KZT'000
Payables to partners	2,627,539	959,034
Payables for services	869,901	823,107
Total other financial liabilities	**3,497,440**	**1,782,141**
Payables to employees	1,042,822	679,967
Current tax liability	598,070	-
Vacation reserve	542,809	410,424
Taxes payable other than income tax	245,232	404,985
Deferred tax liability	-	155,210
Other non-financial liabilities	10,972	1,388
Total other non-financial liabilities	**2,439,905**	**1,651,974**
Total other liabilities	**5,937,345**	**3,434,115**

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

22 Equity

(a) Issued capital

As at 31 December 2016 the authorised share capital comprised 160,240 ordinary shares (31 December 2015: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2015: 34,890 ordinary shares). The shares do not have nominal value.

(b) Dividends

In accordance with Kazakhstan legislation the distributable dividend amount is limited to the balance of retained earnings including net profit for the year as recorded in the Bank’s statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Bank’s insolvency. Under Kazakhstan legislation, as at the reporting date, reserves available for distribution amounted to KZT 30,986,307 thousand (31 December 2015: KZT 26,666,940 thousand).

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

	2016 KZT’000	2015 KZT’000
KZT 372,600.7 per ordinary share (2015: KZT 172,040.2)	13,000,037	6,002,481

(c) Statutory reserve capital

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

In 2014, the dynamic reserve was temporarily fixed by the NBRK on the level recognised at 31 December 2013. As at 31 December 2016 and 2015 the non-distributable dynamic reserve is nil.

23 Book value per share

The calculation of book value per share as at 31 December 2016 is based on the number of outstanding ordinary shares of 34,890 (31 December 2015: 34,890) and net assets calculated in accordance with the Listing rules of Kazakhstan Stock Exchange as follows:

	2016 KZT’000	2015 KZT’000
Total assets	143,369,344	117,432,729
Intangible assets	(4,192,050)	(3,256,120)
Total liabilities	(107,183,534)	(85,566,286)
Net assets	**31,993,760**	**28,610,323**

The following table shows the book value per share calculations as at 31 December 2016 and 31 December 2015:

	2016	2015
Net assets, KZT’000	31,993,760	28,610,323
Outstanding number of ordinary shares at the end of the year, share	34,890	34,890
Book value per share, in KZT	**916,989**	**820,015**

24 Earnings per share

The calculation of basic earnings per share as at 31 December 2016 is based on the net profit for the year attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	2016	**2015**
Net profit attributable to ordinary shareholders, KZT’000	17,319,404	8,486,142
Weighted average number of ordinary shares	34,890	34,890
Earnings per share, in KZT	**496,400**	**243,226**

There are no potentially dilutive shares for the year ended 31 December 2016 or 31 December 2015.

25 Analysis by segment

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

26 Risk management

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

(a) Risk management policies and procedures

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

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

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

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

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

26 Risk management, continued

(b) Market risk

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

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

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

(i) Interest rate risk

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

Interest rate gap analysis

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

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

26 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2015					
Interest-earning financial assets					
Loans to customers	28,987,478	17,916,441	24,006,807	25,719,110	96,629,836
Other financial assets	-	-	1,952	-	1,952
	28,987,478	**17,916,441**	**24,008,759**	**25,719,110**	**96,631,788**
Interest-bearing financial liabilities					
Deposits and balances from banks	16,960,225	-	6,943,258	-	23,903,483
Term deposits from customers	7,469,196	5,355,318	13,815,189	4,943,265	31,582,968
Debt securities issued	248,271	90,903	6,919,019	6,633,576	13,891,769
	24,677,692	**5,446,221**	**27,677,466**	**11,576,841**	**69,378,220**
Net position as at 31 December 2015	**4,309,786**	**12,470,220**	**(3,668,707)**	**14,142,269**	**27,253,568**

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2016 and 31 December 2015 is as follows:

	2016 KZT'000	2015 KZT'000
100 bp parallel fall	(160,367)	(85,182)
100 bp parallel rise	160,367	85,182

26 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

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

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

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

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

26 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the currency structure of financial assets and liabilities as at 31 December 2015:

	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS			
Cash and cash equivalents	10,795,724	116,906	10,912,630
Other financial assets	158,529	143,172	301,701
Total assets	**10,954,253**	**260,078**	**11,214,331**
LIABILITIES			
Current accounts and deposits from customers	20,569,192	166,069	20,735,261
Other financial liabilities	79,180	350,571	429,751
Total liabilities	**20,648,372**	**516,640**	**21,165,012**
Net position	**(9,694,119)**	**(256,562)**	**(9,950,681)**
Effect of derivatives held for risk management	**6,630,195**	**-**	**6,630,195**
Net position after derivatives held for risk management purposes	**(3,063,924)**	**(256,562)**	**(3,320,486)**

Other currencies are mainly represented by EUR.

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2016 and 31 December 2015 would have reduced equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting year. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016 KZT'000	2015 KZT'000
20% appreciation of USD against KZT	(4,688)	(490,228)
20% appreciation of other currencies against KZT	701	(41,050)

A strengthening of the KZT against the above currencies at 31 December 2016 and 31 December 2015 would have had the equal but opposite effect on equity and profit or loss by the amounts shown above, on the basis that all other variables remained constant.

26 Risk management, continued

(c) Credit risk

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

The credit policy establishes:

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

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

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

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

	2016 KZT'000	2015 KZT'000
ASSETS		
Cash and cash equivalents	12,578,596	10,893,429
Loans to customers	117,697,312	96,629,836
Other financial assets	1,492,322	927,294
Total maximum exposure	**131,768,230**	**108,450,559**

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

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 28.

Offsetting financial assets and liabilities

As at 31 December 2016 and 2015 the Bank did not have financial instruments subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

26 Risk management, continued

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

26 Risk management, continued

(d) Liquidity risk, continued

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

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

26 Risk management, continued

(d) Liquidity risk, continued

As at 31 December 2015 KZT'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total gross amount outflow**	**Carrying amount**
Non-derivative liabilities							
Deposits and balances from banks	16,104,134	1,062,671	-	8,695,541	-	25,862,346	23,938,458
Current accounts and deposits from customers	13,565,417	6,691,385	5,508,514	14,668,544	5,397,429	45,831,289	44,301,944
Debt securities issued	-	323,289	299,153	7,548,206	8,266,101	16,436,749	13,891,769
Other financial liabilities	823,107	959,034	-	-	-	1,782,141	1,782,141
Total financial liabilities	**30,492,658**	**9,036,379**	**5,807,667**	**30,912,291**	**13,663,530**	**89,912,525**	**83,914,312**
Credit related commitments	1,802,165	-	-	-	-	1,802,165	1,802,165

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

	2016 KZT'000	**2015 KZT'000**
Demand and less than 1 month	2,175,091	845,253
From 1 to 3 months	9,132,208	6,623,943
From 3 to 6 months	4,561,578	5,355,318
From 6 to 12 months	34,439,908	13,815,189
More than 1 year	14,923,275	4,943,265
	65,232,060	**31,582,968**

26 Risk management, continued

(d) Liquidity risk, continued

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

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

26 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2015:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Assets							
Cash and cash equivalents	13,190,286	-	-	-	-	-	13,190,286
Loans to customers	9,840,353	15,087,604	41,923,248	25,719,110	-	4,059,521	96,629,836
Property, equipment and intangible assets	-	-	-	-	5,880,416	-	5,880,416
Other assets	736,461	614,363	299,235	82,132	-	-	1,732,191
Total assets	**23,767,100**	**15,701,967**	**42,222,483**	**25,801,242**	**5,880,416**	**4,059,521**	**117,432,729**
Liabilities							
Deposits and balances from banks	15,970,200	1,025,000	6,943,258	-	-	-	23,938,458
Current accounts and deposits from customers	13,564,229	6,623,943	19,170,507	4,943,265	-	-	44,301,944
Debt securities issued	-	248,271	7,009,922	6,633,576	-	-	13,891,769
Other liabilities	1,503,074	1,364,019	411,812	155,210	-	-	3,434,115
Total liabilities	**31,037,503**	**9,261,233**	**33,535,499**	**11,732,051**	**-**	**-**	**85,566,286**
Net position	**(7,270,403)**	**6,440,734**	**8,686,984**	**14,069,191**	**5,880,416**	**4,059,521**	**31,866,443**

27 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements, set by the NBRK the Bank has to maintain a ratio of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2016 and 31 December 2015, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk was 0.05 and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 0.075. The Bank was in compliance with the statutory capital requirements as at 31 December 2016 and 31 December 2015.

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

	2016 KZT’000	**2015 KZT’000**
Tier 1 capital		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	13,666,903	18,180,798
Profit for the period	17,319,404	8,486,142
Intangible assets	(4,192,050)	(3,256,120)
Total tier 1 capital	**31,993,760**	**28,610,323**
Total tier 2 capital	**-**	**-**
Total capital	**31,993,760**	**28,610,323**
Total credit risk-weighted assets	**137,995,557**	**100,907,801**
Total credit risk-weighted assets and liabilities, including market and operational risk	**168,457,058**	**132,060,724**
Total capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)	**0.190**	**0.217**
Total tier 1 capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)	**0.190**	**0.217**

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

28 Commitments

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

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

	2016 KZT’000	2015 KZT’000
Contracted amount		
Loan and credit line commitments	5,090,131	1,802,165
	5,090,131	**1,802,165**

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

As at 31 December 2016 the Bank had no counterparties whose commitment balances exceeded 10% of the Bank’s equity (31 December 2015: none).

29 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 2016 KZT 934,329 thousand was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2015: KZT 859,926 thousand).

As at 31 December 2016 the Bank reported KZT 1,386 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 2015: KZT 1,243 thousand).

30 Contingencies

(a) Insurance

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

(b) Litigation

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

30 Contingencies, continued

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

31 Related party transactions

(a) Control relationships

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

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

Total remuneration included in personnel expenses for the year ended 31 December 2016 and 31 December 2015 was as follows:

	2016 KZT'000	**2015 KZT'000**
Members of the Board of Directors	267,922	117,089
Members of the Management Board	481,202	345,584
	749,124	**462,673**

The outstanding balances and average interest rates as at 31 December 2016 and 31 December 2015 for balances with members of the Board of Directors and the Management Board were as follows:

	2016 KZT'000	**Average interest rate, %**	**2015 KZT'000**	**Average interest rate, %**
Statement of financial position				
LIABILITIES				
Current accounts and deposits from customers	218,250	1.92	27,164	0.01

31 Related party transactions, continued

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

Total amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for 2016 and 2015 were as follows:

	2016 KZT’000	2015 KZT’000
Statement of profit or loss and other comprehensive income		
Interest expense	(1,083)	(104)
	(1,083)	**(104)**

(c) Transactions with the parent

As at 31 December 2016 and 31 December 2015 balances with the parent included in the statement of financial position were as follows:

	2016 KZT’000	Average interest rate, %	2015 KZT’000	Average interest rate, %
Statement of financial position				
ASSETS				
Cash and cash equivalents				
-In USD	120	-	122	-
-In EUR	112	-	118	-
-In RUB	40	-	37	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	-	-	21,836,815	19.70
-In USD	333	-	-	-

31 Related party transactions, continued

(c) Transactions with the parent, continued

During 2016 and 2015 transactions with the parent included in the statement of profit or loss and other comprehensive income were as follows:

	2016 KZT'000	2015 KZT'000
Statement of profit or loss and other comprehensive income		
Interest expense		
Deposits and balances from banks		
-In KZT	(2,544,637)	(407,586)
	(2,544,637)	**(407,586)**
Other borrowed funds		
-In USD	-	(239,295)
	-	**(239,295)**
Fee and commission expense		
Other fee and commission expense		
-In KZT	-	(18,445)
	-	**(18,445)**
Net (loss) gain on financial instruments at fair value through profit or loss		
-In USD	(1,057,994)	-
	(1,057,994)	**-**

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

As at 31 December 2016 and 31 December 2015 balances with entities controlled by the ultimate controlling owner included in the statement of financial position were as follows:

	2016 KZT'000	Average interest rate, %	2015 KZT'000	Average interest rate, %
Statement of financial position				
ASSETS				
Property, equipment and intangible assets				
-In KZT	2,892,291	-	2,465,725	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	560,359	7.47	520,845	14.93
Current accounts and deposits from customers				
-In KZT	658,318	-	652,479	8.00
Financial instruments at fair value through profit or loss				
-In USD	212,431	-	-	-
Other financial liabilities				
-In EUR	132,862	-	301,888	-

31 Related party transactions, continued

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

During 2016 and 2015 transactions with entities controlled by the ultimate controlling owner included in the statement of profit or loss and other comprehensive income were as follows:

	2016 KZT'000	2015 KZT'000
Statement of profit or loss and other comprehensive income		
Interest income		
Cash and cash equivalents		
-In USD	48,575	-
	48,575	**-**
Interest expense		
Other borrowed funds		
-In KZT	-	(568,769)
-In USD	-	(497,209)
	-	**(1,065,978)**
Deposits and balances from banks		
-In KZT	(82,025)	(245,600)
-In USD	-	(2,346)
	(82,025)	**(247,946)**
Current accounts and deposits from customers		
-In KZT	(8,948)	(50,365)
	(8,948)	**(50,365)**
Subordinated borrowings		
-In KZT	-	(7,680)
	-	**(7,680)**
Net (loss) gain on financial instruments at fair value through profit or loss		
-In USD	(217,431)	-
	(217,431)	**-**
General administrative expenses		
General administrative expenses	(2,311,642)	(1,889,731)
	(2,311,642)	**(1,889,731)**

32 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

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

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

KZT'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	10,893,429	-	10,893,429	10,893,429
Loans to customers	96,629,836	-	96,629,836	96,629,836
Other financial assets	927,294	-	927,294	927,294
	108,450,559	**-**	**108,450,559**	**108,450,559**
Deposits and balances from banks	-	23,938,458	23,938,458	24,266,053
Current accounts and deposits from customers	-	44,301,944	44,301,944	44,559,994
Debt securities issued	-	13,891,769	13,891,769	12,371,437
Other financial liabilities	-	1,782,141	1,782,141	1,782,141
	-	**83,914,312**	**83,914,312**	**82,979,625**

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.

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

(a) Accounting classifications and fair values, continued

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

(b) Fair value hierarchy

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

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

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

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

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

(b) Fair value hierarchy, continued

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

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

Significant valuation issues are reported to the Management Board.

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

KZT'000	**Level 2**
Financial instruments at fair value through profit or loss	
- Derivative liabilities	212,431
	212,431

Unobservable valuation differences on initial recognition

As at 31 December 2015 the transaction price of the swap transactions with the NBRK was different from fair value of the swap instruments in the principal markets. At initial recognition, the Bank estimated the fair values of the swaps transacted with the NBRK using valuation techniques.

The following table shows a reconciliation for the year ended 31 December 2015 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3
KZT'000	**Derivative assets**
Financial instruments at fair value through profit or loss	
Balance at beginning of the year	292,148
Total gains or losses in profit or loss	2,943,652
Settlement	(3,235,800)
Balance at end of the year	**-**

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

(b) Fair value hierarchy, continued

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

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

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2015:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	10,893,429	-	10,893,429	10,893,429
Loans to customers	89,618,076	7,011,760	96,629,836	96,629,836
Other financial assets	927,294	-	927,294	927,294
Liabilities				
Deposits and balances from banks	24,266,053	-	24,266,053	23,938,458
Current accounts and deposits from customers	44,559,994	-	44,559,994	44,301,944
Debt securities issued	12,371,437	-	12,371,437	13,891,769
Other financial liabilities	1,782,141	-	1,782,141	1,782,141