

SB JSC “Bank Home Credit”

Interim Condensed Financial Information
for the three-month period ended
31 March 2019

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SB JSC "Bank Home Credit"
Interim Condensed Statement of Profit or Loss and Other Comprehensive Income
for the three-month period ended 31 March 2019

	Note	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Interest income calculated using the effective interest method	4	22,853,039	16,470,246
Interest expense	4	(7,094,851)	(4,789,856)
Net interest income		15,758,188	11,680,390
Fee and commission income	5	4,888,501	3,358,102
Fee and commission expense	5	(559,940)	(360,864)
Net fee and commission income		4,328,561	2,997,238
Net loss on financial instruments at fair value through profit or loss	6	(2,364,782)	(1,151,221)
Net foreign exchange income	7	1,004,182	751,077
Other operating income		110,956	102,258
Operating income		18,837,105	14,379,742
Charge for credit losses on debt financial assets	8	(707,603)	(680,307)
General administrative expenses	9	(8,052,375)	(6,701,535)
Profit before income tax		10,077,127	6,997,900
Income tax expense	10	(2,064,473)	(1,448,755)
Profit for the year		8,012,654	5,549,145
Other comprehensive income, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve (debt instruments):			
- Net change in fair value		(15,658)	536
- Net change in expected credit losses		10,582	-
Other comprehensive income for the period, net of income tax		(5,076)	536
Total comprehensive income for the three-month period		8,007,578	5,549,681
Earnings per share, in KZT (basic and diluted)	20	229,655	159,047

The interim condensed financial information as set out on pages 3 to 31 were signed by Management on 03 June 2019 by:


Narine Nadirova
Acting Chairman of the Board


Gaukhar Massangaliyeva
Chief Accountant

SB JSC “Bank Home Credit”
Interim Condensed Statement of Financial Position as at 31 March 2019

	Note	Unaudited 31 March 2019 KZT'000	2018 KZT'000
ASSETS			
Cash and cash equivalents	11	66,732,887	70,259,604
Placements with banks		3,450,195	2,473,653
Loans to retail customers	12	266,673,306	267,900,659
Investment securities:			
- Pledged under sale and repurchase agreements	13	9,417,921	9,458,245
- Not pledged under sale and repurchase agreements	13	7,427,418	7,474,998
Financial instruments at fair value through profit or loss		576,763	795,930
Property, equipment and intangible assets		12,084,848	8,652,491
Other assets		4,269,753	4,377,829
Total assets		370,633,091	371,393,409
LIABILITIES			
Financial instruments at fair value through profit or loss		2,324,206	301,083
Deposits and balances from banks	14	49,615,204	62,372,082
Current accounts and deposits from customers			
- Current accounts and deposits from retail customers	15	80,730,025	79,227,545
- Current accounts and deposits from corporate customers	15	71,017,235	62,429,017
Debt securities issued	16	45,056,072	50,542,872
Other borrowed funds	17	27,091,258	35,915,808
Certificates of deposit		11,520,252	7,673,418
Finance lease liabilities		3,518,199	-
Other liabilities		8,823,517	10,002,039
Total liabilities		299,695,968	308,463,864
EQUITY	18		
Share capital		5,199,503	5,199,503
Retained earnings		65,669,332	57,656,678
Fair value reserve		68,288	73,364
Total equity		70,937,123	62,929,545
Total liabilities and equity		370,633,091	371,393,409
Book value per share, in KZT	19	1,910,582	1,684,689

SB JSC "Bank Home Credit"
Interim Condensed Statement of Cash Flows for the three-month period ended 31 March 2019

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	22,888,805	17,695,181
Interest payments	(5,360,396)	(4,550,121)
Fee and commission receipts	5,084,694	3,575,151
Fee and commission payments	(848,097)	(55,275)
Net (payments) receipts from financial instruments at fair value through profit or loss	(122,492)	268,941
Net receipts from foreign exchange	142,610	1,251,003
Other income receipts, net	110,956	102,258
General administrative expenses	(7,545,116)	(5,177,318)
Increase in operating assets		
Loans to retail customers	(982,132)	(11,799,367)
Placements with banks	(1,029,792)	-
Investment securities	18,918	(80,787)
Other assets	(171,425)	(453,158)
Increase (decrease) in operating liabilities		
Current accounts and deposits from customers	10,026,568	19,264,244
Deposits and balances from banks	(12,175,854)	(3,263,794)
Certificates of deposit	3,797,443	(75,300)
Other liabilities	538,545	487,749
Net cash provided from operating activities before income tax paid	14,373,235	17,189,407
Income tax paid	(1,454,775)	(1,326,213)
Cash flows provided from operating activities	12,918,460	15,863,194
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(884,838)	(762,110)
Proceeds from sale of property and equipment	18,868	138
Cash flows used in investing activities	(865,970)	(761,972)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	14,999,182	-
Repayments of other borrowed funds	(23,262,200)	(9,949,647)
Issue of debt securities	52,450	-
Redemption of debt securities	(6,768,502)	-
Finance lease payments	(159,995)	-
Cash flows used in financing activities	(15,139,065)	(9,949,647)
Net (decrease) increase in cash and cash equivalents	(3,086,575)	5,151,575
Effect of changes in exchange rates on cash and cash equivalents	(440,142)	(235,161)
Cash and cash equivalents as at the beginning of the period	70,259,604	14,211,027
Cash and cash equivalents as at the end of the period (note 11)	66,732,887	19,127,441

SB JSC “Bank Home Credit”
Interim Condensed Statement of Changes in Equity for the three-month period ended 31 March 2019

KZT'000	Share capital	Fair value reserve	Retained earnings	Total equity
Balance as at 1 January 2018	5,199,503	(33,922)	39,965,763	45,131,344
Impact of adopting IFRS 9 as at 1 January 2018	-	-	(1,113,769)	(1,113,769)
Restated balance as at 1 January 2018	5,199,503	(33,922)	38,851,994	44,017,575
Total comprehensive income (unaudited)				
Profit for the three-month period (unaudited)	-	-	5,549,145	5,549,145
Other comprehensive income (unaudited)				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Fair value reserve (debt instruments)	-	536	-	536
Total other comprehensive income for the three-month period (unaudited)	-	536	-	536
Total comprehensive income (unaudited)	-	536	5,549,145	5,549,681
Balance as at 31 March 2018 (unaudited)	5,199,503	(33,386)	44,401,139	49,567,256
Balance as at 1 January 2019	5,199,503	73,364	57,656,678	62,929,545
Total comprehensive income (unaudited)				
Profit for the three-month period (unaudited)	-	-	8,012,654	8,012,654
Other comprehensive income (unaudited)				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Fair value reserve (debt instruments):				
- Net change in fair value		(15,658)	-	(15,658)
- Net change in expected credit losses	-	10,582	-	10,582
Total other comprehensive income for the three-month period (unaudited)	-	(5,076)	-	(5,076)
Total comprehensive income (unaudited)	-	(5,076)	8,012,654	8,007,578
Balance as at 31 March 2019 (unaudited)	5,199,503	68,288	65,669,332	70,937,123

1 Reporting entity

(a) Organisation and operations

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

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

The registered address of the Bank's head office is 248, Nursultan Nazarbayev av., Almaty, Republic of Kazakhstan, 050059. As at 31 March 2019, the Bank had 17 branches and 45 bank offices (31 December 2018: 17 branches and 45 bank offices).

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

As at 31 March 2019 and 31 December 2018 the Bank was 100% owned by Home Credit and Finance Bank incorporated in the Russian Federation. The ultimate controlling owner of the Bank is Petr Kellner, who exercises control over Home Credit and Finance Bank through PPF Financial Holdings B.V. registered in the Netherlands.

(b) Kazakhstan business environment

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

2 Basis of accounting

(a) Statement of compliance

The accompanying interim condensed financial information are prepared in accordance with the International Financial Reporting Standard (IAS) 34 «*Interim Condensed Financial Statements*» (further, «IFRS (IAS) 34»). It does not contain all information necessary for annual financial information, thus it should be considered together with the financial statements for the year, ended 31 December 2018 as this interim condensed financial information represent an update of previously issued financial statements. Changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

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

2 Basis of accounting, continued

(c) Functional and presentation currency

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

The KZT is also the presentation currency for the purposes of these interim condensed financial information.

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

(d) Use of estimates and judgments

The preparation of interim condensed financial information 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.

Judgements

The preparation of interim condensed financial information 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.

3 Significant accounting policies

The accounting policies applied by the Bank in this interim condensed financial information are consistent with those applied by the Bank in its financial statements for the year ended 31 December 2018.

(a) Changes in accounting policies from 1 January 2019

The Bank has adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are also adopted by the Bank from 1 January 2019 but they do not have a material effect on the interim condensed financial information.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Bank, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in the interim condensed financial information.

IFRS 16 Leases (adopted from 1 January 2019)

In January 2016 IASB issued a new Standard on leases. The standard requires companies to bring most leases on-balance sheet, recognising new assets and liabilities. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the 'right-of-use asset') at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new Standard requires lessees to

account for

3 Significant accounting policies, continued

(a) Changes in accounting policies from 1 January 2019, continued

all of their leases in a manner similar to how finance leases were treated applying IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items.

The Bank has adopted IFRS 16 as issued by the IASB in January 2016 with a date of transition of 1 January 2019, which resulted in changes in accounting policies. The Bank did not early adopt any of IFRS 16 in previous periods.

The Bank has applied IFRS 16 using the modified retrospective approach, accordingly, the comparative information presented at 31 December 2018 and for the three-month period ended 31 March 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for the period of time in exchange for consideration.

On transition to IFRS 16, the Bank elected to apply practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation, and adjusted for certain remeasurements of the lease liability.

“Property, plant and equipment” stated in interim condensed financial information comprise owned and leased assets that do not meet the definition of investment property.

	Unaudited As at 31 March 2019 KZT'000
Property, plant and equipment owned	12,084,848
Right-of-use assets, except for investment property	3,435,944

3 Significant accounting policies, continued

(a) Changes in accounting policies from 1 January 2019, continued

KZT'000	Right-of-use assets	
	Property	Total
Balance at 1 January 2019	3,593,498	3,593,498
Additions	43,482	43,482
Disposals	(573)	(573)
Depreciation charge for the period	(200,463)	(200,463)
Balance at 31 March 2019, unaudited	3,435,944	3,435,944

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate.

The carrying amount of lease liabilities are set below:

	KZT'000
Maturity analysis – contractual undiscounted cash flows	
Less than one year	271,753
One to five years	1,400,212
More than five years	3,941,658
Total undiscounted lease liabilities at 31 March 2019, unaudited	5,613,623
Lease liabilities included in the interim condensed statement of financial position at 31 March 2019, unaudited	3,518,199
Current	714,117
Non-current	2,804,082

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present of the remaining lease payments, discounted at the Banks's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at either: an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Bank applied this approach to all other leases.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with low value.

3 Significant accounting policies, continued

(a) Changes in accounting policies from 1 January 2019, continued

Impacts on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	1 January 2019 KZT'000
Right-of-use assets presented in property, plant and equipment	3,593,498
Lease liabilities	(3,593,498)

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 12.39%.

	1 January 2019 KZT'000
Operating lease commitment at 31 December 2018	(6,363,850)
Discounted using the incremental borrowing rate at 1 January 2019	2,630,016
- Recognition exemption for leases of low-value assets	87,175
- Recognition exemption for leases with less than 12 months of lease term at transition	53,161
Lease liabilities recognised at 1 January 2019	(3,593,498)

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Bank recognised KZT 3,435,944 thousand of right-of-use assets and KZT 3,518,199 thousand of lease liabilities as at 31 March 2019.

Also in relation to those leases under IFRS 16, the Bank has recognised depreciation and interest costs, instead of operating lease expense. During the three-month period ended 31 March 2019, the Bank recognised KZT 200,463 thousand of depreciation charges and KZT 130,461 thousand of interest costs from these leases, unaudited.

4 Net interest income

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Interest income calculated using the effective interest method:		
Interest income on financial assets recorded at amortised cost:		
Loans to retail customers	21,641,164	16,248,215
Cash and cash equivalents	939,877	186,721
Investment securities	271,998	35,310
Total interest income calculated using the effective interest method	22,853,039	16,470,246
Interest expense		
Interest expense on financial liabilities recorded at amortised cost:		
Current accounts and deposits from customers	3,414,387	3,112,438
Debt securities issued	1,558,340	712,143
Deposits and balances from banks	890,475	384,636
Other borrowed funds	483,685	209,709
Sale and repurchase agreements	272,010	339,442
Certificates of deposit	345,180	31,488
Finance lease	130,461	-
Investment securities	313	-
Total interest expense on financial liabilities recorded at amortised cost	7,094,851	4,789,856
Net interest income	15,758,188	11,680,390

5 Net fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major types of commission income.

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Fee and commission income:		
Commission income from insurance	3,204,228	2,051,515
Fees from retailers	717,747	589,135
Contractual penalties from customers	631,904	415,271
Fees for early loan repayments	152,637	196,808
Transfer operations	98,247	39,501
Cards' operations	63,014	34,858
Other fee and commission income	20,724	31,014
Total fee and commission income:	4,888,501	3,358,102
Fee and commission expense:		
Commissions paid for verification services	203,385	156,297
Card processing	127,258	41,963
Deposit insurance fund contributions	77,703	68,849
Commissions paid to partners	61,924	66,084
Settlements	50,956	25,622
Other	38,714	2,049
Total fee and commission expense	559,940	360,864

5 Fee and commission income and expense, continued

Contract balances

The fees and commission presented in this note include income of KZT 4,867,777 thousand (three-month period ended 31 March 2018: KZT 3,327,088 thousand) and expense of KZT 470,270 thousand (three-month period ended 31 March 2018: KZT 333,193 thousand) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

The following table provides information about receivables and contract liabilities from contracts with customers.

KZT'000	Unaudited 31 March 2019	31 December 2018
Receivables, which are included in 'other assets'	2,060,758	2,799,455
Contract liabilities, which are included in 'other liabilities'	-	-

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Insurance service	<p>The Bank provides insurance agent services to retail customers (insurance policies) under the framework agreement concluded between the Bank and insurance company.</p> <p>The Bank acts as an insurance agent and offers customers insurance policies on behalf of the insurance company. The Bank is paid an agency fee proportionate to premiums subscribed.</p> <p>There are two types of contracts with retail customers: (1) purchase of an insurance policy along with a loan, payment for the policy is made using cash obtained under a loan agreement and (2) purchase an insurance policy on its own. Insurance policy purchase is voluntary.</p>	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Fees from retailers	<p>The Bank provides agency services to third parties under the framework agreement concluded between the Bank and trade companies.</p> <p>The Bank acts as an agent of trade companies and offers additional services at sale points. These services provided by trade companies relate to lost item return service subscription under the package called "Keeper". Customer receives key ring and two stickers with information about reward for return and contact numbers of trade companies for those who find lost item. The Bank is paid an agency fee proportionate to services subscribed by customers.</p> <p>The agreement for the purpose of IFRS 15 will be framework agreement between Bank and Trade Company in combination with individual agreements concluded between Trade Company and retail customer.</p>	Revenue related to transactions is recognised at the point in time when the transaction takes place.

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

For the three-month period ended 31 March 2019 the Bank recognised net loss on financial instruments at fair value through profit or loss on short-term currency swap operations concluded on the Kazakhstan stock exchange in the amount of KZT 128,475 thousand (for the three-month period ended 31 March 2018: net gain of KZT 344,715 thousand), and net loss on 1-year currency swap operations concluded with PPF Banka A.S. in the amount of KZT 2,236,307 thousand (for the three-month period ended 31 March 2018: net loss on short-term swap operations concluded with PPF Banka A.S. equalled to KZT 1,495,936 thousand).

7 Net foreign exchange gain

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Translation differences, net	992,386	747,530
Dealing, net	11,796	3,547
	1,004,182	751,077

8 Charge for credit losses on debt financial assets

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Loans to retail customers (Note 12)	641,745	589,360
Other assets	53,311	90,947
Investment securities (Note 13)	12,006	-
Cash and cash equivalents (Note 11)	513	-
Loan commitments	28	-
	707,603	680,307

9 General administrative expenses

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Employee compensation and payroll related taxes	3,870,879	3,496,733
Depreciation and amortisation	1,034,730	703,874
Information technology	804,616	505,455
Professional services	606,299	377,929
Telecommunication and postage	462,631	354,228
Occupancy	137,423	318,183
Taxes other than income tax	227,651	244,523
Advertising and marketing	359,008	193,124
Collectors' services	348,482	250,333
Travel expenses	77,746	71,326
Other	122,910	185,827
	8,052,375	6,701,535

10 Income tax expense

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Current tax expense		
Current year tax expense	2,763,368	1,522,260
Current tax expense overprovided in prior years	(323,602)	-
	<u>2,439,766</u>	<u>1,522,260</u>
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	(375,293)	(73,505)
Total income tax expense	<u>2,064,473</u>	<u>1,448,755</u>

In 2019, the applicable tax rate for current and deferred tax was 20% (2018: 20%).

Reconciliation of effective tax rate:

	Unaudited three-month period ended 31 March 2019 KZT'000	%	Unaudited three-month period ended 31 March 2018 KZT'000	%
Profit before income tax	<u>10,077,127</u>		<u>6,997,900</u>	
Income tax at the applicable tax rate	2,015,425	20.0	1,399,580	20.0
Non-deductible costs	372,650	3.7	49,175	0.7
Overprovided in prior years	(323,602)	(3.2)	-	-
	<u>2,064,473</u>	<u>20.5</u>	<u>1,448,755</u>	<u>20.7</u>

11 Cash and cash equivalents

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Cash on hand	5,507,745	5,882,559
Nostro accounts with the NBRK (rated BBB-)	11,480,195	14,077,562
Nostro accounts with other banks		
- rated from BBB- to BBB+	984,939	4,365,500
- rated from BB- to BB+	555,480	44,927
- rated below B+	33,220	474,635
Nostro accounts with other banks	1,573,639	4,885,062
Loss allowance	(204)	(282)
Net total nostro accounts with other banks	1,573,435	4,884,780
Cash equivalents		
Term deposits with the NBRK (rated BBB-)	47,532,656	45,030,938
Term deposits with other banks		
- not rated	638,934	384,285
Total term deposits with other banks	638,934	384,285
Loss allowance	(78)	(520)
Net total term deposits with other banks	638,856	383,765
Total cash equivalents	48,171,512	45,414,703
Total cash and cash equivalents	66,732,887	70,259,604

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.

All cash and cash equivalents are included in Stage 1 of the credit risk grade.

As at 31 March 2019 the Bank had exposure towards one banking counterparty (31 December 2018: one banking counterparty) exceeding 10% of the Bank's equity with the gross value of KZT 59,012,851 thousand (31 December 2018: KZT 59,108,500 thousand).

The following table shows reconciliations from opening and closing balances of the loss allowance on cash and cash equivalents.

KZT'000	Unaudited 31 March 2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash equivalents					
Balance at 1 January	802	-	-	802	-
Net remeasurement of loss allowance	(598)	-	-	(598)	282
New financial assets originated or purchased	78	-	-	78	520
Balance at 31 March 2019	282	-	-	282	802

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 March 2019, the minimum reserve is KZT 3,245,629 thousand (31 December 2018: KZT 5,316,336 thousand).

12 Loans to retail customers

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Loans to individuals		
Cash loans	150,880,914	150,212,027
POS loans	105,704,830	109,201,408
Credit cards	22,765,476	20,908,557
Total loans to individuals	279,351,220	280,321,992
Impairment allowance	(12,677,914)	(12,421,333)
Net loans to individuals	266,673,306	267,900,659

Movements in the loss allowance of loans to retail customers during the three-month period ended 31 March 2019 were as follows:

(a) Analysis of movements in the credit loss allowance

KZT'000	Unaudited 31 March 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans to retail customers at amortised cost				
Balance at 1 January 2019	3,803,935	1,831,057	6,786,341	12,421,333
Transfer to Stage 1	194,010	(194,010)	-	-
Transfer to Stage 2	(408,547)	408,819	(272)	-
Transfer to Stage 3	(11,405)	(1,603,143)	1,614,548	-
New financial assets originated or purchased*	1,033,835	63,768	-	1,097,603
Net remeasurement of loss allowance**	(933,636)	1,705,206	(1,610,537)	(838,967)
Loans recovered which previously were written off	-	-	2,643,946	2,643,946
Write-offs	-	-	(3,042,338)	(3,042,338)
Unwinding of discount on present value of ECLs	-	-	396,337	396,337
Balance at 31 March 2019	3,678,192	2,211,697	6,788,025	12,677,914

Movements in the loan impairment allowance by stages of loans to retail customers for the three-month period ended 31 March 2018 were as follows:

KZT'000	Unaudited 31 March 2018			
	Stage 1	Stage 2	Stage 3	Total
Loans to retail customers at amortised cost				
Balance at 1 January 2018	2,810,097	1,271,004	4,249,477	8,330,578
Transfer to Stage 1	65,636	(65,636)	-	-
Transfer to Stage 2	(225,572)	225,604	(32)	-
Transfer to Stage 3	(12,215)	(1,011,235)	1,023,450	-
New financial assets originated or purchased*	1,005,267	85,722	-	1,090,989
Net remeasurement of loss allowance**	(780,179)	1,276,235	(997,685)	(501,629)
Loans recovered which previously were written off	-	-	1,871,587	1,871,587
Write-offs	-	-	(2,007,249)	(2,007,249)
Balance at 31 March 2018	2,863,034	1,781,694	4,139,548	8,784,276

* Includes new financial assets originated during the period, including transfers of these loans between stages. **Due to changes in estimates, effect of repayments (including early repayments).

12 Loans to retail customers, continued

(b) Credit quality of loans to retail customers

The following table provides information on the credit quality of loans to retail customers as at 31 March 2019:

	POS loans KZT'000	Cash loans KZT'000	Credit cards KZT'000	Total KZT'000
Collective ECL				
Gross amount - Stage 1 (12M ECL)	92,294,503	113,300,221	21,094,709	226,689,433
Gross amount - Stage 2 (LT ECL)	8,607,623	32,143,399	914,461	41,665,483
Gross amount - Stage 3 (LT ECL)	4,802,704	5,437,294	756,306	10,996,304
-Past due more than 90 days	4,802,704	5,437,294	756,306	10,996,304
Total gross amount	105,704,830	150,880,914	22,765,476	279,351,220
Allowance for impairment – Stage 1 (12M ECL)	(1,765,761)	(1,823,887)	(88,544)	(3,678,192)
Allowance for impairment – Stage 2 (LT ECL)	(877,119)	(1,229,520)	(105,058)	(2,211,697)
Allowance for impairment – Stage 3 (LT ECL)	(3,135,178)	(3,277,382)	(375,465)	(6,788,025)
Total carrying amount – collective ECL	(5,778,058)	(6,330,789)	(569,067)	(12,677,914)
Total carrying amount	99,926,772	144,550,125	22,196,409	266,673,306

The following table provides information on the credit quality of the loans to retail customers as at 31 December 2018:

	POS loans KZT'000	Cash loans KZT'000	Credit cards KZT'000	Total KZT'000
Collective ECL				
Gross amount - Stage 1 (12M ECL)	96,787,537	118,292,679	19,501,069	234,581,285
Gross amount - Stage 2 (LT ECL)	7,389,794	26,777,747	618,199	34,785,740
Gross amount - Stage 3 (LT ECL)	5,024,077	5,141,601	789,289	10,954,967
-Past due more than 90 days	5,024,077	5,141,601	789,289	10,954,967
Total gross amount	109,201,408	150,212,027	20,908,557	280,321,992
Allowance for impairment – Stage 1 (12M ECL)	(1,908,973)	(1,821,557)	(73,405)	(3,803,935)
Allowance for impairment – Stage 2 (LT ECL)	(704,322)	(1,042,361)	(84,374)	(1,831,057)
Allowance for impairment – Stage 3 (LT ECL)	(3,271,183)	(3,034,657)	(480,501)	(6,786,341)
Total carrying amount – collective ECL	(5,884,478)	(5,898,575)	(638,280)	(12,421,333)
Total carrying amount	103,316,930	144,313,452	20,270,277	267,900,659

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 31 March 2019 total impairment allowance to non-performing loans is 115% (31 December 2018: 114%).

Loans overdue 360 days are written off.

12 Loans to retail customers, continued

(c) Key assumptions and judgments for estimating loan impairment

The Bank compute present value of estimated loss – discounting is new under IFRS9.

The Bank estimates the impairment losses on loans to retail customers based on current status of credit and past experience of actually incurred impairment losses on each loan type. 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 21%-25% 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 retail customers as at 31 March 2019 would be KZT 2,666,733 thousand lower/higher (31 December 2018: KZT 2,679,007 thousand).

(d) Loan collateral

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

(e) Significant credit exposures

As at 31 March 2019, the Bank had no borrowers whose loan balances exceed 10% of the Bank's equity (31 December 2018: none).

13 Investment securities

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Investment securities measured at fair value through other comprehensive income	16,845,339	16,933,243
Total investment securities	16,845,339	16,933,243

Investment securities measured at fair value through other comprehensive income

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
<i>Debt securities</i>		
Corporate bonds		
- rated from B- to B+	7,427,418	7,474,998
Pledged under sale and repurchase agreements		
US Treasury bills		
- rated AAA	9,417,921	9,458,245
	16,845,339	16,933,243

All investment securities are included in Stage 1 of the credit risk grade.

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance on investment securities at FVOCI.

	Unaudited 31 March 2019				2018
KZT'000	Stage 1	Stage 2	Stage 3	Total	Total
Investment securities at FVOCI					
Balance at 1 January	51,930	-	-	51,930	-
Net remeasurement	10,582	-	-	10,582	-
New financial assets originated or purchased	-	-	-	-	51,930
Balance at 31 March 2019	62,512	-	-	62,512	51,930

The above loss allowance is not recognized in the interim condensed statement of financial position because the carrying amount of investment securities at FVOCI is their fair value.

14 Deposits and balances from banks

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Vostro accounts	166,203	137,107
Term deposits	40,413,758	53,471,742
Sale and repurchase agreements	9,035,243	8,763,233
	49,615,204	62,372,082

As at 31 March 2019 the Bank had two counterparties whose balances exceeded 10% of the Bank's equity (31 December 2018: two counterparties). As at 31 March 2019 these balances amounted to KZT 28,287,436 thousand (31 December 2018: KZT 40,083,874 thousand).

As at 31 March 2019 amounts payable under sale and repurchase agreements were secured by financial assets at fair value through other comprehensive income equal KZT 9,417,921 thousands (31 December 2018: KZT 9,458,245 thousand) (Note 13). These transactions are conducted under terms that are usual and customary to standard lending activities.

15 Current accounts and deposits from customers

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Corporate		
- Current accounts	1,853,270	2,015,611
- Term deposits	69,163,965	60,413,406
Current accounts and deposits from corporate customers	71,017,235	62,429,017
Retail		
- Current accounts	13,204,544	13,756,609
- Term deposits	67,525,481	65,470,936
Current accounts and deposits from retail customers	80,730,025	79,227,545
	151,747,260	141,656,562

As at 31 March 2019, the Bank had two customers (31 December 2018: one customer), whose balances exceeded 10% of the Bank's equity. As at 31 March 2019 these balances amounted to KZT 17,969,317 thousand (31 December 2018: KZT 6,347,376 thousand).

16 Debt securities issued

	Maturity	Coupon rate, %	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Unsecured KZT denominated bonds of the 3 ^d issue program 2*	October 2019	12.5	8,428,003	8,168,030
Unsecured KZT denominated bonds of the 2 nd issue program 2*	May 2020	15.0	10,508,067	10,130,564
Unsecured KZT denominated bonds of the 1 th issue program 3*	December 2021	13.0	16,090,138	15,570,316
Unsecured KZT denominated bonds of the 4 th issue program 2*	December 2022	13.0	10,029,864	9,665,814
Unsecured KZT denominated bonds of the 1 st issue program 2*	February 2019	9.5	-	7,008,148
			45,056,072	50,542,872

* Quoted on the Kazakhstan Stock Exchange

17 Other borrowed funds

	<u>Issue date</u>	<u>Maturity date</u>	<u>Currency</u>	<u>Weighted-average effective interest rate, %</u>	<u>Unaudited 31 March 2019 KZT'000</u>	<u>2018 KZT'000</u>
Other borrowed funds						
Unsecured loans	12/02/2019	31/12/2020	USD	7.60	15,211,228	-
Unsecured loans	04/07/2018	27/06/2019	EUR	4.80	6,390,954	6,593,186
Unsecured loans	27/12/2018	27/12/2019	KZT	12.5	5,489,076	5,482,295
Unsecured loans	09/08/2018	09/08/2019	USD	7.60	-	15,380,977
Unsecured loans	09/08/2018	27/06/2019	USD	7.40	-	8,459,350
					27,091,258	35,915,808

18 Equity

(a) Issued capital

As at 31 March 2019 the authorised share capital comprised 160,240 ordinary shares (31 December 2018: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2018: 34,890 ordinary shares). The shares do not have nominal value.

(b) Dividends

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

As at 31 March 2019 reserves available for distribution amounted to KZT 13,133,866 thousand (31 December 2018: KZT 11,318,663 thousand).

No dividends were declared and paid during the three-month period ended 31 March 2019 (31 March 2018: none).

19 Book value per share

The calculation of book value per share as at 31 March 2019 is based on the number of outstanding ordinary shares of 34,890 (31 December 2018: 34,890) and net assets calculated in accordance with the Listing rules of Kazakhstan Stock Exchange as follows:

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Total assets	370,633,091	371,393,409
Intangible assets	(4,276,902)	(4,150,760)
Total liabilities	(299,695,968)	(308,463,864)
Net assets	66,660,221	58,778,785

The following table shows the book value per share calculations as at 31 March 2019 and 31 December 2018:

	Unaudited 31 March 2019	2018
Net assets, KZT'000	66,660,221	58,778,785
Outstanding number of ordinary shares at the end of the year, share	34,890	34,890
Book value per share, in KZT	1,910,582	1,684,689

20 Earnings per share

The calculation of basic earnings per share as at 31 March 2019 is based on the net profit for the three-month period attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	Unaudited three-month period ended 31 March 2019	Unaudited three-month period ended 31 March 2018
Net profit attributable to ordinary shareholders, KZT'000	8,012,654	5,549,145
Weighted average number of ordinary shares	34,890	34,890
Earnings per share, in KZT	229,655	159,047

There are no potentially dilutive shares for the three-month periods ended 31 March 2019 or 31 March 2018.

21 Analysis by segment

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 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, the Management Board, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Assets are concentrated primarily in the Republic of Kazakhstan, and the majority of revenues and net income are derived from operations in, and connected with the Republic of Kazakhstan.

22 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBRK the Bank has to maintain: a ratio of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 March 2019, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk was 0.055 (31 December 2018: 0.055) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 0.080 (31 December 2018: 0.080). The Bank was in compliance with the statutory capital requirements as at 31 March 2019 and 31 December 2018.

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

	Unaudited 31 March 2019 KZT'000	2018 KZT'000
Tier 1 capital		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	57,656,678	33,930,452
Profit for the period	8,012,654	23,726,226
Intangible assets	(4,276,902)	(4,150,760)
Fair value reserve	68,288	73,364
Total tier 1 capital	66,660,221	58,778,785
Total tier 2 capital	-	-
Total capital	66,660,221	58,778,785
Total credit risk-weighted assets	421,126,092	416,603,663
Total credit risk-weighted assets and liabilities, including market and operational risk	482,980,500	465,989,998
Total capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)	13.8%	12.6%
Total tier 1 capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)	13.8%	12.6%

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.

23 Commitments

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

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.

	Unaudited	2018
	31 March 2019	KZT'000
	KZT'000	
Contracted amount		
Loan and credit line commitments	24,990,591	19,589,067
	24,990,591	19,589,067

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 March 2019 the Bank had no counterparties whose commitment balances exceeded 10% of the Bank's equity (31 December 2018: none).

24 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.

(c) Taxation contingencies

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

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

25 Related party transactions

(a) Control relationships

The Bank's parent company is Home Credit and Finance Bank (Russia). The Bank's ultimate controlling owner is Petr Kellner. 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 three-month periods ended 31 March 2019 and 31 March 2018 was as follows:

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Members of the Board of Directors	103,910	318,371
Members of the Management Board	386,401	117,376
	490,311	435,747

The outstanding balances and average interest rates as at 31 March 2019 and 31 December 2018 for balances with members of the Board of Directors and the Management Board were as follows:

	Unaudited 31 March 2019 KZT'000	Average interest rate, %	2018 KZT'000	Average interest rate, %
Interim condensed statement of financial position				
LIABILITIES				
Current accounts and deposits from customers	25,079	0.63	13,814	0.62

Total amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for three-month periods ended 31 March 2019 and 31 March 2018 were as follows:

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Interim condensed statement of profit or loss and other comprehensive income		
Interest expense	(37)	(332)
	(37)	(332)

25 Related party transactions, continued

(c) Transactions with the parent

As at 31 March 2019 and 31 December 2018 balances with the parent included in the interim condensed statement of financial position were as follows:

	Unaudited 31 March 2019 KZT'000	Average interest rate, %	2018 KZT'000	Average interest rate, %
Interim condensed statement of financial position				
ASSETS				
Cash and cash equivalents				
-In USD	137	-	138	-
-In EUR	135	-	139	-
-In RUB	43	-	40	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	3	-	3	-
-In USD	19,252,573	7.90	31,320,638	7.43

During the three-month periods ended 31 March 2019 and 2018 transactions with the parent included in the interim condensed statement of profit or loss and other comprehensive income were as follows:

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Interim condensed statement of profit or loss and other comprehensive income		
Interest expense		
Deposits and balances from banks		
-In USD	(434,015)	(22,936)
	<u>(434,015)</u>	<u>(22,936)</u>

25 Related party transactions, continued

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

As at 31 March 2019 and 31 December 2018 balances with entities controlled by the ultimate controlling owner included in the interim condensed statement of financial position were as follows:

	Unaudited 31 March 2019 KZT'000	Average interest rate, %	2018 KZT'000	Average interest rate, %
Interim condensed statement of financial position				
ASSETS				
Placements with banks				
-In EUR	3,450,195	-	2,473,653	0.001
Property, equipment and intangible assets*				
-In KZT	3,355,379	-	3,120,457	-
Financial instruments at fair value through profit or loss				
-In EUR	552,061	-	681,000	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	165,820	-	136,720	-
Other borrowed funds				
-In USD	15,211,228	7.60	23,840,327	7.53
-In EUR	6,390,954	4.80	6,593,186	4.80
Financial instruments at fair value through profit or loss				
-In USD/GBP/EUR	2,299,511	-	186,501	-
Other financial liabilities				
-In EUR	745,026	-	1,588,310	-

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

During the three-month periods ended 31 March 2019 and 2018 transactions with entities controlled by the ultimate controlling owner included in the interim condensed statement of profit or loss and other comprehensive income were as follows:

	Unaudited three-month period ended 31 March 2019 KZT'000	Unaudited three-month period ended 31 March 2018 KZT'000
Interim condensed statement of profit or loss and other comprehensive income		
Interest expense		
Other borrowed funds		
-In USD	(418,513)	-
-In EUR	(77,562)	(54,699)
	<u>(496,075)</u>	<u>(54,699)</u>
Net loss on financial instruments at fair value through profit or loss		
-In USD	(2,236,307)	(1,495,936)
	<u>(2,236,307)</u>	<u>(1,495,936)</u>
General administrative expenses	(1,255,919)	(946,750)
	<u>(1,255,919)</u>	<u>(946,750)</u>

26 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 March 2019:

KZT'000	FVTPL	FVOCI	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	61,225,143	61,225,143	61,225,143
Placements with banks	-	-	3,450,195	3,450,195	3,450,195
Loans to customers	-	-	266,673,306	266,673,306	263,216,690
Financial assets at fair value through other comprehensive income	-	16,845,339	-	16,845,339	16,845,339
Financial instruments at fair value through profit or loss	576,763	-	-	576,763	576,763
Other financial assets	-	-	2,060,758	2,060,758	2,060,758
	576,763	16,845,339	333,409,402	350,831,504	347,374,888
Financial instruments at fair value through profit or loss	2,324,206	-	-	2,324,206	2,324,206
Deposits and balances from banks	-	-	49,615,204	49,615,204	51,823,928
Current accounts and deposits from customers	-	-	151,747,260	151,747,260	163,919,146
Debt securities issued	-	-	45,056,072	45,056,072	46,398,211
Other borrowed funds	-	-	27,091,258	27,091,258	28,813,188
Certificates of deposit	-	-	11,520,252	11,520,252	11,520,252
Other financial liabilities	-	-	4,361,344	4,361,344	4,361,344
	2,324,206	-	289,391,390	291,715,596	309,160,275

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

KZT'000	FVTPL	FVOCI	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	64,377,045	64,377,045	64,377,045
Placements with banks	-	-	2,473,653	2,473,653	2,473,653
Loans to customers	-	-	267,900,659	267,900,659	270,781,236
Financial assets at fair value through other comprehensive income	-	16,933,243	-	16,933,243	16,933,243
Financial instruments at fair value through profit or loss	795,930	-	-	795,930	795,930
Other financial assets	-	-	2,782,880	2,782,880	2,782,880
	795,930	16,933,243	337,534,237	355,263,410	358,143,987
Financial instruments at fair value through profit or loss	301,083	-	-	301,083	301,083
Deposits and balances from banks	-	-	62,372,082	62,372,082	62,651,178
Current accounts and deposits from customers	-	-	141,656,562	141,656,562	144,756,312
Debt securities issued	-	-	50,542,872	50,542,872	50,733,727
Other borrowed funds	-	-	35,915,808	35,915,808	36,209,983
Certificates of deposit	-	-	7,673,418	7,673,418	7,673,418
Other financial liabilities	-	-	7,618,240	7,618,240	7,618,240
	301,083	-	305,778,982	306,080,065	309,943,941

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

(a) Accounting classifications and fair values, continued

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

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

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

(b) Fair value hierarchy

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

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

The Bank has a control framework with respect to the measurement of fair values. This framework includes 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

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

- 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.

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.