

JOINT STOCK COMPANY KAZKOMMERTSBANK

SELECTED EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014 (UNAUDITED)

1. ORGANIZATION

Joint Stock Company (“JSC”) Kazkommertsbank (“the Bank”, or “Kazkommertsbank”) is a Joint Stock Company and has operated in the Republic of Kazakhstan since 1990. The Bank’s activities are regulated by the National Bank of the Republic of Kazakhstan (“the NBRK”) and by the Committee for the control and supervision of financial market and financial organizations of the NBRK (“the FMSC”) in accordance with the license № 48 dated 27 December 2007. The Bank’s primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: 135Zh, Gagarin Str., Almaty, 050060, the Republic of Kazakhstan.

As at 30 September 2014 and 31 December 2013, the Bank had 23 branches in the Republic of Kazakhstan.

Kazkommertsbank is the Parent company of the banking group (“the Group”) which consists of the following companies consolidated in the financial statements:

Name	Country of operation	Proportion or ownership interest/voting rights		Type of operation
		30 September 2014 (unaudited)	31 December 2013	
JSC Kazkommerts Securities LLP Processing Company	Republic of Kazakhstan	100%	100%	Securities market transactions
Kazkommerts International B.V.	Republic of Kazakhstan	100%	100%	Payment card processing and other related services
Kazkommerts Finance II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Capital II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
JSC OCOPAIM GRANTUM Asset Management	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
JSC Life Insurance Company Kazkommerts Life	Republic of Kazakhstan	100%	100%	Investment management of pension assets
CJSC Kazkommertsbank Tajikistan	Republic of Kazakhstan	100%	100%	Life insurance
JSC Insurance Company Kazkommerts-Policy	Republic of Tajikistan	100%	100%	Banking
OJSC Commercial Bank Moskommertsbank	Republic of Kazakhstan	100%	100%	Insurance
KUSA-KKB-1 LLP	Russian Federation	100%	100%	Banking
KUSA KKB-2 LLP	Republic of Kazakhstan	100%	-	Management of stress assets
KUSA KKB-3 LLP	Republic of Kazakhstan	100%	-	Management of stress assets
OJSC Kazkommertsbank Kyrgyzstan	Republic of Kazakhstan	95.75%	95.75%	Management of stress assets
JSC Grantum APF	Kyrgyz Republic	95.75%	95.75%	Banking
JSC BTA Bank and related subsidiaries*	Republic of Kazakhstan	82.52%	82.52%	Pension fund
	Republic of Kazakhstan	48.33%/52.59%	-	Banking

2. BASIS OF PRESENTATION

Accounting basis

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Accordingly, certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been omitted or condensed. The interim condensed consolidated financial information should be read in conjunction with the consolidated financial statements and with selective notes to the consolidated financial statements of the Group for the year ended 31 December 2013.

The preparation of the interim condensed consolidated financial information in conformity with IAS 34 requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities of the Group, and disclosure of contingent assets and liabilities at the reporting date, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the allowance for impairment of loans and receivables and determination of the fair value of financial instruments.

The interim condensed consolidated financial information reflects all adjustments that, in the opinion of management of the Group, are necessary for a fair presentation of the results of operations for the interim period. All such adjustments to the financial information are of a normal, recurring nature. Because the results from common banking activities are closely related and responsive to changes in market conditions, the results for any interim period are not necessarily indicative of the results that can be expected for the year.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (“the functional currency”). The reporting currency of this interim condensed consolidated financial information is the Kazakhstan tenge (“KZT”).

3. SIGNIFICANT ACCOUNTING POLICIES

In preparing this interim condensed consolidated financial information the Group has applied the same accounting policies and methods of computation as those applied in the annual consolidated financial statements of the Group for the year ended 31 December 2013. There were no changes in accounting policies during the Nine months ended 30 September 2014, except for the accounting policies and impact of the adoption of the Standards and Interpretations described below.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective as at 1 January 2014, which are relevant for interim financial reporting.

IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendment)

These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendment)

These amendments have no impact on the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendment)

These amendments have no impact on the Group.

IFRIC 21 Levies

The interpretation is applicable to all payments imposed by governments under legislation, other than outflows that are within the scope of other standards (such as income taxes within the scope of IAS 12) and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date. The same principles should be applied in interim financial information. There was no effect of the interpretation on these financial information.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

4. ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans and advances to banks and other financial institutions (KZT million)	Loans to customers (KZT million) (Note 11)	Investments available-for-sale (KZT million)	Investments held to maturity (KZT million)	Total (KZT million)
30 June 2013 (unaudited)	151	940,329	186	-	940,666
Additional provision recognized	-	20,232	46	-	20,278
Write-off of assets	(3)	(4,204)	-	-	(4,207)
Foreign exchange difference	2	8,628	-	-	8,630
30 September 2013 (unaudited)	<u>150</u>	<u>964,985</u>	<u>232</u>	<u>-</u>	<u>965,367</u>
30 June 2014 (unaudited)	9,735	3,840,002	144	54,648	3,904,529
(Recovery of provision)/additional provision recognized	(2,018)	33,770	-	-	31,752
Write-off of assets	-	(142,226)	-	-	(142,226)
Foreign exchange difference	(410)	(45,391)	-	(478)	(46,279)
30 September 2014 (unaudited)	<u>7,307</u>	<u>3,686,155</u>	<u>144</u>	<u>54,170</u>	<u>3,747,776</u>
31 December 2012	280	923,287	186	-	923,753
(Recovery of provision)/additional provision recognized	(133)	57,866	46	-	57,779
Write-off of assets	-	(26,929)	-	-	(26,929)
Foreign exchange difference	3	10,761	-	-	10,764
30 September 2013 (unaudited)	<u>150</u>	<u>964,985</u>	<u>232</u>	<u>-</u>	<u>965,367</u>
31 December 2013	171	978,753	186	-	979,110
(Recovery of provision)/additional provision recognized	(2,039)	61,151	-	-	59,112
Write-off of assets	-	(225,746)	(42)	-	(225,788)
Foreign exchange difference	(385)	75,626	-	(478)	74,763
Acquisition of JSC BTA Bank	9,560	2,796,371	-	54,648	2,860,579
30 September 2014 (unaudited)	<u>7,307</u>	<u>3,686,155</u>	<u>144</u>	<u>54,170</u>	<u>3,747,776</u>

5. NET GAIN/(LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Three months ended 30 September 2014 (unaudited) (KZT million)	Three months ended 30 September 2013 (unaudited) (KZT million)	Nine months ended 30 September 2014 (unaudited) (KZT million)	Nine months ended 30 September 2013 (unaudited) (KZT million)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss comprises:				
Realized gain/(loss) on trading operations	3,366	(167)	3,406	97
Unrealized (loss)/gain on fair value adjustment	(222)	63	(460)	994
Net (loss)/gain on operations with derivative financial instruments	<u>(6,213)</u>	<u>4,733</u>	<u>(9,693)</u>	<u>1,971</u>
	<u><u>(3,069)</u></u>	<u><u>4,629</u></u>	<u><u>(6,747)</u></u>	<u><u>3,062</u></u>

6. OPERATING EXPENSES

	Three months ended 30 September 2014 (unaudited) (KZT million)	Three months ended 30 September 2013 (unaudited) (KZT million)	Nine months ended 30 September 2014 (unaudited) (KZT million)	Nine months ended 30 September 2013 (unaudited) (KZT million)
Staff costs	8,978	4,000	17,704	12,411
Legal services	5,175	80	5,397	170
Taxes, other than income tax	1,907	477	3,291	1,320
Depreciation and amortization	1,092	842	2,563	2,381
Lease	1,137	510	2,253	1,574
Property and equipment maintenance	944	441	1,976	1,612
Security	424	211	844	648
Bank card services	290	201	738	626
Advertising costs	345	177	693	690
Communications costs	338	165	659	494
Expenses on repossessed assets	141	79	442	191
Other expenses	<u>2,671</u>	<u>678</u>	<u>4,171</u>	<u>1,801</u>
	<u><u>23,442</u></u>	<u><u>7,861</u></u>	<u><u>40,731</u></u>	<u><u>23,918</u></u>

7. INCOME TAX

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate; such tax accounts may differ from IFRS.

Relationships between tax expenses and accounting profit for the three and the Nine months ended 30 September 2014 and 30 September 2013 are explained as follows:

	Three months ended 30 September 2014 (unaudited) (KZT million)	Three months ended 30 September 2013 (unaudited) (KZT million)	Nine months ended 30 September 2014 (unaudited) (KZT million)	Nine months ended 30 September 2013 (unaudited) (KZT million)
Profit before income tax	9,684	11,067	27,467	29,062
Tax at the statutory tax rate (20%)	1,936	2,213	5,493	5,812
Tax effect of permanent differences:				
- tax exempt (income)/expense	(6,451)	588	(7,928)	(1,597)
- non-deductible expense	8,061	625	9,891	2,453
Income tax expense	3,546	3,426	7,456	6,668
Current income tax expense/(benefit)	7,918	4,674	11,248	5,833
Deferred income tax (benefit)/expense	(4,372)	(1,248)	(3,792)	835
Income tax expense	3,546	3,426	7,456	6,668

The corporate income tax rate in the Republic of Kazakhstan was 20% during the nine months ended 30 September 2014 and 2013.

	Nine months ended 30 September 2014 (unaudited) (KZT million)	Year ended 31 December 2013 (KZT million)
Deferred income tax assets		
As at beginning of the period	(1,730)	(4,220)
Decrease of deferred tax asset recognized in the statement of profit or loss	(3,792)	2,413
Change in hedging reserve	(27)	78
Change in available-for-sale reserve	(19)	(7)
Change in deferred tax liability from revaluation of property and equipment	14	6
Other	25	
Acquisition of JSC BTA Bank	214	-
As at end of the period	(5,315)	(1,730)

8. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income attributable to equity holders of the Parent by the weighted average number of participating shares outstanding during the period.

Dividend payments per ordinary shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Three months ended 30 September 2014 (unaudited) (KZT million)	Three months ended 30 September 2013 (unaudited) (KZT million)	Nine months ended 30 September 2014 (unaudited) (KZT million)	Nine months ended 30 September 2013 (unaudited) (KZT million)
Basic and diluted earnings per share				
Net profit attributable to equity holders of the Parent	5,854	7,526	19,612	22,088
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	<u>(654)</u>	<u>(867)</u>	<u>(2,138)</u>	<u>(2,555)</u>
Net profit attributable to ordinary shareholders	5,200	6,659	17,474	19,533
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>728,814,437</u>	<u>777,591,983</u>	<u>761,335,810</u>	<u>777,746,780</u>
Earnings per share – basic and diluted (KZT)	<u><u>7.17</u></u>	<u><u>8.56</u></u>	<u><u>22.95</u></u>	<u><u>25.11</u></u>

The book value per share for each type of shares as at 30 September 2014 and 31 December 2013 is as follows:

Type of shares	30 September 2014 (unaudited)			31 December 2013		
	Outstanding shares	Net asset value* (KZT million)	Book value per share, KZT	Outstanding shares	Net asset value* (KZT million)	Book value per share, KZT
Ordinary shares	669,473,740	403,699	603.01	777,777,907	363,958	467.95
Preference shares	122,352,261	<u>15,089</u>	123.32	122,135,445	<u>13,097</u>	107.24
		<u><u>418,788</u></u>			<u><u>377,055</u></u>	

*Net assets for the calculation of the book value of ordinary shares are calculated as the total assets of the Group, reduced by the amount of intangible assets, total liabilities, the amount of the share capital, attributable to the preference shares. The carrying value of the preference shares equals to the sum of share capital attributable to preference shares, the amount of accrued and unpaid dividends on the preference shares and debt component of preference shares, which is recorded in liabilities of the Group.

The number of outstanding ordinary and preferred shares is calculated net of treasury shares.

According to amendments enacted to the Kazakhstan Stock Exchange (“the KASE”) Listing Rules effective from 25 August 2010, listed companies are required to present book value per share (ordinary and preferred) in their financial statements. The Management of the Group believes that the book value per share is calculated in accordance with the methodology in the KASE Listing Rules.

9. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)
Cash on hand	201,001	46,339
Balances with the national (central) banks	<u>2,041</u>	<u>145,348</u>
	<u>203,042</u>	<u>191,687</u>

Cash and cash equivalents for the purposes of the interim consolidated statement of cash flows are comprised of the following:

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)	30 September 2013 (unaudited) (KZT million)
Cash and balances with national (central) banks	203,042	191,687	237,313
Loans and advances to banks with original maturities less than 3 months	58,534	115,030	91,713
REPO with banks with original maturity of less than 3 months	11,165	10,590	11,776
Less funds deposited with the National Bank of the Republic of Kazakhstan	(52,406)	(40,003)	(42,666)
Less funds deposited with the Central Bank of the Russian Federation	(1,824)	(2,102)	(2,029)
Less funds deposited with the National Bank of the Kyrgyz Republic	(191)	(139)	(167)
Less funds deposited with the National Bank of Tajikistan	(96)	(78)	(96)
Less funds deposited with the National Bank of Belarus	(122)	-	-
	<u>218,102</u>	<u>274,985</u>	<u>295,844</u>

10. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)
Debt securities	123,152	99,934
Equity investments	48,610	5,337
Derivative financial instruments	<u>23,509</u>	<u>16,584</u>
	<u>195,271</u>	<u>121,855</u>

The financial assets at fair value through profit or loss relate entirely to financial assets held-for-trading.

	30 September 2014		31 December 2013	
	(unaudited)			
	Nominal interest rate	Amount	Nominal interest rate	Amount
	%	(KZT million)	%	(KZT million)
Debt securities:				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	3.30-8.75	75,915	3.30-8.75	74,242
Treasury bonds of the USA	0.50-8.13	9,317	0.25	7,689
Bonds of Kazakhstani banks	5.70-13.00	7,277	7.00-9.70	707
Eurobonds of Russian companies	3.42-6.13	7,059	-	-
Bonds of Russian companies	8.15-13.50	6,884	4.20-13.50	7,475
Bonds of Kazakhstani companies	4.81-13.00	4,499	0.00-9.20	2,494
Eurobonds of Kazakhstani companies	4.63-9.13	3,667	5.75-9.13	1,395
Eurobonds of Kazakhstani banks	7.25-9.88	2,047	7.25-9.50	1,080
Municipal bonds of the Russian Federation	11.67	1,736	8.35	1,717
Bonds of Development Bank of Kazakhstan	6.00-6.50	1,360	6.50	165
Bonds of Russian banks	7.90-9.00	1,101	6.90-10.15	2,919
Municipal bonds of the Republic of Kazakhstan	6.20	601	-	-
Bonds of international financial organizations, foreign banks and foreign financial organizations	4.77-8.74	453	2.82	51
Other bonds of foreign issuers	7.88	435	-	-
Treasury promissory notes of the Ministry of Finance of Canada	9.00	409	-	-
Eurobonds of Russian banks	6.13	166	-	-
State bonds of non-OECD countries	12.50	115	-	-
Bonds of federal debt of the Ministry of Finance of the Russian Federation	7.85	111	-	-
		123,152		99,934
		123,152		99,934

	30 September 2014		31 December 2013	
	(unaudited)			
	Ownership share	Amount	Ownership share	Amount
	%*	(KZT million)	%*	(KZT million)
Equity investments:				
GDRs of Kazakhstani companies	0.00-10.44	23,335	-	26
Shares of foreign companies	0.00-10.46	17,879	-	-
Shares of Kazakhstani companies	0.00-3.10	6,079	0.00-3.08	5,311
Shares of Kazakhstani banks*	0.00-0.89	423	-	-
Shares of foreign companies*	0.00-0.15	894	-	-
		48,610		5,337
		48,610		5,337

*Ownership interest in equity securities is below 1%, if not indicated otherwise.

As at 30 September 2014, the fair value of financial assets at fair value through profit or loss pledged under repurchase agreements were equal to KZT 29,053 million (31 December 2013: KZT 75,380 million).

	Notional amount	30 September 2014 (unaudited)		Notional amount	31 December 2013	
		Fair value (KZT million)			Fair value (KZT million)	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments:						
<i>Foreign exchange contracts:</i>						
Swaps	454,775	23,121	(5,810)	222,346	16,552	(1,619)
Spot	4,672	75	(80)	11,423	7	(19)
Option	1,403	313	-	-	-	-
Spot on precious metal	22	-	-	-	-	-
Forwards	-	-	-	3,312	25	(22)
<i>Interest rate contracts:</i>						
Swaps	3,764	-	(510)	6,632	-	(636)
<i>Other:</i>						
Forwards on securities	9,420	-	(8,459)	-	-	-
		<u>23,509</u>	<u>(14,859)</u>		<u>16,584</u>	<u>(2,296)</u>

As at 30 September 2014, the Group used quoted market prices from independent information sources to value all of its financial assets at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data, and certain debt securities, which are valued using valuation models based on non-observable market data.

11. LOANS TO CUSTOMERS

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)
Recorded as loans and receivables:		
Originated loans	6,239,974	2,872,468
Net investments in finance lease	<u>6,679</u>	<u>7,278</u>
	6,246,653	2,879,746
Less allowance for impairment losses	<u>(3,686,155)</u>	<u>(978,753)</u>
	<u>2,560,498</u>	<u>1,900,993</u>

Movements in allowances for impairment losses on loans to customers for the Nine months ended 30 September 2014 and 2013 are disclosed in Note 4.

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)
Analysis by sector:		
Housing construction	655,200	513,668
Individuals	437,290	270,550
Commercial real estate construction	319,292	298,337
Wholesale and retail trade	172,092	120,924
Real estate	177,340	127,343
Hospitality business	153,294	135,565
Production of other non-metal materials	105,728	112,971
Industrial and other construction	71,421	40,599
Energy	67,040	40,325
Transport and communication	66,270	40,660
Mining and metallurgy	46,632	11,261
Investments and finance	39,503	43,382
Agriculture	26,656	8,936
Food industry	19,560	12,562
Machinery construction	14,686	3,481
Medicine	8,498	7,835
Production of construction materials	9,807	17,885
Other	170,189	94,709
	<u>2,560,498</u>	<u>1,900,993</u>

As at 30 September 2014, the Bank accepted issued bonds and eurobonds (previously issued by subsidiary Kazkommerts Finance II B.V.) as collateral on loans to customers with a fair value of KZT 1 million (31 December 2013: KZT 1 million).

As at 30 September 2014, the Group granted loans to borrowers, which individually exceeded 10% of the Group's equity, in the total amount of KZT 863,047 million (31 December 2013: KZT 827,114 million).

12. CUSTOMER ACCOUNTS

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)
Recorded at amortized cost:		
Time deposits	1,700,873	1,247,918
Demand deposits	602,345	431,626
Accounts in precious metals	2,701	2,491
Other	1,700	-
	<u>2,307,619</u>	<u>1,682,035</u>

As at 30 September 2014, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 15,035 million (31 December 2013: KZT 11,314 million).

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)
Analysis by sector:		
Individuals	1,028,120	683,729
Chemical and petrochemical industry	271,250	311,554
Public organizations and unions	221,534	162,672
Government related entities	206,177	65,411
Education	85,821	50,283
Wholesale and retail trade	80,827	49,216
Construction	63,247	42,645
Transport and communication	62,675	66,392
Individual services	56,034	42,170
Investments and finance	44,393	53,322
Distribution of electricity, gas and water	36,900	50,562
Mining and metallurgy	30,693	14,128
Agriculture	13,268	46,811
Other	106,680	43,140
	<u>2,307,619</u>	<u>1,682,035</u>

13. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the interim consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and credit commitments, in the event of non-performance or in the event of impairment by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 30 September 2014, provision for losses on guarantees and other contingencies amounted to KZT 3,946 million (31 December 2013: KZT 4,156 million).

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the standardized approach provided for under Basel 2 standards.

As at 30 September 2014, the credit risk on contingent liabilities and credit commitments was covered by collateral of KZT 39,171 million (31 December 2013: KZT 47,034 million). The collateral includes real estate, deposits and various other financial and non-financial assets.

As at 30 September 2014 and 31 December 2013, the nominal or contract amounts and risk-weighted amounts were:

	30 September 2014 (unaudited) (KZT million)	31 December 2013 (KZT million)
Contingent liabilities and credit commitments:		
Guarantees issued and similar commitments	77,336	57,465
Commitments on loans and unused credit lines	11,277	10,923
Letters of credit and other transaction related to contingent obligations	8,692	10,040
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	22	24
	<u>97,327</u>	<u>78,452</u>
Less collateral in cash	(15,824)	(11,314)
Less provision for guarantees and other contingencies	(3,946)	(4,156)
Total contingent liabilities and credit commitments, net	<u>77,557</u>	<u>62,982</u>
Total risk-weighted amount	<u>69,920</u>	<u>56,447</u>

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 30 September 2014, the amount of contingent liabilities on such unused credit lines equals to KZT 390,631 million (31 December 2013: KZT 319,172 million). The decision to issue further funds is not obligatory since the Group is entitled to suspend or stop providing the borrower with a credit line or deny the borrower the credit for any reason including in case: the borrower violates the obligations before the Group; insufficiency of the collateral when revaluing the collateral due to a decrease in its pledge value or change of prices in the market; or as a result of provision of the credit line (provision of credit) the Group will violate any of the prudential norms established by the regulatory authorities for the second-tier banks; without warning the borrower.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in this interim condensed consolidated financial information.

Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all probable tax amounts due. Income tax related provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Operating environment

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory framework are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

14. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are assessed in accordance with IAS 24, Related Party Disclosures.

In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	30 September 2014 (unaudited) (KZT million)		31 December 2013 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans and advances to banks and other financial institutions, before the allowance	10,459	121,818	-	139,914
- <i>associates</i>	10,459			
Allowance for impairment losses on loans and advances to banks and other financial institutions	(566)	(7,307)	-	(171)
- <i>associates</i>	(566)			
Loans to customers, before the allowance	36	6,246,653	1,059	2,879,746
- <i>key management personnel of the entity or its parent</i>	36		1,059	
Allowance for impairment losses on loans to customers	(8)	(3,686,155)	(116)	(978,753)
- <i>key management personnel of the entity or its parent</i>	(8)		(116)	
Loans and advances from banks and other financial institutions	20	592,096	-	97,955
- <i>associates</i>	20			
Customer accounts	6,178	2,307,619	5,152	1,682,035
- <i>parent company</i>	1,916		1,609	
- <i>entities with joint control or significant influence over the entity</i>	-		275	
- <i>key management personnel of the entity or its parent</i>	4,159		3,237	
- <i>other related parties</i>	103		31	
Commitments on loans and unused credit limits	120	11,277	134	10,923
- <i>key management personnel of the entity or its parent</i>	120		134	

As at 30 September 2014, there were no contingent liabilities on unused credit lines of related parties. As at 31 December 2013, the amount of contingent liabilities on unused credit lines of related parties was equal to KZT 6 million.

Included in the interim consolidated statement of profit or loss for the Nine months ended 30 September 2014 and 2013 are the following amounts which arose due to transactions with related parties:

	Nine months ended 30 September 2014 (unaudited) (KZT million)		Nine months ended 30 September 2013 (unaudited) (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	111	215,876	52	173,970
- <i>key management personnel of the entity or its parent</i>	111		52	
Interest expense	(204)	(108,111)	(227)	(82,270)
- <i>parent company</i>	(87)		(52)	
- <i>entities with joint control</i>	-		(2)	
- <i>key management personnel of the entity or its parent</i>	(116)		(173)	
- <i>other related parties</i>	(1)		-	
Operating expenses	(739)	(40,731)	(401)	(23,918)
- <i>Short-term employee benefits</i>	(739)	(17,704)	(401)	(12,411)
Provision for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	(108)	(57,751)	(45)	(66,508)
- <i>key management personnel of the entity or its parent</i>	(108)		(45)	

Key management personnel compensation for the nine months ended 30 September 2014 and 2013 is represented by short-term employee benefits.

As at 30 September 2014 and 31 December 2013, the Group does not pledge any assets in connection with guarantees issued to management.

15. SEGMENT REPORTING

Business segments

The Group presents operating segments on the basis of four main products.

The amounts disclosed in the segment analysis below are regularly provided to and reviewed by the chief operating decision maker.

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the Nine months ended 30 September 2014 (unaudited) (KZT million)
	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	
External interest income	43,052	155,848	15,966	1,017	(7)	-	215,876
Internal interest income	39,592	32,475	157,961	-	-	230,028	-
External interest expenses	(33,067)	(28,140)	(46,903)	(1)	-	-	(108,111)
Internal interest expenses	(20,149)	(108,357)	(101,522)	-	-	(230,028)	-
Net interest income/(expense) before provision for impairment losses on interest bearing assets	29,428	51,826	25,502	1,016	(7)	-	107,765
Recovery of provision/(provision) for impairment losses on interest bearing assets	(9,619)	(50,607)	1,114	-	-	-	(59,112)
NET INTEREST INCOME	19,809	1,219	26,616	1,016	(7)	-	48,653
Net (loss)/gain on financial assets and liabilities at fair value though profit or loss	(20)	(186)	(6,658)	117	-	-	(6,747)
Net gain/(loss) on foreign exchange and precious metals operations	1,308	(533)	(597)	1,305	-	-	1,483
Fee and commission income	16,827	9,541	743	109	(77)	(99)	27,044
Fee and commission expense	(11,610)	(478)	(709)	(105)	-	87	(12,815)
Net realized loss on investments available-for-sale	-	-	1,145	(59)	-	-	1,086
Dividend income	28	110	1,200	55	-	-	1,393
Other income/(expenses)	40	(2,572)	7,285	727	1,515	(233)	6,762
NET NON-INTEREST INCOME/(EXPENSE)	6,573	5,882	2,409	2,149	1,438	(245)	18,206
OPERATING EXPENSES	(18,001)	(13,017)	(7,814)	(2,202)	58	245	(40,731)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	8,381	(5,916)	21,211	963	1,489	-	26,128
(Provision)/recovery of provision for impairment losses on other transactions	(246)	1,467	10	(1,562)	(43)	-	(374)
Recovery of provision for guarantees and other contingencies	-	1,735	-	-	-	-	1,735
Share in results of associates	-	-	(22)	-	-	-	(22)
PROFIT/(LOSS) BEFORE INCOME TAX	8,135	(2,714)	21,199	(599)	1,446	-	27,467
Segment assets	502,539	2,392,355	1,336,802	138,101	15,647	(251,659)	4,133,785
Segment liabilities	1,068,430	1,343,321	1,430,675	20,877	10,315	(152,901)	3,720,717

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	For the Nine months ended 30 September 2013 (unaudited) (KZT million)
	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	(unaudited) (KZT million)	
External interest income	26,284	141,219	5,597	870	-	-	173,970
Internal interest income	36,597	27,007	120,166	-	-	(183,770)	-
External interest expenses	(29,769)	(26,865)	(25,636)	-	-	-	(82,270)
Internal interest expenses	(13,884)	(93,553)	(76,333)	-	-	183,770	-
Net interest income before provision for impairment losses on interest bearing assets	19,228	47,808	23,794	870	-	-	91,700
Recovery of provision/(provision) for impairment losses on interest bearing assets	971	(58,836)	132	(46)	-	-	(57,779)
NET INTEREST INCOME/(EXPENSE)	20,199	(11,028)	23,926	824	-	-	33,921
Net loss on financial assets and liabilities at fair value though profit or loss	-	-	3,155	(93)	-	-	3,062
Net gain on foreign exchange and precious metals operations	682	211	(323)	83	-	-	653
Fee and commission income	11,976	7,375	3,587	-	-	-	22,938
Fee and commission expense	(5,268)	(474)	(346)	(123)	-	-	(6,211)
Net realized gain on investments available-for-sale	-	-	177	5	-	-	182
Dividend income	-	-	259	32	-	-	291
Other income	93	1,838	115	4,827	-	-	6,873
NET NON-INTEREST INCOME	7,483	8,950	6,624	4,731	-	-	27,788
OPERATING EXPENSES	(13,728)	(6,914)	(1,447)	(1,829)	-	-	(23,918)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	13,954	(8,992)	29,103	3,726	-	-	37,791
Provision for impairment losses on other transactions	-	(2,259)	-	(3,229)	-	-	(5,488)
Provision for guarantees and other contingencies	-	(3,241)	-	-	-	-	(3,241)
PROFIT/(LOSS) BEFORE INCOME TAX	13,954	(14,492)	29,103	497	-	-	29,062
Segment assets as at 31 December 2013	305,612	1,779,538	493,571	73,343	8,623	(74,395)	2,586,292
Segment liabilities as at 31 December 2013	686,360	1,058,874	520,134	17,601	2,316	(71,200)	2,214,085

16. SUBSEQUENT EVENTS

11 November 2014 the Bank completed the sale of 0.92% of JSC BTA Bank's common shares to K. Rakishev at a price of 0.24162 tenge per common share.

This transaction is based on an earlier agreement to equally distribute common shares purchased by the Bank and Mr. Rakishev from JSC BTA Bank's minority shareholders.

As a result of the transaction the shareholding structure of JSC BTA Bank has changed as follows:

Shareholder	Number of shares	Share (%)
JSC Kazkommertsbank	304,187,299,781	47.415
Kenes Rakishev	304,187,299,781	47.415
JSC NWF Samruk-Kazyna*	27,351,461,050	4.26
Minority shareholders	<u>5,769,817,498</u>	<u>0.91</u>
Total	<u><u>641,495,878,110</u></u>	<u><u>100</u></u>

*JSC BTA Bank shares owned by JSC NWF Samruk-Kazyna have been transferred to the Bank's trust management with voting rights.