

JOINT STOCK COMPANY KAZKOMMERTSBANK

Interim Condensed Consolidated
Financial Information
for the six months ended 30 June 2017 (unaudited)

Joint Stock Company Kazkommertsbank

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Joint Stock Company Kazkommertsbank

Statement of Management's Responsibilities For the Preparation and Approval of the Interim Condensed Consolidated Financial Information For the Three and Six Months Ended 30 June 2017 (Unaudited)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the financial position of Joint Stock Company Kazkommertsbank ("the Bank") and its subsidiaries ("the Group") as at 30 June 2017 and the results of its operations for the three and six month periods then ended, as well as cash flows and changes in equity for the six month period then ended, in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34").

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:


- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group complies with IAS 34;
- Maintaining accounting records in compliance with legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2017 was approved by the Management Board of JSC Kazkommertsbank on 21 August 2017.

On behalf of the Management Board of the Bank:


Wokurka U.
Chief Executive Officer

21 August 2017
Almaty


Karzhabekov A.Zh.
Chief Accountant

21 August 2017
Almaty

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and the Board of Directors of JSC Kazkommertsbank

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of JSC Kazkommertsbank ("the Bank") and its subsidiaries ("the Group") as at 30 June 2017 and the related interim consolidated statements of profit or loss, and other comprehensive income for the three and six months then ended, and interim consolidated statements of changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Basis for Qualified Conclusion

As at 31 March 2017 and 31 December 2016, we were unable to complete our review and obtain sufficient appropriate audit evidence, respectively, to support the allowance for impairment losses in relation to certain borrowers. As such, we were unable to determine whether the impairment losses recorded in the three and six months ended 30 June 2017, should have been recorded in the consolidated statement of profit or loss for prior periods.

Qualified Conclusion

Except for the adjustments to the interim condensed consolidated financial information that we might have become aware of had it not been for the situation described in the *Basis for Qualified Conclusion* section of our report, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of Matter

As discussed in Note 3 to the interim condensed consolidated financial information, the Group incurred losses from operations during the six month period ending 30 June 2017, resulting in negative total equity of the Group in the amount of KZT 199,453 million. As further discussed in notes 3 and 21, following the fulfillment of the conditions precedent in the sale purchase agreement, which was signed on 15 June 2017, the major shareholders of the Group finalised the sale purchase agreement for 96.81% of the Group, with JSC Halyk Bank of Kazakhstan, resulting in the recapitalization of the Group. Our conclusion is not modified in respect of this matter.

Deloitte, LLP

21 August 2017
Almaty

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Profit or Loss For the Three and Six Months Ended 30 June 2017 (Unaudited)

	Notes	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
Interest income	4, 18	96,406	101,356	188,961	220,751
Interest expense	4, 18	(72,890)	(61,574)	(144,183)	(122,004)
NET INTEREST INCOME BEFORE (PROVISION)/RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		23,516	39,782	44,778	98,747
(Provision)/recovery of provision for impairment losses on interest bearing assets	5, 18	(498,591)	7,369	(483,727)	(15,498)
NET INTEREST (EXPENSE)/INCOME		(475,075)	47,151	(438,949)	83,249
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	6	(3,009)	(10,700)	55,019	11,788
Net gain/(loss) on foreign exchange and precious metals operations		16,562	(4,245)	(22,296)	(23,725)
Fee and commission income		13,335	11,710	25,327	22,451
Fee and commission expense		(6,000)	(5,390)	(10,421)	(10,128)
Net realized (loss)/gain on investments available-for-sale		(36)	1,511	(957)	1,086
Dividend income		1,692	332	1,713	352
Net gain on sale of inventory		417	1,228	1,060	1,534
(Loss)/gain from revaluation of other assets	7	(96,088)	(8)	(96,876)	790
Other income		5,131	2,728	10,949	6,890
NET NON-INTEREST (EXPENSE)/INCOME		(67,996)	(2,834)	(36,482)	11,038
OPERATING EXPENSES	8, 18	(21,034)	(18,049)	(39,523)	(33,517)
(LOSS)/PROFIT BEFORE OTHER OPERATING PROVISIONS		(564,105)	26,268	(514,954)	60,770
Provision for impairment losses on other transactions	18	(28,119)	(2,557)	(32,414)	(3,216)
(Provision)/recovery of provision for guarantees and other contingencies	18	(12,772)	760	(12,382)	1,537
(LOSS)/PROFIT BEFORE INCOME TAX		(604,996)	24,471	(559,750)	59,091
Income tax (expense)/benefit	9	(9,453)	293	(16,809)	(15,876)
NET (LOSS)/PROFIT		(614,449)	24,764	(576,559)	43,215
Attributable to:					
Ordinary shareholders of the Parent		(614,449)	21,775	(576,559)	38,165
Preference shareholders of the Parent		-	2,989	-	5,049
Non-controlling interest		-	-	-	1
NET (LOSS)/PROFIT		(614,449)	24,764	(576,559)	43,215
(LOSS)/EARNINGS PER SHARE <i>Basic and diluted (KZT)</i>	10	(770.90)	27.32	(723.39)	47.89

On behalf of the Management Board of the Bank:

Wokurka O.
Chief Executive Officer

21 August 2017
Almaty

Karzhaubekov A.Zh.
Chief Accountant

21 August 2017
Almaty

The notes on pages 11-38 form an integral part of this interim condensed consolidated financial information.

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Comprehensive Income For the Three and Six Months Ended 30 June 2017 (Unaudited)

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
NET (LOSS)/PROFIT FOR THE PERIOD	(614,449)	24,764	(576,559)	43,215
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Net (loss)/gain resulting on revaluation of property	(419)	(117)	(417)	8,322
Income tax	6	56	12	(1,623)
	(413)	(61)	(405)	6,699
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	1,075	227	(768)	(171)
Net gain/(loss) resulting on revaluation of available-for-sale investments	132	2,081	(247)	1,051
Reclassification adjustment relating to available-for-sale investments disposed of in the period	36	(1,511)	957	(1,086)
Net loss on cash flows hedges	-	(105)	(78)	(206)
Income tax	(40)	(54)	(38)	224
	1,203	638	(174)	(188)
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER INCOME TAX	790	577	(579)	6,511
TOTAL COMPREHENSIVE (LOSS)/INCOME	(613,659)	25,341	(577,138)	49,726
Attributable to:				
Ordinary shareholders of the Parent	(613,659)	22,274	(577,138)	43,801
Preference shareholders of the Parent	-	3,067	-	5,924
Non-controlling interest	-	-	-	1
TOTAL COMPREHENSIVE (LOSS)/INCOME	(613,659)	25,341	(577,138)	49,726

On behalf of the Management Board of the Bank:


Wokurka U.
Chief Executive Officer

18 August 2017
Almaty


Karzhaubekov A.Zh.
Chief Accountant

18 August 2017
Almaty

The notes on pages 11-38 form an integral part of this interim condensed consolidated financial information.

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Financial Position As at 30 June 2017 (Unaudited)

	Notes	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
ASSETS:			
Cash and balances with national (central) banks	11	134,653	151,908
Precious metals		3,071	3,255
Financial assets at fair value through profit or loss	12	135,721	210,538
Loans and advances to banks and other financial institutions	18	103,790	109,832
Loans to customers	13, 18	3,182,238	3,756,705
Investments available-for-sale		17,729	19,724
Investments held to maturity		218,685	222,434
Investment property		2,044	13,134
Property, equipment and intangible assets		51,925	48,302
Deferred income tax assets	9	1,779	17,538
Other assets	18	113,198	117,741
Assets classified as held for sale		136,508	194,640
TOTAL ASSETS		4,101,341	4,865,751
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks and other financial institutions	14, 18	814,813	491,505
Customer accounts	15, 18	2,665,464	2,915,438
Financial liabilities at fair value through profit or loss	12	1,716	64,275
Debt securities issued	16	442,561	586,961
Other borrowed funds		80,136	81,308
Provisions		81,106	62,571
Deferred income tax liabilities	9	141	153
Other liabilities	18	46,281	51,823
Subordinated debt		168,576	230,437
Total liabilities		4,300,794	4,484,471
EQUITY:			
Equity attributable to equity holders of the Parent:			
Issued and outstanding share capital		234,592	234,589
Additional paid-in-capital		(10,003)	(6,405)
Property and equipment revaluation reserve		11,044	11,515
Other reserves		(435,092)	141,575
Total equity attributable to equity holders of the Parent		(199,459)	381,274
Non-controlling interest		6	6
Total equity		(199,453)	381,280
TOTAL LIABILITIES AND EQUITY		4,101,341	4,865,751

On behalf of the Management Board of the Bank:


Wokurka U.
Chief Executive Officer

21 August 2017
Almaty


Karzhaubekov A.Zh.
Chief Accountant

21 August 2017
Almaty

The notes on pages 11-38 form an integral part of this interim condensed consolidated financial information.

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Changes in Equity For the Six Months Ended 30 June 2017 (Unaudited)

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in capital (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value deficit ¹ (KZT million)	Cumulative translation reserve ¹ (KZT million)	Hedging reserve ¹ (KZT million)	Retained earnings ¹ (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2015	286,811	(52,291)	(6,405)	5,201	(2,284)	(4,242)	405	146,064	373,259	9	373,268
Net profit	-	-	-	-	-	-	-	43,214	43,214	1	43,215
Other comprehensive income/(loss)	-	-	-	6,714	148	(186)	(165)	-	6,511	-	6,511
Total comprehensive income/(loss)	-	-	-	6,714	148	(186)	(165)	43,214	49,725	1	49,726
Repurchase of treasury shares	-	(108)	-	-	-	-	-	-	(108)	-	(108)
Sale of treasury shares	-	176	-	-	-	-	-	-	176	-	176
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(204)	-	-	-	204	-	-	-
Dividend payment	-	-	-	-	-	-	-	-	-	(4)	(4)
30 June 2016 (unaudited)	286,811	(52,223)	(6,405)	11,711	(2,136)	(4,428)	240	189,482	423,052	6	423,058

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Changes in Equity (Continued)
For the Six Months Ended 30 June 2017 (Unaudited)

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in capital (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value deficit ¹ (KZT million)	Cumulative translation reserve ¹ (KZT million)	Hedging reserve ¹ (KZT million)	Retained earnings ¹ / (accumulated loss) (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2016	286,811	(52,222)	(6,405)	11,515	(1,572)	(3,940)	62	147,025	381,274	6	381,280
Net loss	-	-	-	-	-	-	-	(576,559)	(576,559)	-	(576,559)
Other comprehensive (loss)/income	-	-	-	(405)	656	(768)	(62)	-	(579)	-	(579)
Total comprehensive (loss)/income	-	-	-	(405)	656	(768)	(62)	(576,559)	(577,138)	-	(577,138)
Repurchase of treasury shares	-	(142)	-	-	-	-	-	-	(142)	-	(142)
Sale of treasury shares	-	145	-	-	-	-	-	-	145	-	145
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(66)	-	-	-	66	-	-	-
Loss from disposal of subsidiary (Note 1)	-	-	(3,598)	-	-	-	-	-	(3,598)	-	(3,598)
30 June 2017 (unaudited)	286,811	(52,219)	(10,003)	11,044	(916)	(4,708)	-	(429,468)	(199,459)	6	(199,453)

¹The amounts included within the Investments available-for-sale fair value deficit, Cumulative translation reserve, Hedging reserve and Retained earnings, in the above table, are included within "Other reserves" in the interim consolidated statement of financial position.

On behalf of the Management Board of the Bank:

Wokurka U.
Chief Executive Officer

21 August 2017
Almaty

Karzhaubekov A.Zh.
Chief Accountant

21 August 2017
Almaty

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Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Cash Flows For the Six Months Ended 30 June 2017 (Unaudited)

	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received on loans and advances to banks and other financial institutions	2,243	11,071
Interest received from financial assets at fair value through profit or loss	1,576	3,888
Interest received from loans to customers	49,142	76,211
Interest received from investments available-for-sale	1,522	1,134
Interest received from investments held to maturity	7,128	6,588
Interest paid on loans and advances from banks and other financial institutions	(34,547)	(4,328)
Interest paid on customer accounts	(64,428)	(52,173)
Interest paid on debt securities issued	(27,233)	(38,921)
Interest paid on other borrowed funds	(571)	(1,166)
Interest paid on subordinated debt	(3,760)	(4,844)
Fee and commission received	25,858	23,633
Fee and commission paid	(8,048)	(10,080)
Other income received	6,921	7,548
Operating expenses paid	(39,205)	(31,678)
Cash outflow from operating activities before changes in operating assets and liabilities	(83,402)	(13,117)
Changes in operating assets and liabilities		
Decrease/(increase) in operating assets:		
Funds deposited with National Bank of Kazakhstan	24,232	7,209
Funds deposited with Central Bank of the Russian Federation	2,839	(1,103)
Funds deposited with National Bank of Tajikistan	(250)	262
Precious metals	194	(210)
Financial assets at fair value through profit or loss	70,357	155,115
Loans and advances to banks and other financial institutions	(6,580)	49,105
Loans to customers	97,691	16,629
Other assets	2,895	(23,244)
Increase/(decrease) in operating liabilities:		
Loans and advances from banks and other financial institutions	323,052	(14,855)
Customer accounts	(215,838)	(229,959)
Other liabilities	4,980	20,351
Cash inflow/(outflow) from operating activities before taxation	220,170	(33,817)
Income tax paid	(20,850)	(27,203)
Net cash inflow/(outflow) from operating activities	199,320	(61,020)

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Cash Flows (Continued) For the Six Months Ended 30 June 2017 (Unaudited)

	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(5,033)	(1,957)
Proceeds on sale of property, equipment and intangible assets	18	544
Dividends received	1,260	352
Proceeds on sale of investments available-for-sale	805	49,480
Purchase of investment property	(483)	(1,862)
Purchase of investments held to maturity	(30,286)	-
Proceeds on maturity of investments held to maturity	33,958	5,199
Cash of disposed subsidiary	(2,159)	-
Proceeds on sale of assets held for sale	5,769	17,648
Purchase of investments available-for-sale	-	(37,721)
Proceeds from sale of investment property	-	30
Net cash inflow from investing activities	3,849	31,713
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of treasury shares	(142)	(108)
Sale of treasury shares	145	176
Repurchase and repayment of debt securities issued	(126,780)	(6,150)
Proceeds from other borrowed funds	3,350	700
Repayment of other borrowed funds	(6,374)	(13,081)
Repurchase and maturity of subordinated debt	(66,267)	-
Payments of dividends on preferred shares	-	(9,762)
Payment of dividends	-	(879)
Net cash outflow from financing activities	(196,068)	(29,104)
Effect of changes in foreign exchange rate on cash and cash equivalents	(8,512)	(845)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,411)	(59,256)
CASH AND CASH EQUIVALENTS, beginning of period (Note 11)	172,716	268,426
CASH AND CASH EQUIVALENTS, end of period (Note 11)	171,305	209,170

During the six months ended 30 June 2017, the Group made non-cash transfers from investment property to property, equipment and intangible assets in the amount of KZT 1,086 million, and to other assets in the amount of KZT 10,025 million. During the six months ended 30 June 2016, the Group made non-cash transfers from investment property to assets classified as held for sale in the amount of KZT 10 million.

On behalf of the Management Board of the Bank:


Wokurka U.
Chief Executive Officer

21 August 2017
Almaty


Karzhaubekov A. Zh.
Chief Accountant

21 August 2017
Almaty

The notes on pages 11-38 form an integral part of this interim condensed consolidated financial information.

Joint Stock Company Kazkommertsbank

Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited)

1. Organization

Joint Stock Company ("JSC") Kazkommertsbank ("the Bank", "KKB" 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 Kazakhstan ("the NBK") in accordance with the license № 1.2.16/222/32 dated 2 December 2014. 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 Ave., Almaty, 050060, the Republic of Kazakhstan.

As at 30 June 2017 and 31 December 2016, the Bank had 23 branches in the Republic of Kazakhstan.

Kazkommertsbank is the Parent company of the banking group ("the Group"), which includes the following subsidiaries consolidated in the interim condensed consolidated financial information for the six months ended 30 June 2017 and in the consolidated financial statements for the year ended 31 December 2016:

Name	Country of operation	Proportion or ownership interest/voting rights		Type of operation
		As at 30 June 2017 (unaudited)	As at 31 December 2016	
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
Kazkommerts International B.V.	Kingdom of the Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of the Netherlands	100%	100%	Raising funds for the Bank on international capital markets
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	100%	Banking
JSC Commercial Bank Moskommertsbank	Russian Federation	100%	100%	Banking
LLP KUSA KKB-1	Republic of Kazakhstan	100%	100%	Management of stress assets
LLP KUSA KKB-2	Republic of Kazakhstan	100%	100%	Management of stress assets
LLP KUSA KKB-3	Republic of Kazakhstan	100%	100%	Management of stress assets
LLP Titan-Inkassatsiya	Republic of Kazakhstan	100%	100%	Cash collection services
JSC Life Insurance Company Kazkommerts Life	Republic of Kazakhstan	100%	100%	Life insurance
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	99.97%	99.97%	Insurance
JSC QPayments	Republic of Kazakhstan	100%	-	Payment card processing and other related services
LLP AlemCard	Republic of Kazakhstan	100%	100%	Payment card processing and other related services
JSC Subsidiary of JSC BTA Bank BTA Securities	Republic of Kazakhstan	-	100%	Securities market transactions and management of assets

Joint Stock Company Kazkommertsbank

Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

On 5 January 2017, the Bank repossessed 100% shares of JSC QPayments (former - LLP Processing Company) according to the Forfeiting Agreement. As a result of the business combination, the Group recognized a gain from the purchase of subsidiary in the amount of KZT 32 million included in other income in the interim consolidated statement of profit or loss for the six months ended 30 June 2017.

On 27 April 2017, an agreement was concluded between the Bank and JSC Moskommertsbank (hereinafter – “MKB”), in accordance with which the subordinated debt of the MKB to the Bank with the par value of USD 20,000 thousand were exchanged for common shares of the MKB in the amount of 1,126,262 shares. On 5 May 2017, these shares were credited in full to the Bank’s account.

On 26 June 2017, The Board of Directors of the Bank decided to sell a 100% share in LLP AlemCard (hereinafter – “AlemCard”). As at 30 June 2017, the Group classified assets of AlemCard in the amount of KZT 18 million as assets held for sale in the consolidated statement of financial position.

Disposal of JSC Subsidiary of JSC BTA Bank BTA Securities

On 21 June 2017, the Board of Directors of the Bank decided to sell 100% of the shares of JSC Subsidiary of JSC BTA Bank BTA Securities (hereinafter – “BTAS”). On 28 June 2017, the Bank and Mr. Kenes Rakishev concluded the agreement on the purchase of BTAS common shares.

The Bank transferred control over BTAS to Mr. Kenes Rakishev on 30 June 2017 and excluded BTAS from its interim condensed consolidated financial information as at that date.

Disposed assets and liabilities of BTAS on the date of loss of control are presented as follows:

	30 June 2017 (unaudited) (KZT mln)
ASSETS:	
Cash and cash equivalents	2,159
Financial assets at fair value through profit or loss	2,468
Amounts due from banks and other financial institutions	2,913
Investments available-for-sale	5,042
Investments held to maturity	1,298
Property, equipment and intangible assets	3
Deferred income tax assets	6
Other assets	191
Total assets	14,080
LIABILITIES:	
Other liabilities	11
Financial liabilities at fair value through profit or loss	3,635
Total liabilities	3,646
Net assets disposed	10,434
Loss on disposal of subsidiary	
	30 June 2017 (unaudited) (KZT mln)
Consideration receivable	6,836
Net assets disposed	(10,434)
Loss on disposal	(3,598)

The loss on disposal of BTAS was recognized directly in the Group’s capital as a deal with the controlling shareholder as at the date of the conclusion of the deal.

Joint Stock Company Kazkommertsbank

Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

The consideration receivable is represented by the accounts receivable. The payment for shares by Mr. Kenes Rakishev under the purchase and sale agreement will be made in three tranches from 1 July 2018 to 1 July 2020.

Shareholders

On 19 January 2017, there was an agreement on termination of Trust management of Kazkommerstbank's shares in the amount of 43,081,009 shares between Mr. Nurzhan Subkhanberdin and JSC Central-Asian Investment Company ("CAIC"), which amounted to 5.4% of the total number of common shares issued by JSC Kazkommerstbank.

On 2 June 2017, the Bank signed the Framework Agreement (hereinafter referred to as "the Agreement") with the Government of the Republic of Kazakhstan (represented by the Ministry of Finance of the Republic of Kazakhstan), the NBK, JSC NWF Samruk-Kazyna, JSC Problem Loans Fund, JSC Halyk Bank of Kazakhstan (hereinafter – "Halyk Bank"), JSC BTA Bank (hereinafter – "BTA") and Mr. Kenes Rakishev (hereinafter – "the Parties").

On 15 June 2017, the Sale and Purchase Agreements for the shares of the Bank were signed by and between Mr. Kenes Rakishev and Halyk Bank and separately by and between Samruk-Kazyna and Halyk Bank.

On 23 June 2017, in accordance with the Framework Agreement, Mr. Kenes Rakishev purchased common shares of the Bank held by JSC Qazaq Financial Group, Mr. Nurzhan Subkhanberdin and CAIC. The above-mentioned transactions resulted into direct shareholding of Mr. Kenes Rakishev having increased from 43.23% to 86.09%. JSC Qazaq Financial Group, Mr. Nurzhan Subkhanberdin and CAIC ceased to be shareholders of the Bank.

On 30 June 2017, at the Extraordinary General Meeting of Shareholders of the Bank, it was decided to voluntarily delist the global depository receipts (hereinafter referred to as GDRs), the basic asset of which are common shares issued by the Bank on the London Stock Exchange ("LSE"). The termination of the GDR listing is expected from 28 August 2017.

2. Basis of presentation

Accounting basis

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard ("IAS") 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 2016.

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.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

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 Kazakhstani tenge ("KZT").

3. Significant accounting policies

Going concern principle

During six months ended 30 June 2017, the Group incurred a net loss of KZT 576,559 million, and as at that date the Group's total liabilities exceeded the total assets of the Group by KZT 199,453 million.

The loss of KZT 576,559 million, is primarily due to impairment losses on interest bearing assets, valuation of assets held for sale and other assets, which include inventory in the form of foreclosed collateral. These losses are attributable to changes in management estimate as a result of management reconsidering the amount and timing of future cash flows arising from underlying assets and future investment plans in relation to ongoing and unfinished projects.

On 12 July 2017, the Bank submitted its information of its prudential normatives as at 30 June 2017, according to which the Bank was in full compliance with the normatives and limits required by the NBK, excluding the adjustments described above. As at 31 July 2017, as a result of the transactions described below, of which the NBK is aware, the Bank's regulatory capital amounted to KZT 174,475 million, and the capital adequacy ratios of the Bank as at 31 July 2017 were in compliance with the requirements, as established by the NBK.

Further, Management believes that the Group will continue as a going concern for the foreseeable future, due to the following:

- as discussed in note 21, on 5 July 2017, the Group was acquired by Halyk Bank;
- as discussed in note 21, on 3 July 2017, BTA repaid the outstanding balance in the amount of KZT 2,400,000 million, resulting in the Bank having significant access to liquidity going forward;
- as discussed in note 21, on 3 July 2017, the Bank entered into a significant currency swap transaction with the NBK, providing additional support to the currency position of the Bank;
- as discussed in note 21, on 4 July 2017, the Bank changed the terms of its deposit arrangement with JSC Problem Loan Fund, resulting in a significant improvement in the Group's equity position;
- as discussed in note 21, on 12 July 2017, JSC Halyk Bank acquired additional ordinary shares in the amount of KZT 185,000 million, effectively recapitalizing the Bank.

In addition to the positive financial impact of the transactions described above, Management of the Bank have the following plans:

- appointment of a new experienced Management team from 4 July 2017 and Board of Directors from 31 July 2017;
- improvement of risk management policies and their alignment with the policies and requirements of the Halyk bank;
- developing a profitable business plan through expanding lending activities, further developing and strengthening the Bank's technological leadership in the market and enhancing and promoting the current service offerings of the Bank;
- identifying synergies and efficiencies from the newly enlarged banking group.

As a result of the measures described above, Management believes the Group will continue as a going concern for the foreseeable future.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

Accounting policy

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 2016. There were no changes in accounting policies during the six months ended 30 June 2017.

4. Net interest income

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
Interest income comprise:				
Interest income on financial assets recorded at amortized cost:				
- interest income on collectively assessed impaired financial assets	2,289	4,033	4,817	7,204
- interest income on financial assets that have been assessed individually for impairment	10,589	11,244	17,732	17,981
- interest income on financial assets that are not impaired including collectively assessed not impaired loans	80,326	79,877	159,035	185,032
Interest income on financial assets at fair value through profit or loss	2,771	5,405	6,446	7,616
Interest income on investments available-for-sale	431	797	931	2,918
Total interest income	96,406	101,356	188,961	220,751
Interest income on financial assets recorded at amortized cost comprise:				
Interest income on loans to customers	86,309	85,339	167,570	191,781
Interest income on loans and advances to banks and other financial institutions	1,121	5,934	2,232	10,516
Interest income on investments held to maturity	4,342	3,881	8,693	7,920
Interest income on other financial assets	1,432	-	3,089	-
Total interest income on financial assets recorded at amortized cost	93,204	95,154	181,584	210,217
Interest expense comprise:				
Interest on customer accounts	(37,685)	(38,623)	(74,946)	(74,195)
Interest on debt securities issued	(10,633)	(15,326)	(22,399)	(31,165)
Interest on subordinated debt	(4,013)	(5,303)	(8,265)	(10,510)
Interest on loans and advances from banks and other financial institutions	(19,010)	(1,164)	(35,331)	(3,633)
Preference share dividends	(358)	(395)	(819)	(876)
Interest on other borrowed funds	(1,191)	(763)	(2,423)	(1,625)
Total interest expense	(72,890)	(61,574)	(144,183)	(122,004)
Net interest income before (provision)/recovery of provision for impairment losses on interest bearing assets	23,516	39,782	44,778	98,747

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

5. 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 13)	Investments held to maturity (KZT million)	Total (KZT million)
31 March 2016 (unaudited)	-	276,663	217	276,880
(Recovery of provision)/additional provision	-	(7,380)	11	(7,369)
Write-off of assets	-	(14,878)	-	(14,878)
Recovery of previously written-off assets	-	13,264	-	13,264
Foreign exchange differences	-	(2,332)	-	(2,332)
30 June 2016 (unaudited)	-	265,337	228	265,565
31 March 2017 (unaudited)	5,013	541,979	221	547,213
Additional provision	22	498,565	4	498,591
Write-off of assets	-	(1,368)	-	(1,368)
Recovery of previously written-off assets	-	2,100	-	2,100
Foreign exchange differences	-	8,113	-	8,113
30 June 2017 (unaudited)	5,035	1,049,389	225	1,054,649
31 December 2015	99	314,442	60	314,601
(Recovery of provision)/additional provision	(87)	15,576	9	15,498
Write-off of assets	-	(89,054)	-	(89,054)
Recovery of previously written-off assets	-	20,045	159	20,204
Foreign exchange differences	(12)	4,328	-	4,316
30 June 2016 (unaudited)	-	265,337	228	265,565
31 December 2016	5,062	573,447	217	578,726
(Recovery of provision)/additional provision	(25)	483,744	8	483,727
Write-off of assets	-	(3,359)	-	(3,359)
Recovery of previously written-off assets	-	3,485	-	3,485
Foreign exchange differences	(2)	(7,928)	-	(7,930)
30 June 2017 (unaudited)	5,035	1,049,389	225	1,054,649

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

6. Net (loss)/gain on financial assets and liabilities at fair value through profit or loss

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss comprises:				
Realized gain on trading operations	263	361	520	2,151
Unrealized (loss)/gain on fair value adjustment	(1,190)	682	9,524	154
Net (loss)/gain on operations with derivative financial instruments	(2,082)	(11,743)	44,975	9,483
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(3,009)	(10,700)	55,019	11,788

7. (Loss)/gain from revaluation of other assets

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
(Loss)/gain from change in value of assets held for sale	(53,137)	(7)	(53,925)	731
Loss from change in value of inventory	(41,566)	-	(41,566)	-
(Loss)/gain from change in value of investment property	(1,385)	(1)	(1,385)	59
(Loss)/gain from revaluation of other assets	(96,088)	(8)	(96,876)	790

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

8. Operating expenses

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
Staff costs	10,167	10,975	21,658	19,413
Legal and consulting services	2,969	469	3,470	785
Taxes, other than income tax	1,344	525	2,111	1,460
Property and equipment maintenance	1,111	1,047	1,992	2,024
Depreciation and amortization	972	938	1,924	1,839
Operating lease	970	806	1,811	1,576
Advertising costs	510	319	1,010	665
Bank card services	492	461	930	798
Security	463	419	934	789
Communications costs	300	200	569	413
Business trip expenses	131	183	218	304
Expenses on assets received	107	346	187	699
Vehicle maintenance	99	103	198	199
Collector services	43	103	124	232
Fines, penalties	10	7	57	41
Other expenses	1,346	1,148	2,330	2,280
	21,034	18,049	39,523	33,517

9. 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.

The income tax expense for the three and six months ended 30 June 2017 and 2016 is as follows:

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
Current income tax expense/(benefit)	727	(1,414)	1,105	39,737
Deferred income tax expense/(benefit)	8,726	1,121	15,704	(23,861)
Income tax expense/(benefit)	9,453	(293)	16,809	15,876

Corporate income tax rate in the Republic of Kazakhstan was 20% during the three and six months ended 30 June 2017 and 2016.

Due to the fact that certain types of expenses are not taken into account for tax purposes, and due to the availability of non-taxable income, the Group has certain permanent tax differences.

Relationships between tax expenses and accounting profit for the three and six months ended 30 June 2017 and 2016 are explained as follows:

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
(Loss)/profit before income tax	(604,996)	24,471	(559,750)	59,091
Tax at the statutory tax rate	(120,999)	4,894	(111,950)	11,818
Tax effect of permanent differences:				
- tax effect from different tax rates	13	2	23	22
- tax exempt income	(141)	(2,735)	(9,071)	(6,186)
- tax exempt written off loans/(tax exempt income from recovery of loan loss provisions)	40,901	(3,622)	42,335	3,302
- non-deductible expense	17,767	1,173	21,832	3,330
Change in unrecognised deferred corporate income tax assets	71,443	-	73,171	-
Adjustment of current income tax expense for prior years	469	0	469	110
Adjustments in respect of deferred income tax expense based on declarations for prior years	-	(5)	-	3,480
Income tax expense/(benefit)	9,453	(293)	16,809	15,876

During the three and six months ended 30 June 2017 and 2016, tax exempted income was represented by interest income and capital gains on state and other securities listed on Kazakhstani Stock Exchange, dividend income and interest income on finance leases, and non-deductible expenses comprising non-deductible operating expenses and provisions on finance leases.

Deferred tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount that is determined for tax purposes. The temporary differences available for 30 June 2017 and 2016, are mainly related to various methods of accounting for income and expenses, as well as the accounting value of certain assets.

Tax effect of temporary differences as at 30 June 2017 and 31 December 2016:

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Deferred income tax assets:		
Tax losses carried forward	71,504	-
Tax losses carried forward on trading securities and derivatives	3,586	3,586
Accrued bonuses	2,866	3,522
Unrealised loss from revaluation of trading securities and derivatives	1,568	14,957
Allowance for impairment losses on loans and advances to banks and customers	497	597
	80,021	22,662
Unrecognized tax assets	(73,171)	-
Total deferred income tax assets	6,850	22,662
Deferred income tax liabilities:		
Property, equipment and intangible assets, accumulated depreciation	(4,596)	(4,639)
Unrealised gain on trading securities and derivatives	(141)	(153)
Other liabilities	(475)	(467)
Unrealized gain on revaluation of financial instruments, recognized on cash flow hedges	-	(18)
Total deferred income tax liabilities	(5,212)	(5,277)
Net deferred income tax assets	1,638	17,385

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

As at 30 June 2017, the deferred tax asset for tax losses carried forward is KZT 71,504 million, which mainly includes losses as a result of provisions for loans to customers (Note 5). As at 30 June 2017, the tax asset of KZT 73,171 million was not recognized, because the Group is not able to reliably estimate the probability of future taxable income on account of which these carry forward losses can be used.

The Group offset the deferred tax assets and liabilities in the interim consolidated statement of financial position when there was a right for netting. The amounts presented after the netting include:

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Deferred income tax assets	1,779	17,538
Deferred income tax liabilities	(141)	(153)
Net deferred income tax assets	1,638	17,385

10. (Loss)/earnings per share

Basic and diluted (loss)/earnings per share are calculated by dividing the net (loss)/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 (loss)/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 (loss)/earnings:

	Three months ended 30 June 2017 (unaudited) (KZT million)	Three months ended 30 June 2016 (unaudited) (KZT million)	Six months ended 30 June 2017 (unaudited) (KZT million)	Six months ended 30 June 2016 (unaudited) (KZT million)
Basic and diluted (loss)/earnings per share				
Net (loss)/profit attributable to equity holders of the Parent	(614,449)	24,764	(576,559)	43,214
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	-	(2,989)	-	(5,049)
Net (loss)/profit attributable to ordinary shareholders	(614,449)	21,775	(576,559)	38,165
Weighted average number of ordinary shares for basic and diluted (loss)/earnings per share	797,049,496	796,968,110	797,018,559	796,909,811
(Loss)/earnings per share – basic and diluted (KZT)	(770.90)	27.32	(723.39)	47.89

The book value per share for each type of shares as at 30 June 2017 and 31 December 2016 is as follows:

Type of shares	Outstanding shares	30 June 2017 (unaudited)		31 December 2016		
		Net asset value (KZT million)	Book value per share, KZT	Net asset value (KZT million)	Book value per share, KZT	
Ordinary shares	797,006,468	(208,657)	(261.80)	796,987,545	371,912	466.65
Preference shares	123,550,301	21,762	176.14	123,984,564	21,456	173.05
		(186,895)		393,368		

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

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

According to the Kazakhstan Stock Exchange ("the KASE") Listing Rules effective from 25 August 2010, listed companies are required to present the 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.

11. Cash and balances with national (central) banks

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Cash on hand	97,439	101,771
Balances with the national (central) banks	37,214	50,137
	134,653	151,908

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

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)	30 June 2016 (unaudited) (KZT million)
Cash and balances with national (central) banks	134,653	151,908	142,920
Loans and advances to banks with original maturities less than 3 months	40,246	45,630	109,528
REPO with banks with original maturity of less than 3 months	38,375	44,074	19,043
Less funds deposited with the National Bank of Kazakhstan	(38,661)	(62,894)	(58,096)
Less funds deposited with the Central Bank of the Russian Federation	(2,682)	(5,562)	(3,937)
Less funds deposited with the National Bank of Tajikistan	(626)	(440)	(288)
	171,305	172,716	209,170

12. Financial assets and liabilities at fair value through profit or loss

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Financial assets at fair value through profit or loss:		
Debt securities	85,138	160,164
Equity investments	44,602	31,099
Derivative financial instruments	5,981	19,275
Total financial assets at fair value through profit or loss	135,721	210,538

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments	1,716	64,275
Total financial liabilities at fair value through profit or loss	1,716	64,275

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

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

	30 June 2017 (unaudited)		31 December 2016	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.48-9.70	45,804	4.48-8.20	44,041
Short-tem NBK notes	-	18,253	-	99,350
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	3.88	4,977	-	-
Bonds of Kazakhstani banks	7.00-11.00	4,695	7.00-11.00	3,101
Bonds of Kazakhstani companies	7.50-14.90	2,942	7.50-14.90	4,017
Eurobonds of Kazakhstani banks	7.25-9.13	2,601	7.25-9.13	2,483
Bonds of the Development Bank of Kazakhstan	6.00-6.50	2,477	6.00-6.50	2,411
Municipal bonds of the Russian Federation	11.20	2,012	12.00	2,020
Eurobonds of Kazakhstani companies	4.63-6.95	905	4.63-6.95	986
Bonds of Russian companies	11.75	472	13.00	470
Treasury bonds of the USA	-	-	2.00-2.44	1,285
		85,138		160,164

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Equity investments:		
GDRs of Kazakhstani companies	28,656	23,361
GDRs of Kazakhstani banks	8,238	5,059
Shares of Kazakhstani companies	6,900	2,165
Shares of foreign companies*	473	-
Shares of Kazakhstani banks*	335	350
Shares of foreign banks	-	164
	44,602	31,099

* The Group's ownership interest in equity securities as at 30 June 2017 did not exceed 1.73% (31 December 2016: 2.16%).

As at 30 June 2017, there were no financial assets at fair value through profit or loss pledged under repurchase agreements. As at 31 December 2016, the fair value of financial assets at fair value through profit or loss pledged under repurchase agreements were equal to KZT 89,399 million.

	Notional amount	30 June 2017 (unaudited) Fair value (KZT million)		Notional amount	31 December 2016 Fair value (KZT million)	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments:						
<i>Foreign exchange contracts:</i>						
Swaps	1,089,674	5,980	(1,580)	781,274	19,275	(60,570)
Spot	2,277	1	(1)	723	-	(4)
<i>Interest rate contracts:</i>						
Swaps	2,167	-	(135)	2,772	-	(195)
<i>Other:</i>						
Forward on securities	-	-	-	11,124	-	(3,506)
		5,981	(1,716)		19,275	(64,275)

In February 2017, as part of the repayment of the Bank's Eurobonds, a cross-currency swap transaction in the amount of EUR 650 million was completed.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

As at 30 June 2017, financial liability on forward on sale of shares of Sekerbank TAS was disposed in connection with the sale of investments in BTAS, as disclosed in Note 1, (as at 31 December 2016, fair value of the forward obligation was KZT 3,506 million).

13. Loans to customers

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Recorded as loans and receivables:		
Loans to customers	4,230,777	4,328,940
Net investments in finance lease	850	1,212
	<u>4,231,627</u>	<u>4,330,152</u>
Less: allowance for impairment losses	<u>(1,049,389)</u>	<u>(573,447)</u>
	<u>3,182,238</u>	<u>3,756,705</u>

Movements in allowances for impairment losses on loans to customers for the three and six months ended 30 June 2017 and 2016 are disclosed in Note 5.

The table below presents the loans secured by type of collateral, rather than the sum of the fair value of collateral:

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Analysis by type of collateral:		
Loans collateralized by pledge of accounts receivable	2,412,425	2,507,843
Loans collateralized by pledge of real estate and land	327,074	556,543
Loans collateralized by pledge of equipment	72,053	222,604
Loans collateralized by pledge of inventories	68,711	149,851
Loans collateralized by financial institutions guarantees	53,715	57,113
Loans collateralized by corporate guarantees	45,327	18,508
Loans collateralized by mixed collateral types*	24,279	22,088
Loans collateralized by cash or guarantees of the Government of the RK	15,592	25,735
Loans collateralized by pledge at development stage (real estate, land, shares, guarantees, other)	439	43,275
Loans collateralized by shares	201	13,844
Unsecured loans	<u>162,422</u>	<u>139,301</u>
	<u>3,182,238</u>	<u>3,756,705</u>

*Mixed types of collateral consist of different types of collateral, including real estate, guarantees and inventories. Loans are classified as loans collateralized by mixed collateral, in the case where the division into the types described above is impracticable.

The Bank and BTA have signed an Agreement on opening of a credit line, under which the Bank has opened a credit line to BTA with a limit of KZT 630,000 million and USD 5,600 million with maturity on 30 June 2024 and an interest rate of 9% for loan denominated in KZT and 8% for loan denominated in USD.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

As at 30 June 2017 and 31 December 2016, the carrying value of BTA loans under this credit line are included in the line "Investments and finance" in the classification of the loan portfolio by sector.

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Analysis by sector:		
Investments and finance	2,411,054	2,491,067
Individuals	315,194	302,311
Wholesale and retail trade	66,111	100,237
Housing construction	53,420	116,739
Real estate	46,665	197,887
Industrial and other construction	39,185	65,626
Commercial real estate construction	37,037	87,596
Food industry	34,967	45,163
Energy	33,620	79,207
Agriculture	28,959	109,783
Hospitality business	28,697	29,409
Mining and metallurgy	18,682	34,643
Transport and communication	13,611	13,503
Medicine	7,911	8,365
Production of construction materials	7,554	8,654
Machinery construction	6,815	7,363
Production of other non-metal materials	2,118	1,444
Other	30,638	57,708
	3,182,238	3,756,705

As at 30 June 2017 and 31 December 2016, the Group received non-financial assets by taking possession of collateral it held as security. As at 30 June 2017, such assets in the amount of KZT 129,638 million (31 December 2016: KZT 186,486 million) are included in assets classified as held for sale in the interim consolidated statement of financial position. These assets are represented mostly by real estate, the majority of which will be realized through auctions. In addition, as at 30 June 2017 and 31 December 2016, the Group received assets by taking possession of collateral it held as security, which represents construction in progress. As at 30 June 2017, such assets in the amount of KZT 6,852 million (31 December 2016: KZT 8,154 million) are included in assets classified as held for sale in the interim consolidated statement of financial position.

As at 30 June 2017, a significant part of loans 97.12% (31 December 2016: 94.43%) of the total portfolio is granted to companies operating in the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

14. Loans and advances from banks and other financial institutions

In December 2016, the Bank received a short-term loan from the National Bank of the Republic of Kazakhstan for a total amount of KZT 400,813 million with maturity in March 2017. On 26 December 2016, the Bank made partial early repayment of the above debt in the principal amount of KZT 200,000 million.

From 27 January 2017 to 28 June 2017, the total amount of tranches received under the special purpose loan from NBK at a rate equal to the level of the lower boundary of the interest rate corridor for monetary policy operations of the Republic of Kazakhstan at the time of issue of each tranche under the loan was KZT 570,000 million, the volume of repaid tranches was KZT 145,812 million. As at 30 June 2017, the total amount of the Bank's debt on special-purpose loans to the NBK together with accrued interest is KZT 627,401 million (31 December 2016: KZT 201,875 million).

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

15. Customer accounts

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Recorded at amortized cost:		
Time deposits	2,004,650	2,239,540
Demand deposits	657,703	672,654
Accounts in precious metals	3,111	3,244
	2,665,464	2,915,438

As at 30 June 2017, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 39,811 million (31 December 2016: KZT 52,186 million).

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Analysis by sector:		
Individuals	1,351,068	1,440,081
Government related entities	465,939	464,326
Chemical and petrochemical industry	213,743	282,343
Investments and finance	140,688	152,346
Individual services	79,866	89,160
Construction	70,271	142,724
Wholesale and retail trade	67,717	81,712
Mining and metallurgy	56,448	83,914
Agriculture	54,783	23,014
Education	33,229	32,383
Transport and communication	28,750	50,782
Public organizations and unions	27,734	6,875
Distribution of electricity, gas and water	12,888	13,935
Other	62,340	51,843
	2,665,464	2,915,438

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

16. Debt securities issued

Recorded at amortized cost:	Currency	Maturity date	Annual coupon rate %	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Eurobonds:					
Issued in May 2011 at the price of 99.353%	USD	May 2018	8.50	95,120	98,378
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.88	-	130,954
(Less)/including:					
Discount on Eurobonds issued				(215)	(390)
Accrued interest on Eurobonds issued				1,101	9,059
Total issued Eurobonds				96,006	238,001
Debt securities previously issued by JSC BTA Bank at the price 100.00%					
	USD	December 2022	5.50	184,225	184,147
Debt securities issued of JSC Kazkommertsbank at the price 99.95%					
	KZT	January 2022	8.75	97,222	101,382
Debt securities issued of JSC Kazkommertsbank at the price 99.97%					
	KZT	November 2019	8.40	63,006	60,513
Issued bonds of Moscow Stars B.V. at the price of 99.00%					
	USD	December 2020	6.40	1,808	2,403
Issued promissory notes of OJSC Moskommertsbank					
	USD, RUR	On demand	5.50-12.00	294	515
				442,561	586,961

As at 30 June 2017, the nominal value of debt securities previously issued by JSC BTA Bank amounted to KZT 240,603 million, while discount amounted to KZT 56,378 million (31 December 2016: KZT 247,180 million and KZT 63,033 million, respectively).

During the six months ended 30 June 2017, the Group repurchased debt securities issued in the total amount of KZT 138 million (during the year ended 31 December 2016: KZT 9,091 million) with maturity in 2022.

During the six months ended 30 June 2017, the Group sold debt securities issued in the total amount of KZT 5,071 million (during the year ended 31 December 2016: KZT 7,482 million) with maturity in 2022.

On 13 February 2017, the Bank has repaid debt securities issued in February 2007 for the original amount of EUR 750 million. Debt securities issued were repaid in full on the date of its maturity from the Bank's own funds.

On 13 June 2017, the Bank redeemed subordinated Eurobonds issued in June 2007 for the original amount of USD 250 million. Repayment of the subordinated Eurobonds was made at the expense of the Bank's own funds.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

17. 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 policy in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 30 June 2017 and 31 December 2016, the nominal or contract amounts were:

	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Contingent liabilities and credit commitments:		
Guarantees issued and similar commitments	119,374	137,628
Letters of credit and other transaction related to contingent obligations	13,716	48,084
Commitments on loans and unused credit lines (irrevocable)	35,041	25,849
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	12	16
Total contingent liabilities and credit commitments	168,143	211,577
Less collateral in cash*	(39,811)	(58,523)
Less provision for guarantees and other contingencies	(16,027)	(5,070)
Total contingent liabilities and credit commitments, net	112,305	147,984

*Of these, KZT 39,811 million were taken into account as customer accounts, and as other borrowed funds KZT nil million (31 December 2016: KZT 52,186 million and KZT 6,337 million, respectively).

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 June 2017, the amount of contingent liabilities on such unused credit lines equals to KZT 115,115 million (31 December 2016: KZT 196,574 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.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

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.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reliably measured. No provision has been made in this interim condensed consolidated financial information for any of the contingent liabilities mentioned below.

Sekerbank T.A.S.

In accordance with the decision of the Commercial Court of Istanbul dated 7 February 2012 at the request of Türkiye Vakıflar Bankası TAO provisional arrest was imposed on 101,726,214 shares of Şekerbank T.A.Ş. belonging to BTAS together with the prohibition to transfer these shares to third parties. The issue regarding removal of the seizure of shares belonging to BTA Securities was considered during court sessions on 13 May 2013, 11 September 2013, 5 February 2014 and 2 June 2014.

On 5 February 2015, a regular hearing took place. Due to the absence of one of the main judges, the next court session was postponed to 9 April 2015. However, the Commercial Court of Istanbul decided that the petition regarding the removal of the arrest on shares will be reviewed by convocation of an extraordinary meeting.

On 13 March 2015, 86.47% of BTAS' share in Sekerbank was blocked by the decision of Commercial court of Istanbul, Turkey, including shares acquired and gratuitously received during 2015.

On 3 December 2015, the First Commercial Court of the First Instance in Istanbul, Turkey, issued a ruling in favor of Türkiye Vakıflar Bank T.A.O. and upheld its lawsuit. The ruling decreed that the amount due on loan guaranteed by the BTA should be recovered jointly from the defendants BTA and BTAS with a 22.5% interest per annum in favor of the plaintiff.

On 11 March 2016, as a result of the decision at the First Commercial Court of the First Instance in Istanbul, Turkey, the remaining 13.53% of Sekerbank shares out of encumbrance in the quantity of 17,083,367.22 shares were also blocked as the provision of guarantee of BTA on the loan to ELT LojistikLtd. Şti. (Turkey) issued by TürkiyeVakıflarBank T.A.O. (Turkey).

In execution of a court ruling, on 29 April 2016, 9.43% of Sekerbank shares belonging to BTAS were traded. Sekerbank itself took part in the trade and was declared the winner.

On 5 May 2016, an application to cancel trading in connection with the sale of Sekerbank T.A.S. shares was filed, freezing the transfer of shares for the duration of the trial to the buyer and money to the Plaintiff (TürkiyeVakıflarBank T.A.O. (Turkey)) until a final verdict is issued.

On 29 June 2016, a letter was sent to legal consultants rejecting an application to cancel trading, as if a trial ruling is made in favour of Türkiye Vakıflar Bank T.A.O., the court would oblige defendants to pay state duties of 10% of the auction amount.

Simultaneously, on 20 June 2016, BTA and BTAS filed an appeal against the court's decision to satisfy the claims of Türkiye Vakıflar Bank T.A.O. According to the consultants, this court decision and further actions of TürkiyeVakıflarBank T.A.O. (Turkey) on its execution contain a large number of violations of Turkish law. In this regard, BTA and BTAS believe that they have a good chance of restoring their violated legal rights and interests.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

According to the official notification of the 14th Directorate for Execution of Judgements in Istanbul, which indicates the entry into force of the conducted tenders, it became necessary to re-issue shares in the amount of 9.43% on Sekerbank TAS, owned by BTAS earlier, as a result, based on the above document on 19 August 2016, the shares were written off. The Group recognised the corresponding losses in the consolidated statement of profit or loss for the year ended 31 December 2016.

On 29 March 2017, BTAS and BTA filed a lawsuit to the Commercial Court in London against Turkiye Vakiflar Bank T.A.O. in connection with the violation of obligations under the Agreement on the termination of obligations.

On 5 April 2017, by the Decision of the London Commercial Court, BTAS and BTA were granted permission to file a statement of claim outside the jurisdiction against Turkiye Vakiflar Bank T.A.O. in Turkey.

On 25 April 2017, a formal application process against Turkiye Vakiflar Bank T.A.O. in the English court in London has started.

On 29 June 2017, consultants of Turkiye Vakiflar Bank T.A.O. declared the representation of interests of Turkiye Vakiflar Bank T.A.O. in the English court and the intention of challenging Turkiye Vakiflar Bank T.A.O. jurisdiction in the English court.

As disclosed in Note 1 to these interim condensed consolidated financial information, on 30 June 2017, the Bank transferred control over BTAS to Mr. Kenes Rakishev on the basis of a purchase agreement dated 28 June 2017 and excluded BTAS from its consolidated financial statements as at that date. Along with the control, responsibility and all the risks in this litigation process were also transferred.

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 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 Kazakhstan continue to change rapidly, tax and regulatory frameworks 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 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. Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

18. 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 June 2017 (unaudited) (KZT million) Total category as per financial statements caption		31 December 2016 (KZT million) Total category as per financial statements caption	
	Related party balances		Related party balances	
Loans and advances to banks and other financial institutions	3,871	103,790	7,019	109,832
- other related parties	3,871		7,019	
Loans to customers, before allowance	2,511,296	4,231,627	2,542,237	4,330,152
- key management personnel of the Bank	290		1,625	
- BTA	2,496,579		2,465,831	
- other related parties	14,427		74,781	
Allowance for impairment losses on loans	(109,455)	(1,049,389)	(14,960)	(573,447)
- key management personnel of the Bank	(24)		(67)	
- BTA	(96,579)		(13,851)	
- other related parties	(12,852)		(1,042)	
Other assets	6,944	152,492	1,263	128,609
- key management personnel of the Bank	6,836		-	
- BTA	108		85	
- other related parties	-		1,178	
Allowance for other assets		(39,294)	(1,178)	(10,868)
- other related parties	-		(1,178)	
Loans and advances from banks and other financial institutions	126	814,813	873	491,505
- other related parties	126		873	
Customer accounts	11,724	2,665,464	9,167	2,915,438
- key management personnel of the Bank	650		828	
- BTA	2,736		5,230	
- other related parties	8,338		3,109	
Other liabilities	75	46,281	-	51,823
- other related parties	75		-	
Guarantees issued and similar commitments	37	119,374	6,815	137,628
- BTA	37		6,811	
- other related parties	-		4	
Commitments on loans and unused credit lines (irrevocable)	272	35,041	410	25,849
- key management personnel of the Bank	272		410	
Allowance for guarantees issued and similar commitments	-	(16,027)	(83)	(5,070)
- BTA	-		(83)	

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

Included in the interim consolidated statement of profit or loss for the six months ended 30 June 2017 and 2016 are the following amounts which arose due to transactions with related parties:

	For the six months ended 30 June 2017 (unaudited) (KZT million)		For the six months ended 30 June 2016 (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	127,365	188,961	113,074	220,751
- key management personnel of the entity or its parent	66		-	
- BTA	114,553		104,505	
- other related parties	12,746		8,569	
Interest expense	(35)	(144,183)	(54)	(122,004)
- key management personnel of the entity or its parent	(24)		(54)	
- other related parties	(11)		-	
Operating expenses	(1,233)	(39,523)	(3,061)	(33,517)
- short-term employee benefits	(1,233)	(21,658)	(3,061)	(19,413)
(Provision)/recovery of provision for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	(94,385)	(528,523)	(17,741)	(17,177)
- key management personnel of the entity or its parent	39		-	
- BTA	(83,757)		(16,840)	
- other related parties	(10,667)		(901)	

Key management personnel compensation for the six months ended 30 June 2017 and 2016 is represented by short-term employee benefits.

As at 30 June 2017 and 31 December 2016, the Group does not pledge any assets in connection with guarantees issued to management.

19. 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.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

	Retail banking (unaudited) (KZT million)	Corporate banking (unaudited) (KZT million)	Investment banking (unaudited) (KZT million)	Other (unaudited) (KZT million)	Unallocated (unaudited) (KZT million)	Eliminations (unaudited) (KZT million)	As at and for the six months ended 30 June 2017 (unaudited) (KZT million)
External interest income	20,092	151,131	17,079	659	-	-	188,961
Internal interest income	54,947	29,427	168,747	-	-	(253,121)	-
External interest expenses	(36,916)	(23,896)	(83,369)	(2)	-	-	(144,183)
Internal interest expenses	(13,647)	(147,384)	(92,090)	-	-	253,121	-
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing assets	24,476	9,278	10,367	657	-	-	44,778
Recovery of provision/(provision) for impairment losses on interest bearing assets	8,715	(492,434)	(8)	-	-	-	(483,727)
NET INTEREST INCOME/(LOSS)	33,191	(483,156)	10,359	657	-	-	(438,949)
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	55,019	-	-	-	55,019
Net gain/(loss) on foreign exchange and precious metals operations	805	85	(23,189)	3	-	-	(22,296)
Fee and commission income	17,314	7,717	296	-	-	-	25,327
Fee and commission expense	(8,709)	(986)	(539)	(187)	-	-	(10,421)
Net realized (loss)/gain on investments available-for-sale	-	-	(966)	9	-	-	(957)
Dividend income	-	-	1,713	-	-	-	1,713
Net gain from sale of inventory	-	1,060	-	-	-	-	1,060
Loss on revaluation of other assets	-	(96,853)	(23)	-	-	-	(96,876)
Other income	1,030	(114)	3,921	6,112	-	-	10,949
NET NON-INTEREST INCOME/(EXPENSES)	10,440	(89,091)	36,232	5,937	-	-	(36,482)
OPERATING EXPENSES	(18,747)	(15,127)	(1,289)	(4,360)	-	-	(39,523)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	24,884	(587,374)	45,302	2,234	-	-	(514,954)
Provision for impairment losses on other transactions	-	(29,172)	1	(3,243)	-	-	(32,414)
(Provision)/recovery of provision for guarantees and other contingencies	-	(11,098)	(1,284)	-	-	-	(12,382)
PROFIT/(LOSS) BEFORE INCOME TAX	24,884	(627,644)	44,019	(1,009)	-	-	(559,750)
Segment assets	367,511	3,083,514	596,989	98,019	15,511	(60,203)	4,101,341
Segment liabilities	1,362,323	1,445,246	1,574,056	70,653	995	(152,479)	4,300,794

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

	Retail banking (unaudited) (KZT million)	Corporate banking (unaudited) (KZT million)	Investment banking (unaudited) (KZT million)	Other (unaudited) (KZT million)	Unallocated (unaudited) (KZT million)	Eliminations (unaudited) (KZT million)	For the six months ended 30 June 2016 (unaudited) (KZT million)
External interest income	28,682	163,126	28,687	256	-	-	220,751
Internal interest income	48,674	35,704	152,471	-	-	(236,849)	-
External interest expenses	(28,668)	(33,486)	(59,850)	-	-	-	(122,004)
Internal interest expenses	(13,752)	(128,100)	(94,997)	-	-	236,849	-
Net interest income before recovery/(provision) of provision for impairment losses on interest bearing assets	34,936	37,244	26,311	256	-	-	98,747
Recovery of provision/(provision) for impairment losses on interest bearing assets	15,993	(31,569)	87	(9)	-	-	(15,498)
NET INTEREST INCOME	50,929	5,675	26,398	247	-	-	83,249
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	11,788	-	-	-	11,788
Net gain/(loss) on foreign exchange and precious metals operations	707	(180)	(24,257)	5	-	-	(23,725)
Fee and commission income	15,435	6,818	198	-	-	-	22,451
Fee and commission expense	(8,904)	(704)	(398)	(122)	-	-	(10,128)
Net realized gain on investments available-for-sale	-	-	14	1,072	-	-	1,086
Dividend income	-	-	352	-	-	-	352
Net gain from sale of inventory	-	1,534	-	-	-	-	1,534
Revaluation of assets held for sale	912	(181)	-	59	-	-	790
Other (expense)/income	(20)	223	1,642	5,045	-	-	6,890
NET NON-INTEREST INCOME/(EXPENSES)	8,130	7,510	(10,661)	6,059	-	-	11,038
OPERATING EXPENSES	(18,083)	(11,027)	(1,178)	(3,229)	-	-	(33,517)
PROFIT BEFORE OTHER OPERATING PROVISIONS	40,976	2,158	14,559	3,077	-	-	60,770
Provision for impairment losses on other transactions	-	(1,950)	-	(1,266)	-	-	(3,216)
Recovery of provision for guarantees and other contingencies	-	1,536	1	-	-	-	1,537
PROFIT BEFORE INCOME TAX	40,976	1,744	14,560	1,811	-	-	59,091
Segment assets*	371,395	3,752,052	809,502	93,484	2,805	(163,487)	4,865,751
Segment liabilities*	1,451,418	1,605,890	1,529,275	65,192	9,992	(177,296)	4,484,471

*As at 31 December 2016.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

20. Fair value of financial instruments

IFRS defines fair value as 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.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis.

The Group classifies its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)				
1) Derivative financial assets (Note 12)	4,192	13,959	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	N/A	N/A
2) Derivative financial assets (Note 12)	1,789	5,316	Level 3		KZT implied rate	Internal rate of return in KZT is determined at initial recognition of instrument and subsequently not recalculated.
3) Non-derivative financial assets at fair value through profit or loss (Note 12)						
Debt securities	85,138	160,164	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity investments	44,602	31,099	Level 1	Quoted bid prices in an active market.	N/A	N/A
4) Investments available-for-sale	17,711	19,706	Level 1	Quoted bid prices in an active market.	N/A	N/A
5) Investments available-for-sale	18	18	Level 3	The carrying value of the shares on the basis of forecasted capital of the joint bank (proceedings of the restructuring plan and consolidation of banks). Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	The fair value adjustment is based on an individual approach in view of the complex structure of the association and the restructuring of banks	The increase in equity capital increases the value of the joint bank shares
6) Derivative financial liabilities (Note 12)	1,716	59,890	Level 2		N/A	N/A
7) Derivative financial liabilities (Note 12)	-	4,385	Level 3		KZT implied rate	Internal rate of return in KZT is determined at initial recognition of instrument and subsequently not recalculated

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There were no transfers of financial instruments between Level 1 and 2 during the six months ended 30 June 2017 and year ended 31 December 2016.

Reconciliation from the beginning balances to the ending balances in Level 3 of fair value hierarchy for financial assets and liabilities measured at fair value on recurring basis for the six months ended 30 June 2017 and year ended 31 December 2016 was presented as follows:

	Derivative financial assets (KZT million)	Equity instruments available-for- sale (KZT million)	Derivative financial liabilities (KZT million)
31 December 2015	195,766	31	5,453
Additions	4,952	-	-
<i>Total gains or (losses):</i>			
- to profit or loss	25,206	-	25,334
- to other comprehensive income	-	(13)	-
Redemption	(220,608)	-	(26,402)
31 December 2016	5,316	18	4,385
<i>Total gains or (losses):</i>			
- to profit or loss	(143)	-	(338)
Redemption	(3,002)	-	(4,047)
Refund of prepayment due to partial repayment	(382)	-	-
30 June 2017 (unaudited)	1,789	18	-

As at 30 June 2017 and 31 December 2016, the Group used quoted market prices from independent information sources for 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 unobservable data, and certain equity securities, which are valued using valuation models not based on observable market data.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not measured at fair value:

Loans and advances to and from banks and other financial institutions and other borrowed funds – for assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over three months, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances and other borrowed funds the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end and does not consider future expected losses or disposal of loans to customers to a third parties.

Debt securities issued – market values have been used, where available, to determine the fair value of debt securities traded on an active market.

Subordinated debt – market values have been used, where available, to determine the fair value of subordinated bonds issued and perpetual debt.

The fair value of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position compared with the corresponding carrying value in the consolidated financial statements of the Group are presented below:

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

	30 June 2017 (unaudited)		31 December 2016	
	Carrying amount	Fair value (KZT million)	Carrying Amount	Fair value (KZT million)
Financial assets:				
Loans to customers	3,182,238	3,175,890	3,756,705	3,747,919
Investments held to maturity	218,685	216,798	222,434	219,946
Financial liabilities:				
Customer accounts	2,665,464	2,665,916	2,915,438	2,919,247
Debt securities issued	442,561	491,603	586,961	580,396
Other borrowed funds	80,136	51,155	81,308	54,990
Subordinated debt	168,576	163,044	230,437	219,955
	Level 1 (KZT million)	Level 2 (KZT million)	30 June 2017 (unaudited) Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	3,175,890	3,175,890
Investments held to maturity	216,798	-	-	216,798
Financial liabilities:				
Customer accounts	-	2,665,916	-	2,665,916
Debt securities issued	491,603	-	-	491,603
Other borrowed funds	-	51,155	-	51,155
Subordinated debt	163,044	-	-	163,044
	Level 1 (KZT million)	Level 2 (KZT million)	31 December 2016 Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	3,747,919	3,747,919
Investments held to maturity	219,946	-	-	219,946
Financial liabilities:				
Customer accounts	-	2,919,247	-	2,919,247
Debt securities issued	580,396	-	-	580,396
Other borrowed funds	-	54,990	-	54,990
Subordinated debt	219,955	-	-	219,955

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated statement of financial position. The carrying amounts of cash and balances with national (central) banks, other financial assets and other financial liabilities, loans and advances to banks and other financial institutions and loans and advances from banks and financial institutions approximates fair value due to the short-term nature and concluding of such financial instruments contracts on market terms.

21. Subsequent events

On 1 July 2017, the Bank sold a 100% share in JSC AlemCard in accordance with the purchase and sale agreement dated 28 June 2017, concluded with BTA, for KZT 21 million. As a result of the transaction, the Bank recognized a loss on sale of KZT 5 million.

On 1 July 2017, the Bank repaid its debt to Samruk-Kazyna in the amount of KZT 41,075 million under the BTA purchase and sale agreement dated 31 December 2014.

On 3 July 2017, by resolution of the Board of Directors of the Bank, the new Management Board was elected, headed by the Chairman of the Management Board, Mr. Ulf Wokurka. The following new members of the new Management Board were appointed Mr. Ulan S. Baizhanov, Mrs. Larissa P. Zdanovich, Mr. Dauren Z. Sartayev, Mrs. Zhannat S. Satubaldina and Mr. Nurlan T. Zhagiparov.

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2017 (Unaudited) (Continued)

On 3 July 2017, BTA has repaid its loan to the Bank in the amount of KZT 2,400,000 million. According to the terms of Framework Agreement, the proceeds were immediately used for Repayment of its obligations to NBK in the amount of KZT 625,000 million, which were drawn in several tranches starting from December 2016 as a stabilization measure to support the Bank's current liquidity, and also, for investment of KZT 1,000,000 million into treasury bonds of the Ministry of Finance of the Republic of Kazakhstan. As part of the above transactions, the Bank entered into a currency swap with the NBK for the amount of KZT 1,000,000 million for a period of one year.

On 3 July 2017, the Bank repaid its obligations on swap operations with KASE in the amount of USD 2,841 million, which is equivalent to KZT 914,736 million.

On 4 July 2017, the Bank made a repayment of its obligations under the repurchase agreement on securities in the amount of KZT 202,729 million.

On 4 July 2017, the Bank and JSC Problem Loans Fund signed an additional agreement to the Bank Deposit Agreement dated 23 June 2015. Under the terms of the addendum, the deposit term was extended until 1 July 2037, and the nominal rate was reduced from 5.5% to 0.1%. As a result of these changes, the Bank discontinued the recognition of the old financial liability and recognized a new financial liability for the JSC Problem Loans Fund deposit at its fair value.

On 5 July 2017, the transactions were completed whereby Halyk Bank acquired common shares of the Bank held by Mr. Kenes Rakishev and JSC Sovereign Wealth Fund Samruk-Kazyna subject to the terms of the sale and purchase agreements signed on 15 June 2017. As a result of the above transactions, Halyk Bank holds 96.81% ordinary shares in the Bank.

On 11 July 2017, the Board of Directors of the Bank decided to place 1,339,379,809 common shares of the Bank among the Bank's shareholders.

On 12 July 2017 Halyk Bank has executed its pre-emptive rights and acquired 1,296,698,676 ordinary shares of Kazkommertsbank pro-rata to current ownership share of Halyk Bank of 96.81% in Kazkommertsbank for KZT 185,000 million. As a result of recapitalization, as at the date of issue of this consolidated financial information, the Bank fulfills the requirements of the NBK on capital adequacy ratios.

On 19 July 2017, Standard & Poor's agency raised the long-term credit rating of the Bank to "B+" from "B-" and affirmed the Bank's short-term credit rating at "B". The Bank's rating on the national scale was also upgraded to "kzBBB-" from "kzB +". The outlook on the ratings is kept at the negative level. In turn, Moody's agency raised the credit rating of the Bank to "B1" from "Caa2", and the deposit one - from "Ba2" to "B3".

On 31 July 2017, Extraordinary General Meeting of Shareholders of the Bank has made a decision on early termination of the power of members of the Board of Directors of the Bank and election of a new composition of the Bank's governing body. The new composition of the Board of Directors of the Bank in the number of six people with a term of office for three years included: Mr. Arman Dunaev as Chairman of the Board of Directors, Mr. Ulf Vokurka, Ms. Aliya Karpikova, Ms. Saule Kishkimbaeva, Mr. Askar Elemessov, Mr. Azamat Dzholdasbekov.