

JOINT STOCK COMPANY KAZKOMMERTSBANK

**Interim Condensed Consolidated
Financial Information**
for the nine months ended
30 September 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 Nine Months Ended 30 September 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 September 2017 and the results of its operations for the three and nine month periods then ended, as well as cash flows and changes in equity for the nine 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
- Detecting and preventing fraud and other irregularities.

The interim condensed consolidated financial information of the Group for the nine months ended 30 September 2017 was approved by the Management Board of JSC Kazkommertsbank on 15 November 2017.

On behalf of the Management Board of the Bank:


Wokurka B.
Chief Executive Officer

15 November 2017
Almaty


Karzhaubekov A.Zh.
Chief Accountant

15 November 2017
Almaty

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED 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 September 2017 and the related interim consolidated statements of profit or loss, and comprehensive income for the three and nine months then ended, and interim consolidated statements of changes in equity and cash flows for the nine 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 condensed 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 December 2016, our audit opinion was qualified as we were unable to obtain sufficient audit evidence to support the allowance for impairment losses in relation to certain borrowers. As such, we have been unable to determine whether the impairment losses recorded in the nine months ended 30 September 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*.

Deloitte, LLP

15 November 2017
Almaty

Joint Stock Company Kazkommertsbank

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

	Notes	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
Interest income	4, 19	65,636	107,449	254,597	328,200
Interest expense	4, 19	(49,067)	(64,753)	(193,250)	(186,757)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		16,569	42,696	61,347	141,443
Provision for impairment losses on interest bearing assets	5, 19	(2,595)	(7,688)	(486,322)	(23,186)
NET INTEREST INCOME/(EXPENSE)		13,974	35,008	(424,975)	118,257
Net gain on financial assets and liabilities at fair value through profit or loss	6	71,149	6,118	126,168	17,906
Loss from write off of financial assets and liabilities at fair value through profit or loss		-	(16,810)	-	(16,810)
Net loss on foreign exchange and precious metals operations		(56,307)	(7,233)	(78,603)	(30,958)
Fee and commission income		14,086	12,702	39,413	35,153
Fee and commission expense		(6,702)	(5,779)	(17,123)	(15,907)
Net realized gain/(loss) on investments available-for-sale		243	(96)	(714)	990
Dividend income		45	461	1,758	813
Net gain/(loss) on sale of inventory		625	(1,919)	1,685	(385)
Gain/(loss) from revaluation of other assets	7	228	(42)	(96,648)	748
Gain from initial recognition of financial instruments	16	169,767	-	169,767	-
Other income		2,759	5,424	13,708	12,314
NET NON-INTEREST INCOME/(EXPENSE)		195,893	(7,174)	159,411	3,864
OPERATING EXPENSES	8, 19	(6,963)	(19,284)	(46,486)	(52,801)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS		202,904	8,550	(312,050)	69,320
Provision for impairment losses on other transactions	19	(528)	(3,163)	(32,942)	(6,379)
Recovery of provision/(provision) for guarantees and other contingencies	19	149	8	(12,233)	1,545
PROFIT/(LOSS) BEFORE INCOME TAX		202,525	5,395	(357,225)	64,486
Income tax expense	9	(1,863)	(4,689)	(18,672)	(20,565)
NET PROFIT/(LOSS)		200,662	706	(375,897)	43,921
Attributable to:					
Ordinary shareholders of the Parent		200,661	605	(375,898)	38,013
Preference shareholders of the Parent		-	101	-	5,907
Non-controlling interest		1	-	1	1
NET PROFIT/(LOSS)		200,662	706	(375,897)	43,921
EARNINGS/(LOSS) PER SHARE					
Basic and diluted (KZT)	10	104.24	0.76	(319.34)	47.70

On behalf of the Management Board of the Bank:

Wolmarka U.
Chief Executive Officer

15 November 2017
Almaty

Karzhaubekov Anzh.
Chief Accountant

15 November 2017
Almaty

The notes on pages 10-39 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 Nine Months Ended 30 September 2017 (Unaudited)

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
NET PROFIT/(LOSS) FOR THE PERIOD	200,662	706	(375,897)	43,921
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Net (loss)/gain resulting on revaluation of property	-	(3)	(417)	8,319
Income tax	90	29	102	(1,594)
	90	26	(315)	6,725
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	2,703	332	1,935	161
Net gain/(loss) resulting on revaluation of available-for-sale investments	13,455	(271)	13,208	780
Difference between fair value and carrying amount of investments held to maturity at the reclassification date	(2,216)	-	(2,216)	-
Reclassification adjustment relating to available-for-sale investments disposed of in the period	(243)	96	714	(990)
Net loss on cash flows hedges	-	(109)	(78)	(315)
Income tax	(3)	(39)	(41)	185
	13,696	9	13,522	(179)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	13,786	35	13,207	6,546
TOTAL COMPREHENSIVE INCOME/(LOSS)	214,448	741	(362,690)	50,467
Attributable to:				
Ordinary shareholders of the Parent	214,447	635	(362,691)	43,678
Preference shareholders of the Parent	-	106	-	6,788
Non-controlling interest	1	-	1	1
TOTAL COMPREHENSIVE INCOME/(LOSS)	214,448	741	(362,690)	50,467

On behalf of the Management Board of the Bank:

Wokurka O.
Chief Executive Officer

15 November 2017
Almaty

Karim Nubekov A. Zh.
Chief Accountant

15 November 2017
Almaty

The notes on pages 10-39 form an integral part of this interim condensed consolidated financial information.

Joint Stock Company Kazkommertsbank

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

		30 September 2017 (unaudited) Notes (KZT million)	31 December 2016 (KZT million)
ASSETS:			
Cash and balances with national (central) banks	11	239,617	151,908
Precious metals		3,033	3,255
Financial assets at fair value through profit or loss	12, 19	194,367	210,538
Loans and advances to banks and other financial institutions	19	229,323	109,832
Loans to customers	13, 19	786,620	3,756,705
Investments available-for-sale	14	1,761,685	19,724
Investments held to maturity	14	-	222,434
Investment property		2,110	13,134
Property, equipment and intangible assets		51,666	48,302
Deferred income tax assets	9	384	17,538
Other assets	19	114,605	117,741
Assets classified as held for sale		138,027	194,640
TOTAL ASSETS		3,521,437	4,865,751
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks and other financial institutions	15, 19	34,671	491,505
Customer accounts	16, 19	2,495,613	2,915,438
Financial liabilities at fair value through profit or loss	12	364	64,275
Debt securities issued	17	468,837	586,961
Other borrowed funds		36,701	81,308
Provisions	19	82,250	62,571
Deferred income tax liabilities	9	141	153
Other liabilities		39,202	51,823
Subordinated debt		163,548	230,437
Total liabilities		3,321,327	4,484,471
EQUITY:			
Equity attributable to equity holders of the Parent:			
Issued and outstanding share capital		419,712	234,589
Additional paid-in-capital		(10,003)	(6,405)
Property and equipment revaluation reserve		11,102	11,515
Other reserves		(220,708)	141,575
Total equity attributable to equity holders of the Parent		200,103	381,274
Non-controlling interest		7	6
Total equity		200,110	381,280
TOTAL LIABILITIES AND EQUITY		3,521,437	4,865,751

On behalf of the Management Board of the Bank:

Wokurka D.
Chief Executive Officer

15 November 2017
Almaty



Kerzhakov A.Zh.
Chief Accountant

15 November 2017
Almaty



The notes on pages 10-39 form an integral part of this interim condensed consolidated financial information.

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Changes in Equity For the Nine Months Ended 30 September 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 ² (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	-	-	-	-	-	-	-	43,920	43,920	1	43,921
Other comprehensive Income/(loss)	-	-	-	6,745	(88)	141	(252)	-	6,546	-	6,546
Total comprehensive Income/(loss)	-	-	-	6,745	(88)	141	(252)	43,920	50,466	1	50,467
Repurchase of treasury shares	-	(129)	-	-	-	-	-	-	(129)	-	(129)
Sale of treasury shares	-	202	-	-	-	-	-	-	202	-	202
Release of property revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(349)	-	-	-	349	-	-	-
Dividend payment	-	-	-	-	-	-	-	-	-	(4)	(4)
30 September 2016 (unaudited)	286,811	(52,218)	(6,405)	11,597	(2,372)	(4,101)	153	190,333	423,798	6	423,804

Joint Stock Company Kazkommertsbank

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

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in- capital (KZT million)	Property and equip-ment revalua-tion reserve (KZT million)	Invest- ments available- for-sale fair value deficit ¹ (KZT million)	Cumulative translation reserve ¹ (KZT million)	Hedging reserve ² (KZT million)	Retained earnings ¹ /(accumu- lated loss) (KZT million)	Total equity attribute- able 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/(profit)	-	-	-	-	-	-	-	(375,898)	(375,898)	1	(375,897)
Other comprehensive (loss)/income	-	-	-	(315)	11,649	1,935	(62)	-	13,207	-	13,207
Total comprehensive (loss)/income	-	-	-	(315)	11,649	1,935	(62)	(375,898)	(362,691)	1	(362,690)
Repurchase of treasury shares	-	(257)	-	-	-	-	-	-	(257)	-	(257)
Sale of treasury shares	-	348	-	-	-	-	-	-	348	-	348
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(98)	-	-	-	98	-	-	-
Loss on disposal of subsidiaries (Note 1)	-	-	(3,598)	-	-	-	-	(5)	(3,603)	-	(3,603)
Issue of ordinary share capital	185,032	-	-	-	-	-	-	-	185,032	-	185,032
30 September 2017 (unaudited)	471,843	(52,131)	(10,003)	11,102	10,077	(2,005)	-	(228,780)	200,103	7	200,110

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 O.
Chief Executive Officer

15 November 2017
Almaty

Kavrambekov A. Zh.
Chief Accountant

15 November 2017
Almaty

The notes on pages 10-39 form an integral part of this interim condensed consolidated financial information.

Joint Stock Company Kazkommertsbank

Interim Consolidated Statement of Cash Flows For the Nine Months Ended 30 September 2017 (Unaudited)

	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received on loans and advances to banks and other financial institutions	6,980	15,946
Interest received from financial assets at fair value through profit or loss	3,430	5,420
Interest received from loans to customers	409,560	105,939
Interest received from investments available-for-sale	7,768	1,496
Interest received from investments held to maturity	7,128	12,979
Interest paid on loans and advances from banks and other financial institutions	(37,828)	(3,771)
Interest paid on customer accounts	(102,299)	(87,313)
Interest paid on debt securities issued	(27,496)	(34,852)
Interest paid on other borrowed funds	(721)	(2,549)
Interest paid on subordinated debt	(4,431)	(6,431)
Fee and commission received	39,955	36,192
Fee and commission paid	(14,442)	(15,783)
Other income received	10,004	11,066
Operating expenses paid	(54,622)	(50,069)
Cash inflow/(outflow) from operating activities before changes in operating assets and liabilities	242,986	(11,730)
Changes in operating assets and liabilities		
Decrease/(increase) in operating assets:		
Funds deposited with National Bank of Kazakhstan	23,727	6,009
Funds deposited with Central Bank of the Russian Federation	2,153	(2,119)
Funds deposited with National Bank of Tajikistan	(220)	50
Precious metals	238	(102)
Financial assets at fair value through profit or loss	83,434	(60,489)
Loans and advances to banks and other financial institutions	(6,997)	55,839
Loans to customers	2,150,327	38,144
Other assets	5,241	(18,870)
Increase/(decrease) in operating liabilities:		
Loans and advances from banks and other financial institutions	(456,255)	(67,950)
Customer accounts	(284,723)	135,831
Other liabilities	6,173	21,705
Cash inflow from operating activities before taxation	1,766,084	96,318
Income tax paid	(21,190)	(26,444)
Net cash inflow from operating activities	1,744,894	69,874

Joint Stock Company Kazkommertsbank

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

	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(5,771)	(3,536)
Proceeds on sale of property, equipment and intangible assets	36	718
Dividends received	1,617	813
Proceeds from sale of investments available-for-sale	4,528,570	56,179
Purchase of investments available-for-sale	(6,011,660)	(38,009)
Purchase of investment property	(505)	(2,930)
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	6,204	19,624
Proceeds from sale of investment property	-	52
Net cash (outflow)/inflow from investing activities	(1,479,996)	38,110
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of ordinary share capital	185,032	-
Repurchase of treasury shares	(257)	(129)
Sale of previously repurchased treasury shares	348	202
Repurchase and repayment of debt securities issued	(127,346)	(7,958)
Proceeds from other borrowed funds	3,350	1,778
Repayment of other borrowed funds	(49,890)	(24,405)
Repurchase and maturity of subordinated debt	(76,034)	(52,294)
Payments of dividends	-	(1,290)
Net cash outflow from financing activities	(64,797)	(84,096)
Effect of changes in foreign exchange rate on cash and cash equivalents	24,542	(677)
NET INCREASE IN CASH AND CASH EQUIVALENTS	224,643	23,211
CASH AND CASH EQUIVALENTS, beginning of period (Note 11)	172,716	268,426
CASH AND CASH EQUIVALENTS, end of period (Note 11)	397,359	291,637

During the nine months ended 30 September 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 nine months ended 30 September 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 N.**
Chief Executive Officer

15 November 2017
Almaty

 **Karzhaybekov A.Zh.**
Chief Accountant

15 November 2017
Almaty

The notes on pages 10-39 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 Nine Months Ended 30 September 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 No. 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 September 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 nine months ended 30 September 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 September 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%	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 Nine Months Ended 30 September 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 nine months ended 30 September 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 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”). On 1 July 2017, the Bank sold a 100% share in AlemCard in accordance with the purchase and sale agreement dated 28 June 2017 with JSC BTA Bank for KZT 21 million. As a result of the transaction, the Bank recognized a loss on sale in the amount of KZT 5 million.

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, Ms. Larissa P. Zdanovich, Mr. Dauren Z. Sartayev, Ms. Zhannat S. Satubaldina and Mr. Nurlan T. Zhagiparov.

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 Dunayev as Chairman of the Board of Directors, Mr. Ulf Wokurka, Mrs. Aliya Karypkova, Mrs. Saule Kishkimbaeva, Mr. Askar Yelemessov, Mr. Azamat Dzholdasbekov.

On 31 August 2017, Fitch Ratings upgraded the long-term issuer default ratings (IDRs) of the Bank in foreign and local currency to "BB-" from "CCC"; Short-term IDR of the bank increased to "B" from "C"; the stability rating is upgraded to "b" from level "f"; the support rating has been raised to "3" from the "5" level. The outlook on the bank's long-term and short-term IDRs is Stable.

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.

Joint Stock Company Kazkommertsbank

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

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

	30 June 2017 (unaudited) (KZT million)
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 million)
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.

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 Kazkommertsbank'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 Kazkommertsbank.

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 National Welfare Fund Samruk-Kazyna (hereinafter – "Samruk Kazyna"), JSC Problem Loans Fund (hereinafter – "PLF"), 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.

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

On 23 June 2017, in accordance with the 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 depositary receipts (hereinafter referred to as GDRs), the basic asset of which are common shares issued by the Bank on the London Stock Exchange ("LSE"). Listing was ceased from 28 August 2017.

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 5 July 2017, the transactions were completed whereby Halyk Bank acquired common shares of the Bank held by Mr. Kenes Rakishev and JSC National Welfare 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 common 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 the sale and purchase transactions in the framework of the mandatory tender offer for the purchase of common and preferred shares of the Bank, as well as for the GDRs, the underlying asset of which are common and preferred shares of the Bank announced on 10 July 2017, Halyk Bank purchased 13,687,609 common shares, 31,311 preferred shares, 3,081,552 GDRs, underlying asset of which are common shares issued, and 14,655,549 GDRs, the underlying asset of which are issued preferred shares of the Bank.

As at 30 September 2017, Halyk bank owns 99.72% of the Bank's common shares in circulation and 23.55% of the Bank's preference shares in circulation.

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 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.

Joint Stock Company Kazkommertsbank

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

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 periods. All such adjustments to the financial information are of a normal, recurring nature. Because the results from common banking activities are closely related and responsive to changes in market conditions, the results for any interim period are not necessarily indicative of the results that can be expected for the year.

Functional currency

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

3. Significant accounting policies

Going concern principle

During the nine months ended 30 September 2017, the Group incurred a net loss of KZT 375,897 million.

The loss of KZT 375,897 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.

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

- as discussed in Note 1, on 5 July 2017, the Group was acquired by Halyk Bank;
- as discussed in Note 13, 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 12, 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 16, on 4 July 2017, the Bank changed the terms of its deposit arrangement with PLF, resulting in a significant improvement in the Group's equity position;
- as discussed in Note 1, on 12 July 2017, JSC Halyk Bank acquired additional ordinary shares in the amount of KZT 185,000 million, effectively recapitalizing the Bank.
- as discussed in Note 1, a new experienced Management team and the Board of Directors were appointed on 3 July 2017 and 31 July 2017, respectively.

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

- 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.

Joint Stock Company Kazkommertsbank

Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Nine Months Ended 30 September 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 nine months ended 30 September 2017.

4. Net interest income

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
Interest income comprise:				
Interest income on financial assets recorded at amortized cost:				
- interest income on collectively assessed impaired financial assets	3,222	6,306	8,039	13,510
- interest income on financial assets that have been assessed individually for impairment	6,147	16,647	23,879	34,628
- interest income on financial assets that are not impaired including collectively assessed not impaired loans	19,327	76,056	178,362	261,088
Interest income on financial assets at fair value through profit or loss	1,577	7,865	8,023	15,481
Interest income on investments available-for-sale	35,363	575	36,294	3,493
Total interest income	65,636	107,449	254,597	328,200
Interest income on financial assets recorded at amortized cost comprise:				
Interest income on loans to customers	21,999	90,878	189,569	282,659
Interest income on loans and advances to banks and other financial institutions	4,758	3,952	6,990	14,468
Interest income on investments held to maturity	186	4,179	8,879	12,099
Interest income on other financial assets	1,753	-	4,842	-
Total interest income on financial assets recorded at amortized cost	28,696	99,009	210,280	309,226
Interest expense comprise:				
Interest on customer accounts	(33,080)	(42,015)	(108,026)	(116,210)
Interest on debt securities issued	(11,158)	(15,494)	(33,557)	(46,659)
Interest on subordinated debt	(3,425)	(4,949)	(11,690)	(15,459)
Interest on loans and advances from banks and other financial institutions	(781)	(536)	(36,112)	(2,530)
Preference share dividends	(391)	(409)	(1,210)	(1,285)
Interest on other borrowed funds	(232)	(1,350)	(2,655)	(4,614)
Total interest expense	(49,067)	(64,753)	(193,250)	(186,757)
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing assets	16,569	42,696	61,347	141,443

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Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information For the Nine Months Ended 30 September 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)
30 June 2016 (unaudited)	-	265,337	228	265,565
Additional provision/(recovery of provision)	197	7,499	(8)	7,688
Write-off of assets	-	(2,541)	-	(2,541)
Gross up effect	-	272,950	-	272,950
Recovery of previously written-off assets	-	13,253	-	13,253
Foreign exchange differences	(3)	(2,188)	-	(2,191)
30 September 2016 (unaudited)	194	554,310	220	554,724
30 June 2017 (unaudited)	5,035	1,049,389	225	1,054,649
Additional provision	-	2,595	-	2,595
Write-off of assets	-	(132,606)	-	(132,606)
Recovery of previously written-off assets	-	322	-	322
Reclassification to investments available-for-sale	-	-	(225)	(225)
Foreign exchange differences	-	29,717	-	29,717
30 September 2017 (unaudited)	5,035	949,417	-	954,452
31 December 2015	99	314,442	60	314,601
Additional provision	110	23,075	1	23,186
Write-off of assets	-	(91,595)	-	(91,595)
Recovery of previously written-off assets	-	33,298	159	33,457
Gross up effect	-	272,950	-	272,950
Foreign exchange differences	(15)	2,140	-	2,125
30 September 2016 (unaudited)	194	554,310	220	554,724
31 December 2016	5,062	573,447	217	578,726
(Recovery of provision)/additional provision	(25)	486,339	8	486,322
Write-off of assets	-	(135,965)	-	(135,965)
Recovery of previously written-off assets	-	3,807	-	3,807
Reclassification to investments available-for-sale	-	-	(225)	(225)
Foreign exchange differences	(2)	21,789	-	21,787
30 September 2017 (unaudited)	5,035	949,417	-	954,452

Joint Stock Company Kazkommertsbank

Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information

For the Nine Months Ended 30 September 2017 (Unaudited) (Continued)

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

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
Net gain on financial assets and liabilities at fair value through profit or loss comprises:				
Realized gain on trading operations	2,839	1,230	3,359	3,381
Unrealized gain on fair value adjustment	1,784	3,493	11,308	3,647
Net gain on operations with derivative financial instruments	66,526	1,395	111,501	10,878
Net gain on financial assets and liabilities at fair value through profit or loss	71,149	6,118	126,168	17,906

7. Gain/(loss) from revaluation of other assets

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
(Loss)/gain from change in value of assets held for sale	(785)	(42)	(54,710)	689
Gain/(loss) from change in value of inventory	1,006	-	(40,560)	-
Gain/(loss) from change in value of investment property	7	-	(1,378)	59
Gain/(loss) from revaluation of other assets	228	(42)	(96,648)	748

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

8. Operating expenses

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
Staff costs	6,931	10,789	28,589	30,202
Taxes, other than income tax	1,079	1,004	3,190	2,464
Depreciation and amortization	969	893	2,893	2,732
Operating lease	862	757	2,673	2,333
Property and equipment maintenance	742	976	2,734	3,000
Bank card services	601	556	1,531	1,354
Security	459	432	1,393	1,221
Communications costs	384	276	953	689
Advertising costs	246	302	1,256	967
Legal and consulting services	117	1,174	3,587	1,959
Expenses on assets received	93	262	280	961
Business trip expenses	84	111	302	415
Collector services	56	125	180	357
Vehicle maintenance	41	99	239	298
Fines, penalties	21	17	78	58
Reversal of bonuses	(7,654)	-	(7,654)	-
Other expenses	1,932	1,511	4,262	3,791
Operating expenses	6,963	19,284	46,486	52,801

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 nine months ended 30 September 2017 and 2016 is as follows:

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
Current income tax expense/(benefit)	377	(637)	1,482	39,100
Deferred income tax expense/(benefit)	1,486	5,326	17,190	(18,535)
Income tax expense	1,863	4,689	18,672	20,565

Corporate income tax rate in the Republic of Kazakhstan was 20% during the three and nine months ended 30 September 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.

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

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

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
Profit/(loss) before income tax	202,525	5,395	(357,225)	64,486
Tax at the statutory tax rate	40,505	1,079	(71,445)	12,897
Tax effect of permanent differences:				
- tax effect from different tax rates	5	6	28	28
- tax exempt income	(1,686)	(2,178)	(10,757)	(8,364)
- non-deductible expenses on provisions/(tax exempt income from recovery of loan loss provisions)	11,838	(630)	54,173	2,672
- non-deductible expense	18,603	6,412	40,435	9,742
Change in unrecognised deferred corporate income tax assets	(67,402)	-	5,769	-
Adjustment of current income tax expense for prior years	-	-	469	110
Adjustments in respect of deferred income tax expense based on declarations for prior years	-	-	-	3,480
Income tax expense	1,863	4,689	18,672	20,565

During the three and nine months ended 30 September 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 September 2017 and 2016, are mainly related to various methods of accounting for income and expenses, as well as the accounting value of certain assets.

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

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

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Deferred income tax assets:		
Tax losses carried forward	93,429	-
Tax losses carried forward on trading securities and derivatives	1,858	3,586
Unrealised loss from revaluation of trading securities and derivatives	1,558	14,957
Accrued bonuses	1,466	3,522
Allowance for impairment losses on loans and advances to banks and customers	78	597
	98,389	22,662
Unrecognized tax assets	(49,599)	-
Total deferred income tax assets	48,790	22,662
Deferred income tax liabilities:		
Customer accounts	(43,830)	-
Property, equipment and intangible assets, accumulated depreciation	(4,569)	(4,639)
Unrealised gain on trading securities and derivatives	(141)	(153)
Other liabilities	(7)	(467)
Unrealized gain on revaluation of financial instruments, recognized on cash flow hedges	-	(18)
	(48,547)	(5,277)
Total deferred income tax liabilities	(48,547)	(5,277)
Net deferred income tax assets	243	17,385

As at 30 September 2017, the deferred tax asset for tax losses carried forward amounted to KZT 93,429 million, which mainly includes losses as a result of provisions for loans to customers (Note 5). As at 30 September 2017, the tax asset of KZT 49,599 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 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Deferred income tax assets	384	17,538
Deferred income tax liabilities	(141)	(153)
Net deferred income tax assets	243	17,385

10. Earnings/(loss) per share

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

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

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

	Three months ended 30 September 2017 (unaudited) (KZT million)	Three months ended 30 September 2016 (unaudited) (KZT million)	Nine months ended 30 September 2017 (unaudited) (KZT million)	Nine months ended 30 September 2016 (unaudited) (KZT million)
Basic and diluted earnings/(loss) per share				
Net profit/(loss) attributable to equity holders of the Parent	200,661	706	(375,898)	43,920
Less: additional dividends that would be paid on full distribution of profit to the preference shareholders	-	(101)	-	(5,907)
Net profit/(loss) attributable to ordinary shareholders	200,661	605	(375,898)	38,013
Weighted average number of ordinary shares for basic and diluted earnings/(loss) per share	1,924,915,333	796,953,897	1,177,115,644	796,924,613
Earnings/(loss) per share – basic and diluted (KZT)	104.24	0.76	(319.34)	47.70

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

Type of shares	30 September 2017 (unaudited)			31 December 2016		
	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT
Ordinary shares	2,094,319,856	191,087	91.24	796,987,545	371,912	466.65
Preference shares	123,761,688	23,088	186.55	123,984,564	21,456	173.05
		214,175			393,368	

The number of outstanding common 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 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Cash on hand	100,001	101,771
Balances with the national (central) banks	139,616	50,137
Cash and cash balances with national (central) banks	239,617	151,908

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

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

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)	30 September 2016 (unaudited) (KZT million)
Cash and balances with national (central) banks	239,617	151,908	224,595
Loans and advances to banks with original maturities less than 3 months	103,754	45,630	122,560
REPO with banks with original maturity of less than 3 months	97,453	44,074	9,231
Less funds deposited with the National Bank of Kazakhstan	(39,166)	(62,894)	(59,296)
Less funds deposited with the Central Bank of the Russian Federation	(3,595)	(5,562)	(4,953)
Less funds deposited with the National Bank of Tajikistan	(704)	(440)	(500)
	397,359	172,716	291,637

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

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Financial assets at fair value through profit or loss:		
Debt securities	90,900	160,164
Derivative financial instruments	63,424	19,275
Equity investments	40,043	31,099
Financial assets at fair value through profit or loss	194,367	210,538

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

	30 September 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	43,808	4.48-8.20	44,041
Short-term NBK notes	-	21,949	-	99,350
Bonds of Kazakhstani companies	7.50-13.00	12,077	7.50-14.90	4,017
Bonds of the Development Bank of Kazakhstan	6.00-11.00	5,485	6.00-6.50	2,411
Municipal bonds of the Russian Federation	10.71	2,154	12.00	2,020
Bonds of the Eurasian Development Bank	10.10	1,783	-	-
Eurobonds of Kazakhstani banks	7.33-7.50	1,433	7.25-9.13	2,483
Bonds of Kazakhstani banks	7.00-11.00	953	7.00-11.00	3,101
Eurobonds of Kazakhstani companies	4.63-6.95	731	4.63-6.95	986
Bonds of Russian companies	11.75	527	13.00	470
Treasury bonds of the USA	-	-	2.00-2.44	1,285
		90,900		160,164

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

	Notional amount	30 September 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	1,020,236	63,420	(249)	781,274	19,275	(60,570)
Spot	4,010	4	(4)	723	-	(4)
<i>Interest rate contracts:</i>						
Swaps	1,965	-	(111)	2,772	-	(195)
<i>Other:</i>						
Spot on securities	140	-	-	-	-	-
Forward on securities	-	-	-	11,124	-	(3,506)
		63,424	(364)		19,275	(64,275)

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments	364	64,275
Financial liabilities at fair value through profit or loss	364	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.

As at 30 June 2017, the 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, the fair value of the forward obligation was KZT 3,506 million).

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.

As part of the transactions, disclosed in Note 13, 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.

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Equity investments*:		
GDRs of Kazakhstani companies	23,414	23,361
GDRs of Kazakhstani banks	7,944	5,059
Shares of Kazakhstani companies	7,718	2,165
Shares of foreign companies	635	-
Shares of Kazakhstani banks	332	350
Shares of foreign banks	-	164
	40,043	31,099

* The Group's ownership interest in equity securities as at 30 September 2017 did not exceed 1.62% (31 December 2016: 2.16%).

As at 30 September 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.

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

13. Loans to customers

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Recorded as loans and receivables:		
Loans to customers	1,735,201	4,328,940
Net investments in finance lease	836	1,212
	<u>1,736,037</u>	<u>4,330,152</u>
Less: allowance for impairment losses	(949,417)	(573,447)
Loans to customers	786,620	3,756,705

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

The Bank and BTA had 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.

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 at 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.

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

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Analysis by type of collateral:		
Loans collateralized by pledge of real estate and land	212,151	556,543
Loans collateralized by corporate guarantees	190,838	18,508
Loans collateralized by financial institutions guarantees	65,563	57,113
Loans collateralized by pledge of inventories	61,675	149,851
Loans collateralized by pledge of equipment	38,340	222,604
Loans collateralized by mixed collateral types*	25,838	22,088
Loans collateralized by pledge of accounts receivable	6,915	2,507,843
Loans collateralized by cash or guarantees of the Government of the RK	6,405	25,735
Loans collateralized by pledge at development stage (real estate, land, shares, guarantees, other)	1,865	43,275
Loans collateralized by shares	262	13,844
Unsecured loans	176,768	139,301
	<u>786,620</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.

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

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Analysis by sector:		
Individuals	324,352	302,311
Wholesale and retail trade	64,004	100,237
Housing construction	50,748	116,739
Real estate	43,794	197,887
Commercial real estate construction	38,003	87,596
Food industry	37,661	45,163
Industrial and other construction	36,317	65,626
Energy	30,136	79,207
Agriculture	29,995	109,783
Hospitality business	29,978	29,409
Mining and metallurgy	17,250	34,643
Transport and communication	15,254	13,503
Investments and finance	8,621	2,491,067
Production of construction materials	7,726	8,654
Medicine	7,696	8,365
Machinery construction	7,231	7,363
Production of other non-metal materials	2,191	1,444
Other	35,663	57,708
	786,620	3,756,705

As at 30 September 2017 and 31 December 2016, the Group received non-financial assets by taking possession of collateral it held as security. As at 30 September 2017, such assets in the amount of KZT 131,167 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 September 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 September 2017, such assets in the amount of KZT 6,860 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 September 2017, a significant part of loans 89.19% (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. Investments available-for-sale

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Investments available-for-sale:		
Debt securities	1,761,210	18,427
Equity investments	475	1,297
Investments available-for-sale	1,761,685	19,724

On 4 July 2017, the Group reclassified all held-to-maturity securities into a portfolio of available-for-sale securities due to the fact that the Group no longer intends to hold securities in the portfolio held to maturity and to increase the overall liquidity of the portfolio.

The loss resulting from the reclassification from investments held to maturity to investments available-for-sale amounted to KZT 2,216 million and was recognized in other comprehensive income. As at the date of reclassification, the fair value of the investments reclassified to available-for-sale investment securities from held to maturity on a group basis amounted to KZT 216,858 million.

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

	30 September 2017		31 December 2016	
	Nominal interest rate % (KZT million)	Amount	Nominal interest rate % (KZT million)	Amount
Debt securities:				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.48-9.50	1,046,017	4.50-8.10	1,347
NBK notes	-	462,187	-	-
Bonds of NWF Samruk Kazyna	6.00-6.50	185,792	-	-
Treasury bonds of the USA	0.75-1.00	34,121	-	-
Bonds of Kazakhstani banks	6.25-11.00	17,038	7.00-14.00	5,331
Bonds of Kazakhstani companies	0.00-13.00	7,313	0.00-14.90	7,524
Bonds of Russian companies	8.00-10.00	3,787	8.00-10.00	4,004
Bonds of international financial institutions, foreign banks and foreign financial organizations	-	3,364	-	-
Bonds of the Development Bank of Kazakhstan	6.00-6.50	779	-	-
Bonds of Russian Banks	10.15	618	-	-
Eurobonds of Kazakhstani companies	8.00	194	-	-
Eurobonds of Kazakhstani banks	-	-	7.25	221
		1,761,210		18,427

Treasury bills of the Ministry of Finance of the Republic of Kazakhstan include government securities, which were acquired on special terms by the Bank, amounted to KZT 1,034,991 million as at 30 September 2017. Special terms include the following: securities are restricted in use and the subsidiary does not have the right to sell the securities within two years without the consent of NBK, the Ministry of Finance of the Republic of Kazakhstan and Parent company. However, these securities can be used in repo transactions for liquidity management purposes.

	30 September 2017 (KZT million)	31 December 2016 (KZT million)
Equity investments		
Shares of Kazakhstani companies	430	712
Shares of Kazakhstani banks	43	38
GDRs of Kazakhstani banks	2	2
Shares of foreign companies	-	545
	475	1,297

15. Loans and advances from banks and other financial institutions

In December 2016, the Bank received a short-term loan from NBK 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.

During the reporting period, 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 770,813 million. The Bank's obligations to the NBK were repaid in full on 3 July 2017.

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.

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

16. CUSTOMER ACCOUNTS

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Recorded at amortized cost:		
Time deposits	1,852,499	2,239,540
Demand deposits	640,086	672,654
Accounts in precious metals	3,028	3,244
Customer accounts	2,495,613	2,915,438

As at 30 September 2017, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 18,257 million (31 December 2016: KZT 52,186 million).

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Analysis by sector:		
Individuals	1,441,125	1,440,081
Government related entities	344,830	464,326
Chemical and petrochemical industry	135,059	282,343
Individual services	101,927	89,160
Construction	85,504	142,724
Wholesale and retail trade	73,653	81,712
Agriculture	64,060	23,014
Mining and metallurgy	50,401	83,914
Transport and communication	45,654	50,782
Education	40,652	32,383
Investments and finance	27,082	152,346
Distribution of electricity, gas and water	14,457	13,935
Public organizations and unions	7,709	6,875
Other	63,500	51,843
	2,495,613	2,915,438

On 4 July 2017, the Bank and PLF 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 PLF deposit at its fair value.

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

17. Debt securities issued

	Currency	Maturity date	Annual coupon rate %	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Recorded at amortized cost:					
Eurobonds:					
Issued in May 2011 at the price of 99.353%	USD	May 2018	8.50	102,055	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				(167)	(390)
Accrued interest on Eurobonds issued				3,349	9,059
Total issued Eurobonds				105,237	238,001
Debt securities previously issued by JSC BTA Bank at the price 100.00%	USD	December 2022	5.50	197,793	184,147
Debt securities issued by JSC Kazkommertsbank at the price 99.95%	KZT	January 2022	8.75	99,288	101,382
Debt securities issued by JSC Kazkommertsbank at the price 99.97%	KZT	November 2019	8.40	64,291	60,513
Issued bonds of Moscow Stars B.V. at the price of 99.00%	USD	October 2020	6.48	1,561	2,403
Issued promissory notes of OJSC Moskommertsbank	USD, RUR	On demand – October 2019	5.51-12.00	667	515
Debt securities issued				468,837	586,961

As at 30 September 2017, the nominal value of debt securities previously issued by JSC BTA Bank amounted to KZT 252,813 million, while discount amounted to KZT 58,496 million (31 December 2016: KZT 247,180 million and KZT 63,033 million, respectively).

During the nine months ended 30 September 2017, the Group repurchased debt securities issued in the total amount of KZT 1,982 million (during the year ended 31 December 2016: KZT 9,091 million) with maturity in 2022.

During the nine months ended 30 September 2017, the Group sold debt securities issued in the total amount of KZT 3,684 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.

18. 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.

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

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

	30 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Contingent liabilities and credit commitments:		
Guarantees issued and similar commitments	93,795	137,628
Commitments on loans and unused credit lines (irrevocable)	37,960	25,849
Letters of credit and other transaction related to contingent obligations	11,467	48,084
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	12	16
Contingent liabilities and credit commitments	143,234	211,577
Less collateral in cash*	(18,257)	(58,523)
Less provision for guarantees and other contingencies	(15,975)	(5,070)
Contingent liabilities and credit commitments, net	109,002	147,984

*Of these, KZT 18,257 million were taken into account as customer accounts, and as other borrowed funds KZT Nil (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 September 2017, the amount of contingent liabilities on such unused credit lines equals to KZT 115,798 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.

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.

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.

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

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 Nine Months Ended 30 September 2017 (Unaudited) (Continued)

19. Transactions with related parties

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

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

	30 September 2017 (unaudited) (KZT million)		31 December 2016 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Financial assets at fair value through profit or loss	7,944	194,367	-	210,538
- parent company	7,944		-	
Loans and advances to banks and other financial institutions	2,989	229,323	7,019	109,832
- parent company	2,989		-	
- other related parties	-		7,019	
Loans to customers, before allowance	1,484	1,736,037	2,542,237	4,330,152
- entities under common control	1,436		-	
- key management personnel of the entity or its parent	48		1,625	
- BTA	-		2,465,831	
- other related parties	-		74,781	
Allowance for impairment losses on loans	(1)	(949,417)	(14,960)	(573,447)
- key management personnel of the entity or its parent	(1)		(67)	
- BTA	-		(13,851)	
- other related parties	-		(1,042)	
Other assets, before allowance	-	154,240	1,263	128,609
- BTA	-		85	
- other related parties	-		1,178	
Allowance for other assets	-	(39,635)	(1,178)	(10,868)
- other related parties	-		(1,178)	
Loans and advances from banks and other financial institutions	1,978	34,671	873	491,505
- parent company	1,978		-	
- other related parties	-		873	
Customer accounts	11,487	2,495,613	9,167	2,915,438
- parent company	316		-	
- key management personnel of the entity or its parent	346		828	
- BTA	-		5,230	
- other related parties	10,825		3,109	
Guarantees issued and similar commitments	5,138	93,795	6,815	137,628
- entities, under common control	5,133		-	
- BTA	-		6,811	
- other related parties	5		4	
Commitments on loans and unused credit lines (irrevocable)	30	37,960	410	25,849
- key management personnel of the entity or its parent	30		410	
Allowance for guarantees issued and other contingencies	(63)	(15,975)	(83)	(5,070)
- entities, under common control	(63)		-	
- BTA	-		(83)	

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

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

	For the nine months ended 30 September 2017 (unaudited) (KZT million)		For the nine months ended 30 September 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	120,664	254,597	169,774	328,200
- entities, under common control	52		-	
- key management personnel of the entity or its parent	66		1	
- BTA	107,799		155,760	
- other related parties	12,747		14,013	
Interest expense	(52)	(193,250)	(55)	(186,757)
- entities, under common control	(1)		-	
- key management personnel of the entity or its parent	(27)		(55)	
- other related parties	(24)		-	
(Provision)/recovery of provision for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	(78,475)	(531,497)	(18,982)	(28,020)
- entities, under common control	48		-	
- key management personnel of the entity or its parent	39		(158)	
- BTA	(67,895)		(17,787)	
- other related parties	(10,667)		(1,037)	
Operating expenses	6,324	(46,486)	(3,450)	(52,801)
- short-term benefits of key management personnel of the Bank and its parent	(1,330)	(20,935)	(3,450)	(30,202)
- reversal of bonus fund of key management personnel of the Bank or its parent	7,654		-	

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

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

20. 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 Nine Months Ended 30 September 2017 (Unaudited) (Continued)

							As at and for the nine months ended 30
	Retail banking (unaudited) (KZT million)	Corporate banking (unaudited) (KZT million)	Investment banking (unaudited) (KZT million)	Other (unaudited) (KZT million)	Unalloca- ted (unaudited) (KZT million)	Elimina- tions (unaudited) (KZT million)	September 2017 (unaudited) (KZT million)
External interest income	29,446	165,523	58,510	1,118	-	-	254,597
Internal interest income	83,337	41,791	145,425	-	-	(270,553)	-
External interest expenses	(56,631)	(33,464)	(103,153)	(2)	-	-	(193,250)
Internal interest expenses	(22,815)	(135,673)	(112,065)	-	-	270,553	-
Net interest							
income/(expense) before							
provision for impairment							
losses on interest bearing							
assets	33,337	38,177	(11,283)	1,116	-	-	61,347
Provision for impairment							
losses on interest bearing							
assets	(22,271)	(464,043)	(8)	-	-	-	(486,322)
NET INTEREST							
INCOME/(LOSS)	11,066	(425,866)	(11,291)	1,116	-	-	(424,975)
Net gain on financial assets							
and liabilities at fair value							
though profit or loss	-	-	126,168	-	-	-	126,168
Net (loss)/gain on foreign							
exchange and precious							
metals operations	(1,685)	363	(77,288)	7	-	-	(78,603)
Fee and commission income	27,271	11,524	618	-	-	-	39,413
Fee and commission							
expense	(14,265)	(1,819)	(585)	(454)	-	-	(17,123)
Net realized (loss)/gain on							
investments available-for-							
sale	-	-	(957)	243	-	-	(714)
Dividend income	-	-	1,758	-	-	-	1,758
Net gain on sale of							
inventory	-	1,685	-	-	-	-	1,685
Loss from revaluation of							
other assets	-	(96,574)	(74)	-	-	-	(96,648)
Income from initial							
recognition of the financial							
instruments	-	169,767	-	-	-	-	169,767
Other income/(expense)	54,890	(1,123)	(48,114)	8,055	-	-	13,708
NET NON-INTEREST							
INCOME/(EXPENSES)	66,211	83,823	1,526	7,851	-	-	159,411
OPERATING EXPENSES	(25,647)	(13,303)	(1,296)	(6,240)	-	-	(46,486)
PROFIT/(LOSS) BEFORE							
OTHER OPERATING							
PROVISIONS	51,630	(355,346)	(11,061)	2,727	-	-	(312,050)
Provision for impairment							
losses on other							
transactions	-	(29,160)	(447)	(3,335)	-	-	(32,942)
(Provision)/recovery of							
provision for guarantees							
and other contingencies	-	(10,950)	(1,284)	1	-	-	(12,233)
PROFIT/(LOSS) BEFORE							
INCOME TAX	51,630	(395,456)	(12,792)	(607)	-	-	(357,225)
Segment assets	438,392	615,482	2,410,273	104,028	15,486	(62,224)	3,521,437
Segment liabilities	1,449,744	1,173,185	774,162	74,446	906	(151,116)	3,321,327

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

	Retail banking (unaudited) (KZT million)	Corporate banking (unaudited) (KZT million)	Investment banking (unaudited) (KZT million)	Other (unaudited) (KZT million)	Unalloca- ted (unaudited) (KZT million)	Elimina- tions (unaudited) (KZT million)	For the nine months ended 30 September 2016 (unaudited) (KZT million)
External interest income	38,238	244,428	44,989	545	-	-	328,200
Internal interest income	75,358	54,378	236,240	-	-	(365,976)	-
External interest expenses	(45,308)	(51,710)	(89,362)	-	-	(377)	(186,757)
Internal interest expenses	(20,160)	(198,314)	(147,502)	-	-	365,976	-
Net interest income before recovery/(provision) of provision for impairment losses on interest bearing assets	48,128	48,782	44,365	545	-	(377)	141,443
Recovery of provision/(provision) for impairment losses on interest bearing assets	26,297	(49,569)	87	(1)	-	-	(23,186)
NET INTEREST INCOME/(EXPENSE)	74,425	(787)	44,452	544	-	(377)	118,257
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	17,906	-	-	-	17,906
Loss on write off of financial assets and liabilities at fair value through profit or loss	-	-	(16,810)	-	-	-	(16,810)
Net (loss)/gain on foreign exchange and precious metals operations	(559)	(42)	(30,361)	4	-	-	(30,958)
Fee and commission income	24,417	10,426	310	-	-	-	35,153
Fee and commission expense	(13,799)	(1,057)	(664)	(387)	-	-	(15,907)
Net realized gain on investments available-for-sale	-	-	14	976	-	-	990
Dividend income	-	-	813	-	-	-	813
Net loss on sale of inventory	-	(385)	-	-	-	-	(385)
Gain/(loss) from revaluation of other assets	935	(246)	-	59	-	-	748
Other (expense)/income	(11)	2,611	2,210	7,504	-	-	12,314
NET NON-INTEREST INCOME/(EXPENSES)	10,983	11,307	(26,582)	8,156	-	-	3,864
OPERATING EXPENSES	(27,040)	(18,372)	(1,855)	(5,534)	-	-	(52,801)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	58,368	(7,852)	16,015	3,166	-	(377)	69,320
Provision for impairment losses on other transactions	-	(4,655)	-	(1,723)	-	(1)	(6,379)
Recovery of provision for guarantees and other contingencies	-	1,544	-	-	-	1	1,545
PROFIT/(LOSS) BEFORE INCOME TAX	58,368	(10,963)	16,015	1,443	-	(377)	64,486
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 Nine Months Ended 30 September 2017 (Unaudited) (Continued)

21. 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 Nine Months Ended 30 September 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 September 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)				
1) Derivative financial assets (Note 12)	10	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.	N/A	N/A
2) a. Derivative financial assets (Note 12)	2,486	5,316	Level 3	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.	KZT implied rate	Internal rate of return in KZT is determined at initial recognition of instrument and subsequently not recalculated.
b. Derivative financial assets (Note 12)	60,928	-	Level 3	Future cash flows are estimated based on forward exchange rates (observable at the date of revaluation) discounted at the risk-free interest rate on Zero coupon rate, the resulting value is discounted using the CDS counterparty's rate with a positive value or CDS of the Bank with a negative value	N/A	N/A
3) Non-derivative financial assets at fair value through profit or loss (Note 12)						
Debt securities	90,900	160,164	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity investments	40,043	31,099	Level 1	Quoted bid prices in an active market.	N/A	N/A
4) Investments available-for-sale (Note 14)	726,692	19,706	Level 1	Quoted bid prices in an active market.	N/A	N/A
5) a. Investments available-for-sale (Note 14)	1,034,991	-	Level 2	Quoted bid prices in an inactive market.	N/A	N/A
b. Investments available-for-sale (Note 14)	2	-	Level 2	The market price of a common share, adjusted for the KZT rate against the US dollar and the number of shares in the depositary receipt.	N/A	N/A
6) Investments available-for-sale (Note 14)	-	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).	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
7) Derivative financial liabilities (Note 12)	122	59,890	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.	N/A	N/A
8) Derivative financial liabilities (Note 12)	242	4,385	Level 3	Future cash flows are estimated based on forward exchange rates (observable at the date of revaluation) discounted at the risk-free interest rate on Zero coupon rate, the resulting value is discounted using the CDS counterparty's rate with a positive value or CDS of the Bank with a negative value	N/A	N/A

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

As at 30 September 2017, the Group transferred certain financial assets that are accounted for as available-for-sale equity investments from Level 3 to Levels 1 and 2. The transfer was made in connection with the appearance of market quotations for shares previously included in Level 3. Depository receipts, the underlying the assets of which are the indicated shares were transferred to level 2, due to the use for their valuation of the market price of a common share, adjusted for the KZT rate against the US dollar and the number of shares in the depository receipt.

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 nine months ended 30 September 2017 and year ended 31 December 2016 was presented as follows:

	Derivative financial assets (KZT million)	Equity investments 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	61,482	6	1,279
Redemption	(3,002)	-	(5,422)
Refund of prepayment due to partial repayment	(382)	-	-
Reclassification to Level 2	-	(2)	-
Reclassification to Level 1	-	(22)	-
30 September 2017 (unaudited)	63,414	-	242

As at 30 September 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.

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

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:

	30 September 2017 (unaudited)		31 December 2016	
	Carrying amount	Fair value (KZT million)	Carrying amount	Fair value (KZT million)
Financial assets:				
Loans to customers	786,620	779,954	3,756,705	3,747,919
Investments held to maturity	-	-	222,434	219,946
Financial liabilities:				
Customer accounts	2,495,613	2,494,394	2,915,438	2,919,247
Debt securities issued	468,837	526,463	586,961	580,396
Other borrowed funds	36,701	8,948	81,308	54,990
Subordinated debt	163,548	144,974	230,437	219,955

	30 September 2017 (unaudited)			
	Level 1 (KZT million)	Level 2 (KZT million)	Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	779,954	779,954
Financial liabilities:				
Customer accounts	-	2,494,394	-	2,494,394
Debt securities issued	526,463	-	-	526,463
Other borrowed funds	-	8,948	-	8,948
Subordinated debt	144,974	-	-	144,974

	31 December 2016			
	Level 1 (KZT million)	Level 2 (KZT million)	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.

22. Subsequent events

On 6 October 2017, the Board of Directors of the Bank decided to place 700,716,450 common shares at a price of KZT 93.19 per common share with the existing shareholders of the Bank through their pre-emptive rights.

On 7 November 2017, the Bank announced the liquidation of LLP Titan-Inkassatsiya.

On 14 November, the Bank announced that the Bank's Board of Directors decided to place 700,171,633 common shares that were not placed after the exercise of the pre-emptive rights of purchase of the shareholders, among unlimited number of investors.

On 15 November 2017, JSC Kazkommertsbank placed 700,171,633 common shares for the amount of KZT 65.2 billion, which were acquired by JSC Holding Group Almex, as approved by the National Bank of the Republic of Kazakhstan. Following the results of the common shares sales transaction, the share of JSC Holding Group Almex in JSC Kazkommertsbank comprised 25.05%.