

# **JOINT STOCK COMPANY KAZKOMMERTSBANK**

Interim Condensed Consolidated  
Financial Information (Unaudited)  
For the three months ended 31 March 2017

# 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 months ended 31 March 2017 (Unaudited)

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Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the financial position of JSC Kazkommertsbank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 March 2017, and the results of its operations, cash flows and changes in equity for the three months then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

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

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

Management is also responsible for:

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

The interim condensed consolidated financial information of the Group for the three months ended 31 March 2017 was approved by the Management Board of JSC Kazkommertsbank on 27 June 2017.

On behalf of the Management Board of the Bank:

  
**Iskandirov A.M.**  
**First Deputy Chief Executive Officer**

27 June 2017  
Almaty

  
**Salikhova N.M.**  
**Chief Accountant**

27 June 2017  
Almaty

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and the Board of Directors of JSC Kazkommertsbank:

### Introduction

We have reviewed the accompanying interim consolidated statement of financial position of JSC Kazkommertsbank ("the Bank") and its subsidiaries ("the Group") as at 31 March 2017 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three-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 consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

### Scope of Review

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

### Basis for Qualified Conclusion

As at 31 March 2017, the Group had outstanding loans to certain borrowers with a gross carrying value of KZT 423,076 million. We were unable to complete our review of the allowance for loan losses recognised by the Group for these borrowers. Had we been able to complete our review of the allowance for loan losses in relation to these borrowers, matters might have come to our attention indicating that adjustments might be necessary to the interim consolidated financial information.

Further, as at 31 March 2017, the Group has loans receivable from JSC BTA Bank ("BTA"), an entity under common control, in the amount of KZT 2,397,034 million, which have not been classified as impaired. As at 31 March 2017, the loans should have been classified as impaired and an allowance for impairment loss should have been recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The effect of this departure cannot be determined.



## Qualified Conclusion

Except for the adjustments to the interim consolidated financial information that we might have become aware of had it not been for the situation described in the first paragraph of the *Basis for Qualified Conclusion* section of our report, and except for the matter described in the second paragraph of the *Basis for Qualified Conclusion* section of our report, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information does not present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2017, and its consolidated financial performance and its consolidated cash flows for the three months then ended in accordance with IAS 34 *Interim Financial Reporting*.

## Emphasis of Matter

As at 31 March 2017, the Group had loans receivable from BTA with a carrying amount of KZT 2,397,034 million. The Group, BTA and its major shareholders, entered into negotiations with the Government and the National Bank of the Republic of Kazakhstan on the purchase of certain assets from BTA, which would allow BTA to repay its loans to the Group. In March 2017, the parties to the negotiations have signed a Memorandum of Understanding, which has yet to be implemented. The ability of BTA to repay its loans to the Group, is dependent upon the implementation of the terms of the Memorandum of Understanding. Further, on 15 June 2017, the current shareholders of the Group, who collectively control 96.81% of the Group, signed a sale purchase agreement with a potential acquirer subject to certain conditions precedent, including but not limited to, the repayment of loans receivable from BTA, resulting in the recapitalization of the Bank. In the event of BTA being unable to repay its loans to the Bank and/or the transaction and subsequent recapitalization of the Bank not being successfully completed, this may impact the financial stability of the Bank and its ability to meet its capital adequacy requirements. Our conclusion is not modified in respect of this matter.

Deb. tk. LV

28 June 2017  
Almaty

# Joint Stock Company Kazkommertsbank

## Interim Consolidated Statement of Profit or Loss For the three months ended 31 March 2017 (Unaudited)

	Notes	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
Interest income	4, 17	92,555	119,395
Interest expense	4, 17	(71,293)	(60,430)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION/(PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		21,262	58,965
Recovery of provision/(provision) for impairment losses on interest bearing assets	5, 17	14,864	(22,867)
NET INTEREST INCOME		36,126	36,098
Net gain on financial assets and liabilities at fair value through profit or loss	6	58,028	22,488
Net loss on foreign exchange and precious metals operations		(38,858)	(19,480)
Fee and commission income		11,992	10,741
Fee and commission expense		(4,421)	(4,738)
Net realized loss on investments available-for-sale		(921)	(425)
Dividend income		21	20
Net income from sale of inventory		643	306
(Loss)/gain from revaluation of assets classified as held for sale		(788)	738
Other income		5,818	4,222
NET NON-INTEREST INCOME		31,514	13,872
OPERATING EXPENSES	7, 17	(18,489)	(15,468)
PROFIT BEFORE OTHER OPERATING PROVISIONS		49,151	34,502
Provision for impairment losses on other transactions	17	(4,295)	(659)
Recovery of provision for guarantees and other contingencies	17	390	777
PROFIT BEFORE INCOME TAX		45,246	34,620
Income tax expense	8	(7,356)	(16,169)
NET PROFIT		37,890	18,451
Attributable to:			
Ordinary shareholders of the Parent		32,793	16,390
Preference shareholders of the Parent		5,097	2,060
Non-controlling interest		-	1
		37,890	18,451
EARNINGS PER SHARE			
Basic and diluted (KZT)	9	41.15	20.57

On behalf of the Management Board of the Bank:

Iskandirov A.M.  
First Deputy Chief Executive Officer

27 June 2017  
Almaty

Salikhova N.M.  
Chief Accountant

27 June 2017  
Almaty

The notes on pages 11-34 form an integral part of this interim condensed consolidated financial information.



# Joint Stock Company Kazkommertsbank

## Interim Consolidated Statement of Comprehensive Income For the three months ended 31 March 2017 (Unaudited)

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
<b>NET PROFIT FOR THE PERIOD</b>	<b>37,890</b>	<b>18,451</b>
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Net gain resulting on revaluation of property	2	8,439
Income tax	6	(1,679)
	<b>8</b>	<b>6,760</b>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(1,843)	(398)
Net loss resulting on revaluation of available-for-sale investments	(379)	(1,030)
Reclassification adjustment relating to available-for-sale investments disposed of in the period	921	425
Net loss on cash flows hedges	(78)	(101)
Income tax	2	278
	<b>(1,377)</b>	<b>(826)</b>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME AFTER INCOME TAX</b>	<b>(1,369)</b>	<b>5,934</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>36,521</b>	<b>24,385</b>
Attributable to:		
Ordinary shareholders of the Parent	31,607	21,527
Preference shareholders of the Parent	4,914	2,857
Non-controlling interest	-	1
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>36,521</b>	<b>24,385</b>

On behalf of the Management Board of the Bank:

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First Deputy Chief Executive Officer

27 June 2017  
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27 June 2017  
Almaty

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# Joint Stock Company Kazkommertsbank

## Interim Consolidated Statement of Financial Position As at 31 March 2017 (Unaudited)

	Notes	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
<b>ASSETS:</b>			
Cash and balances with national (central) banks	10	146,505	151,908
Precious metals		2,982	3,255
Financial assets at fair value through profit or loss	11, 17	194,508	210,538
Loans and advances to banks and other financial institutions		138,472	109,832
Loans to customers	12, 17	3,641,009	3,756,705
Investments available-for-sale		18,616	19,724
Investments held to maturity		219,141	222,434
Investment property		13,094	13,134
Property, equipment and intangible assets		49,476	48,302
Deferred income tax assets	8	10,548	17,538
Other assets	17	160,933	117,741
Assets classified as held for sale		156,622	194,640
<b>TOTAL ASSETS</b>		<b>4,751,906</b>	<b>4,865,751</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Loans and advances from banks and other financial institutions	13, 17	751,757	491,505
Customer accounts	14, 17	2,717,869	2,915,438
Financial liabilities at fair value through profit or loss	11	4,501	64,275
Debt securities issued	15	435,749	586,961
Other borrowed funds		85,219	81,308
Provisions		67,471	62,571
Deferred income tax liabilities	8	141	153
Other liabilities		43,371	51,823
Subordinated debt		228,037	230,437
<b>Total liabilities</b>		<b>4,334,115</b>	<b>4,484,471</b>
<b>EQUITY:</b>			
Equity attributable to equity holders of the Parent:			
Issued and outstanding share capital		234,579	234,589
Additional paid-in-capital		(6,405)	(6,405)
Property and equipment revaluation reserve		11,490	11,515
Other reserves		178,121	141,575
<b>Total equity attributable to equity holders of the Parent</b>		<b>417,785</b>	<b>381,274</b>
Non-controlling interest		6	6
<b>Total equity</b>		<b>417,791</b>	<b>381,280</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,751,906</b>	<b>4,865,751</b>

On behalf of the Management Board of the Bank:

Iskandirov A.M.  
First Deputy Chief Executive Officer

27 June 2017  
Almaty

  
Salikhova N.M.

Chief Accountant

27 June 2017  
Almaty

The notes on pages 11-34 form an integral part of this interim condensed consolidated financial information.



# Joint Stock Company Kazkommertsbank

## Interim Consolidated Statement of Changes in Equity For the three months ended 31 March 2017 (Unaudited)

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in- capital (KZT million)	Property and equip- ment revaluation reserve (KZT million)	Invest- ments available- for-sale fair value deficit <sup>1</sup> (KZT million)	Cumula- tive transla- tion reserve <sup>1</sup> (KZT million)	Hedging reserve <sup>1</sup> (KZT million)	Retained earnings <sup>1</sup> (KZT million)	Total equity attribute- able to equity holders of the Parent (KZT million)	Non- control- ling interest (KZT million)	Total equity (KZT million)
<b>31 December 2015</b>	286,811	(52,291)	(6,405)	5,201	(2,284)	(4,242)	405	146,064	373,259	9	373,268
Net income	-	-	-	-	-	-	-	18,450	18,450	1	18,451
Other comprehensive income/(loss)	-	-	-	6,781	(347)	(419)	(81)	-	5,934	-	5,934
<b>Total comprehensive income/(loss)</b>	-	-	-	6,781	(347)	(419)	(81)	18,450	24,384	1	24,385
Repurchase of treasury shares	-	(73)	-	-	-	-	-	-	(73)	-	(73)
Sale of treasury shares	-	113	-	-	-	-	-	-	113	-	113
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(41)	-	-	-	41	-	-	-
Dividend payment	-	-	-	-	-	-	-	(32)	(32)	(4)	(36)
<b>31 March 2016 (unaudited)</b>	286,811	(52,251)	(6,405)	11,941	(2,631)	(4,661)	324	164,523	397,651	6	397,657

# Joint Stock Company Kazkommertsbank

## Interim Consolidated Statement of Changes in Equity (Continued) For the three months ended 31 March 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 <sup>1</sup> (KZT million)	Cumulative translation reserve <sup>1</sup> (KZT million)	Hedging reserve <sup>1</sup> (KZT million)	Retained earnings <sup>1</sup> (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
<b>31 December 2016</b>	286,811	(52,222)	(6,405)	11,515	(1,572)	(3,940)	62	147,025	381,274	6	381,280
Net profit	-	-	-	-	-	-	-	37,890	37,890	-	37,890
Other comprehensive income/(loss)	-	-	-	8	528	(1,843)	(62)	-	(1,369)	-	(1,369)
Total comprehensive income/(loss)	-	-	-	8	528	(1,843)	(62)	37,890	36,521	-	36,521
Repurchase of treasury shares	-	(91)	-	-	-	-	-	-	(91)	-	(91)
Sale of treasury shares	-	81	-	-	-	-	-	-	81	-	81
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(33)	-	-	-	33	-	-	-
Dividend payment	-	-	-	-	-	-	-	-	-	-	-
<b>31 March 2017 (unaudited)</b>	<b>286,811</b>	<b>(52,232)</b>	<b>(6,405)</b>	<b>11,490</b>	<b>(1,044)</b>	<b>(5,783)</b>	<b>-</b>	<b>184,948</b>	<b>417,785</b>	<b>6</b>	<b>417,791</b>

<sup>1</sup>The 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:

Iskandirov A.M.  
First Deputy Chief Executive Officer

27 June 2017  
Almaty

Salikhova N.M.  
Chief Accountant

27 June 2017  
Almaty

The notes on pages 11-34 form an integral part of this interim condensed consolidated financial information.

# Joint Stock Company Kazkommertsbank

## Interim Consolidated Statement of Cash Flows For the three months ended 31 March 2017 (Unaudited)

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Interest received on loans and advances to banks and other financial institutions	1,107	1,949
Interest received from financial assets at fair value through profit or loss	482	4,292
Interest received from loans to customers	25,462	32,315
Interest received from investments available-for-sale	938	258
Interest received from investments held to maturity	6,468	5,864
Interest paid on loans and advances from banks and other financial institutions	(13,037)	(2,051)
Interest paid on customer accounts	(32,896)	(24,265)
Interest paid on debt securities issued	(17,034)	(21,281)
Interest paid on other borrowed funds	(122)	(905)
Interest paid on subordinated debt	(562)	(1,997)
Fee and commission received	11,808	10,875
Fee and commission paid	(4,405)	(4,687)
Gain from sale of inventory	643	-
Other income received	5,000	3,562
Operating expenses paid	(17,537)	(14,567)
Cash outflow from operating activities before changes in operating assets and liabilities	(33,685)	(10,638)
Changes in operating assets and liabilities		
Decrease/(increase) in operating assets:		
Funds deposited with National Bank of Kazakhstan	22,073	3,033
Funds deposited with Central Bank of the Russian Federation	2,682	(901)
Funds deposited with National Bank of Tajikistan	74	294
Precious metals	273	(187)
Financial assets at fair value through profit or loss	14,964	178,206
Loans and advances to banks and other financial institutions	(12,539)	19,587
Loans to customers	45,782	(69,481)
Other assets	(3,088)	(11,189)
Increase/(decrease) in operating liabilities:		
Loans and advances from banks and other financial institutions	257,664	(65,443)
Customer accounts	(119,845)	43,155
Other liabilities	(617)	25,702
Cash inflow from operating activities before taxation	173,738	112,138
Income tax paid	(9,569)	(28,023)
Net cash inflow from operating activities	164,169	84,115



# Joint Stock Company Kazkommertsbank

## Interim Consolidated Statement of Cash Flows (Continued) For the three months ended 31 March 2017 (Unaudited)

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets and intangible assets	(1,052)	(545)
Proceeds on sale of fixed assets and intangible assets	2	33
Proceeds on sale of assets held for sale	2,977	6,811
Dividends received	21	20
Proceeds on sale of investments available-for-sale	401	2,891
Purchase of investment property	(1,037)	(648)
Purchase of investments held to maturity	(204)	-
Proceeds on maturity of investments held to maturity	1,541	-
Net cash inflow from investing activities	2,649	8,562
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of treasury shares	(91)	(73)
Sale of treasury shares	81	113
Proceeds from debt securities issued	1,944	-
Repurchase and repayment of debt securities issued	(127,679)	(438)
Proceeds from other borrowed funds	2,800	-
Repayment of other borrowed funds	-	(2,931)
Payment of dividends on preferred shares	-	(517)
Net cash outflow from financing activities	(122,945)	(3,846)
Effect of changes in foreign exchange rate on cash and cash equivalents	(1,426)	1,703
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,447	90,534
CASH AND CASH EQUIVALENTS, beginning of period (Note 10)	172,716	268,426
CASH AND CASH EQUIVALENTS, end of period (Note 10)	215,163	358,960

During the three months ended 31 March 2017, the Group made non-cash transfers from investment property to fixed assets in the amount of KZT 1,086 million. During the three months ended 31 March 2016, the Group made non-cash transfers from investment property to assets held for sale in the amount of KZT 10 million.

On behalf of the Management Board of the Bank:

Iskandirov A.M.  
First Deputy Chief Executive Officer

27 June 2017  
Almaty

Salikhova N.M.  
Chief Accountant

27 June 2017  
Almaty

The notes on pages 11-34 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 three months ended 31 March 2017 (Unaudited)

### 1. Organization

Joint Stock Company ("JSC") Kazkommertsbank ("the Bank", "Kazkommertsbank" or "KKB") is a Joint Stock Company and has operated in the Republic of Kazakhstan since 1990. The Bank's activities are regulated by the National Bank of Kazakhstan ("the NBK") in accordance with the license № 1.2.16/222/32 dated 2 December 2014. The Bank's primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

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

As at 31 March 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 three months ended 31 March 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 31 March 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
JSC Subsidiary of JSC BTA Bank BTA Securities	Republic of Kazakhstan	100%	100%	Securities market transactions and management of assets
LLP AlemCard	Republic of Kazakhstan	100%	100%	Payment card processing and other related services
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

On 5 January 2017 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 gain from the purchase of subsidiary in the amount of KZT 32 million included in other income in the interim consolidated financial statements for the three months ended 31 March 2017.

# Joint Stock Company Kazkommertsbank

## **Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued)** **For the three months ended 31 March 2017 (Unaudited)**

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### **Shareholders**

As at 31 March 2017, the composition of the main shareholders holding ordinary shares has remained unchanged since 31 December 2016. As at 31 March 2017, ultimate control continues to be carried out by Mr. Kenes Rakishev.

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

## **2. Basis of presentation**

### **Accounting basis**

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been omitted or condensed. The interim condensed consolidated financial information should be read in conjunction with the consolidated financial statements and with selective notes to the consolidated financial statements of the Group for the year ended 31 December 2016.

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

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

### **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 fourth quarter of 2016, the Group, BTA and their shareholders entered into negotiations with the Government of the Republic of Kazakhstan, represented by the Ministry of Finance, the NBRK and JSC Problem Loan Fund, on the coverage of possible risks connected with the loans owed to the Group by BTA Bank. In particular, this process intends to purchase certain assets from BTA, to allow BTA to repay in full, the amount outstanding to the Group. These negotiations resulted in the signing of a Memorandum of Understanding ("MoU") on 2 March 2017, the key points of which were publicly announced by the parties to the agreement.



# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

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 NBRK, JSC NWF Samruk-Kazyna, JSC Problem Loans Fund, JSC Halyk Bank of Kazakhstan (hereinafter – Halyk Bank), JSC BTA Bank (hereinafter – BTA) and Mr. Kenes Rakishev (hereinafter – the Parties).

Further, on 15 June 2017, the major shareholders of the Group entered into a sales purchase agreement with Halyk Bank. Successful completion of the transaction is subject to a number of conditions precedent, including but not limited to the repayment of loan amounts outstanding from BTA. Management believe the conditions will be met and the transaction will be successfully completed resulting in additional capital injections to the Bank.

### 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 three months ended 31 March 2017.

## 4. Net interest income

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
<b>Interest income comprise:</b>		
Interest income on financial assets recorded at amortized cost:		
- interest income on collectively assessed impaired financial assets	2,528	3,418
- interest income on financial assets that have been assessed individually for impairment	7,143	9,494
- interest income on financial assets that are not impaired including collectively not impaired loans	78,709	102,151
Interest income on financial assets at fair value through profit or loss	3,675	2,211
Interest income on investments available-for-sale	500	2,121
<b>Total interest income</b>	<b>92,555</b>	<b>119,395</b>
Interest income on financial assets recorded at amortized cost comprise:		
Interest on loans to customers	81,261	106,442
Interest on loans and advances to banks and other financial institutions	1,111	4,582
Interest on investments held to maturity	4,351	4,039
Interest income on other financial assets	1,657	-
Total interest income on financial assets recorded at amortized cost	88,380	115,063
<b>Interest expense comprise:</b>		
Interest on customer accounts	(37,261)	(35,572)
Interest on debt securities issued	(11,766)	(15,839)
Interest on subordinated debt	(4,252)	(5,207)
Interest on loans and advances from banks and other financial institutions	(16,321)	(1,662)
Preference share dividends	(461)	(481)
Interest on other borrowed funds	(1,232)	(1,669)
Total interest expense	(71,293)	(60,430)
<b>Net interest income before recovery of provision/(provision) for impairment losses on interest bearing assets</b>	<b>21,262</b>	<b>58,965</b>

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

### 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 12)	Investments held to maturity (KZT million)	Total (KZT million)
<b>31 December 2015</b>	99	314,442	60	314,601
(Recovery of provision)/additional provision	(91)	22,960	(2)	22,867
Write-off of assets	-	(74,176)	-	(74,176)
Recovery of previously written-off assets	-	6,781	159	6,940
Foreign exchange differences	(8)	6,656	-	6,648
<b>31 March 2016 (unaudited)</b>	<b>-</b>	<b>276,663</b>	<b>217</b>	<b>276,880</b>
<b>31 December 2016</b>	5,062	573,447	217	578,726
(Recovery of provision)/additional provision	(47)	(14,821)	4	(14,864)
Write-off of assets	-	(1,991)	-	(1,991)
Recovery of previously written-off assets	-	1,385	-	1,385
Foreign exchange differences	(2)	(16,041)	-	(16,043)
<b>31 March 2017 (unaudited)</b>	<b>5,013</b>	<b>541,979</b>	<b>221</b>	<b>547,213</b>

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

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
Net gain on financial assets and liabilities at fair value through profit or loss comprises:		
Net gain on operations with derivative financial instruments	47,057	21,226
Unrealized gain/(loss) on fair value adjustment	10,714	(528)
Realized gain on trading operations	257	1,790
<b>Net gain on financial assets and liabilities at fair value through profit or loss</b>	<b>58,028</b>	<b>22,488</b>

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

### 7. Operating expenses

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
Staff costs	11,491	8,438
Depreciation and amortization	952	901
Property and equipment maintenance	881	977
Operating lease	841	770
Taxes, other than income tax	767	935
Legal and consulting services	501	316
Advertising costs	500	346
Security	471	370
Bank card services	438	337
Communications costs	269	213
Vehicle maintenance	99	96
Business trip expenses	87	121
Collector services	81	129
Expenses on assets received	80	353
Fines, penalties	47	34
Other expenses	984	1,132
	<b>18,489</b>	<b>15,468</b>

### 8. 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 years ended 31 March 2017 and 2016 is as follows:

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
Current income tax expense	378	37,666
Deferred income tax expense/(benefit)	6,978	(21,497)
Income tax expense	<b>7,356</b>	<b>16,169</b>

Corporate income tax rate in the Republic of Kazakhstan was 20% during the three months ended 31 March 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.



# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

Relationships between tax expenses and accounting profit for the three months ended 31 March 2017 and 2016 are explained as follows:

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
Profit/(loss) before income tax	45,246	34,620
Tax at the statutory tax rate	9,049	6,924
Tax effect of permanent differences:		
- tax effect from different tax rates	10	20
- tax exempt income	(8,930)	(3,451)
- tax exempt written off loans	1,434	6,924
- non-deductible expense	4,065	5,642
Change in unrecognised deferred corporate income tax assets	1,728	-
Adjustments in respect of current income tax expense based on declarations for prior years	-	110
Income tax expense	7,356	16,169

During the three months ended 31 March 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 31 March 2017 and 2016, are mainly related to various methods of accounting for income and expenses, as well as the accounting value of certain assets.

Tax effect of temporary differences as at 31 March 2017 and 31 December 2016 is as follows:

	31 March 2017 (unaudited) (KZT million)	31 December (KZT million)
<b>Deferred income tax assets:</b>		
Tax losses carried forward	5,243	-
Unrealised loss on trading securities and derivatives	2,539	14,957
Tax losses carried forward on trading securities and derivatives	3,586	3,586
Accrued bonuses	2,512	3,522
Allowance for impairment losses on loans and advances to banks and customers	586	597
Other assets	2,446	-
	16,912	22,662
Unrecognized tax assets	(1,728)	-
<b>Total deferred income tax assets</b>	<b>15,184</b>	<b>22,662</b>
<b>Deferred income tax liabilities:</b>		
Property, equipment, intangible assets and accrued depreciation	(4,626)	(4,639)
Unrealised gain on trading securities and derivatives	(141)	(153)
Unrealized gain on revaluation of financial instruments, recognized on cash flow hedges	-	(18)
Other liabilities	(10)	(467)
<b>Total deferred income tax liabilities</b>	<b>(4,777)</b>	<b>(5,277)</b>
Net deferred income tax assets	10,407	17,385

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

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:

	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Deferred income tax assets	10,548	17,538
Deferred income tax liabilities	(141)	(153)
Net deferred income tax assets	10,407	17,385

## 9. Earnings per share

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

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

	Three months ended 31 March 2017 (unaudited) (KZT million)	Three months ended 31 March 2016 (unaudited) (KZT million)
<b>Basic and diluted earnings per share</b>		
Net profit attributable to equity holders of the Parent	37,890	18,450
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	(5,097)	(2,060)
Net profit attributable to ordinary shareholders	32,793	16,390
Weighted average number of ordinary shares for basic and diluted earnings per share	796,987,279	796,851,516
<b>Earnings per share – basic and diluted (KZT)</b>	<b>41.15</b>	<b>20.57</b>

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

Type of shares	Outstanding shares	31 March 2017 (unaudited)		Outstanding shares	31 December 2016	
		Net asset value (KZT million)	Book value per share, KZT		Net asset value (KZT million)	Book value per share, KZT
Ordinary shares	797,010,181	408,506	512.62	796,987,545	371,912	466.65
Preference shares	123,697,329	20,995	169.73	123,984,564	21,456	173.05
		<b>429,501</b>			<b>393,368</b>	

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

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

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

### 10. Cash and balances with national (central) banks

	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
Cash on hand	115,994	101,771
Balances with the national (central) banks	30,511	50,137
	<b>146,505</b>	<b>151,908</b>

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

	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)	31 March 2016 (unaudited) (KZT million)
Cash and balances with national (central) banks	146,505	151,908	148,349
Loans and advances to banks with original maturities less than 3 months	76,453	45,630	248,867
REPO with banks with original maturity of less than 3 months	36,272	44,074	28,007
Less funds deposited with the National Bank of Kazakhstan	(40,821)	(62,894)	(62,272)
Less funds deposited with the Central Bank of the Russian Federation	(2,880)	(5,562)	(3,735)
Less funds deposited with the National Bank of Tajikistan	(366)	(440)	(256)
	<b>215,163</b>	<b>172,716</b>	<b>358,960</b>

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

	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
<b>Financial assets at fair value through profit or loss:</b>		
Debt securities	147,283	160,164
Equity investments	43,807	31,099
Derivative financial instruments	3,418	19,275
<b>Total financial assets at fair value through profit or loss</b>	<b>194,508</b>	<b>210,538</b>

	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
<b>Financial liabilities at fair value through profit or loss:</b>		
Derivative financial instruments	4,501	64,275
<b>Total financial liabilities at fair value through profit or loss</b>	<b>4,501</b>	<b>64,275</b>

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

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

	31 March 2017(unaudited)		31 December 2016	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
<b>Debt securities:</b>				
Short-term NBRK notes	-	83,828	-	99,350
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.48-9.70	47,238	4.48-8.20	44,041
Bonds of Kazakhstani companies	7.50-14.90	4,187	7.50-14.90	4,017
Bonds of Kazakhstani banks	7.00-11.00	3,463	7.00-11.00	3,101
Eurobonds of Kazakhstani banks	6.96-7.50	2,711	7.25-9.13	2,483
Bonds of the Development Bank of Kazakhstan	6.00-6.50	2,312	6.00-6.50	2,411
Municipal bonds of the Russian Federation	11.99	2,069	12.00	2,020
Eurobonds of Kazakhstani companies	4.63-6.95	979	4.63-6.95	986
Bonds of Russian companies	12.50	496	13.00	470
Treasury bonds of the USA	-	-	2.00-2.44	1,285
		<b>147,283</b>		<b>160,164</b>

	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
<b>Equity investments:</b>		
GDRs of Kazakhstani companies	29,033	23,361
Shares of Kazakhstani companies	7,824	2,165
GDRs of Kazakhstani banks	6,213	5,059
Shares of foreign companies*	383	-
Shares of Kazakhstani banks*	354	350
Shares of foreign banks	-	164
	<b>43,807</b>	<b>31,099</b>

\* As at 31 March 2017, the Group's ownership interest in equity securities did not exceed 1% (31 December 2016: 2.16%).

As at 31 March 2017, the fair value of financial assets at fair value through profit or loss pledged under repurchase agreements were equal to KZT 47,472 million (31 December 2016: KZT 89,399 million).

	Notional amount	31 March 2017 (unaudited) Fair value (KZT million)		Notional amount	31 December 2016 Fair value (KZT million)	
		Assets	Liabilities		Assets	Liabilities
<b>Derivative financial instruments:</b>						
<i>Foreign exchange contracts:</i>						
Swaps	826,767	3,418	(1,990)	781,274	19,275	(60,570)
Spot	7,780	-	(19)	723	-	(4)
<i>Interest rate contracts:</i>						
Swaps	2,413	-	(159)	2,772	-	(195)
Other:						
Forward on securities	10,130	-	(2,333)	11,124	-	(3,506)
		<b>3,418</b>	<b>(4,501)</b>		<b>19,275</b>	<b>(64,275)</b>

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.



# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

As at 31 March 2017, the difference between the fair value of shares of Sekerbank TAS and cost of sale, according to the terms of the agreement with the JSC NWF Samruk-Kazyna, was recognized as a financial liability in the amount of KZT 2,333 million (31 December 2016: KZT 3,506 million).

## 12. Loans to customers

	<b>31 March 2017 (unaudited) (KZT million)</b>	<b>31 December 2016 (KZT million)</b>
<b>Recorded as loans and receivables:</b>		
Loans to customers	4,181,812	4,328,940
Net investments in finance lease	1,176	1,212
	4,182,988	4,330,152
Less: allowance for impairment losses	(541,979)	(573,447)
	<b>3,641,009</b>	<b>3,756,705</b>

Movements in allowances for impairment losses on loans to customers for the three months ended 31 March 2017 and 2016 are disclosed in Note 5.

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

	<b>31 March 2017 (unaudited) (KZT million)</b>	<b>31 December 2016 (KZT million)</b>
<b>Analysis by type of collateral:</b>		
Loans collateralized by pledge of accounts receivable	2,416,142	2,507,843
Loans collateralized by pledge of real estate and land	552,997	556,543
Loans collateralized by pledge of equipment	211,568	222,604
Loans collateralized by pledge of inventories	150,071	149,851
Loans collateralized by financial institutions guarantees	53,604	57,113
Loans collateralized by pledge at development stage (real estate, land, shares, guarantees, other)	40,561	43,275
Loans collateralized by mixed collateral types*	22,794	22,088
Loans collateralized by cash or guarantees of the Government of the Republic of Kazakhstan	21,850	25,735
Loans collateralized by corporate guarantees	16,118	18,508
Loans collateralized by shares	10,447	13,844
Unsecured loans	144,857	139,301
	<b>3,641,009</b>	<b>3,756,705</b>

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

The Bank and BTA have signed an Agreement on opening of a credit line, under which the Bank has opened a credit line to BTA with a limit of KZT 630,000 million and USD 5,600 million with maturity on 30 June 2024 and an interest rate of 9% for loan denominated in KZT and 8% for loan denominated in USD. BTA shall make quarterly repayments of principal and interest in fixed amounts, stated in the Agreement, with the remaining debt to be repaid at maturity.

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

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
<b>Analysis by sector:</b>		
Investments and finance	2,420,067	2,491,067
Individuals	309,075	302,311
Real estate	187,371	197,887
Housing construction	114,196	116,739
Agriculture	102,254	109,783
Wholesale and retail trade	92,624	100,237
Commercial real estate construction	89,253	87,596
Energy	64,628	79,207
Industrial and other construction	60,042	65,626
Food industry	44,143	45,163
Mining and metallurgy	32,726	34,643
Hospitality business	28,047	29,409
Transport and communication	21,250	13,503
Medicine	8,307	8,365
Production of construction materials	7,750	8,654
Machinery construction	7,224	7,363
Production of other non-metal materials	1,874	1,444
Other	50,178	57,708
	<b>3,641,009</b>	<b>3,756,705</b>

During the three months ended 31 March 2017 and year ended 31 December 2016, the Group received non-financial assets by taking possession of collateral it held as security. As at 31 March 2017, such assets in the amount of KZT 148,418 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. As at 31 March 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 31 March 2017, such assets in the amount of KZT 8,204 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 31 March 2017, the Group granted loans to the borrowers, which individually exceeded 10% of the Group's equity, in the total amount of KZT 2,541,390 million (31 December 2016: KZT 2,613,569 million).

As at 31 March 2017, a significant part of loans 94.58% (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.

### 13. Loans and advances from banks and other financial institutions

In December 2016, the Bank received a short-term loan from the National Bank of the Republic of Kazakhstan for a total amount of KZT 400,813 million with maturity in March 2017. On 26 December 2016, the Bank made partial early repayment of the above debt in the principal amount of KZT 200,000 million. On 14 March 2017, the Bank repaid the loan from NBRK in the amount of KZT 200,000 million.

From 9 February 2017 to 17 March 2017, the Bank received additional three-month tranches for NBRK's special purpose loan in the total amount of KZT 495,000 million 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 of the loan. As at 31 March 2017, the Bank's total outstanding debt on special-purpose loans from NBRK is KZT 499,518 million (31 December 2016: KZT 201,875 million).

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

### 14. Customer accounts

	<b>31 March 2017 (unaudited) (KZT million)</b>	<b>31 December 2016 (KZT million)</b>
<b>Recorded at amortized cost:</b>		
Time deposits	2,097,059	2,239,540
Demand deposits	617,846	672,654
Accounts in precious metals	2,964	3,244
	<b>2,717,869</b>	<b>2,915,438</b>

As at 31 March 2017, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 48,156 million (31 December 2016: KZT 52,186 million).

	<b>31 March 2017 (unaudited) (KZT million)</b>	<b>31 December 2016 (KZT million)</b>
<b>Analysis by sector:</b>		
Individuals	1,298,063	1,440,081
Government related entities	457,796	464,326
Chemical and petrochemical industry	286,261	282,343
Investments and finance	160,236	152,346
Construction	113,568	142,724
Individual services	72,721	89,160
Wholesale and retail trade	71,101	81,712
Agriculture	59,689	23,014
Transport and communication	35,907	50,782
Education	34,877	32,383
Mining and metallurgy	31,922	83,914
Public organizations and unions	25,882	6,875
Distribution of electricity, gas and water	15,951	13,935
Other	53,895	51,843
	<b>2,717,869</b>	<b>2,915,438</b>

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

### 15. Debt securities issued

	Currency	Maturity date	Annual coupon rate %	31 March 2017 (unaudited) (KZT million)	31 December 2016 (KZT million)
<b>Recorded at amortized cost:</b>					
Eurobonds:					
Issued in May 2011 at the price of 99.353%	USD	May 2018	8.50	92,606	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				(260)	(390)
Accrued interest on Eurobonds issued				3,040	9,059
Total issued Eurobonds				95,386	238,001
Debt securities previously issued by JSC BTA Bank at the price 100.00%	USD	December 2022	5.50	181,011	184,147
Debt securities issued of JSC Kazkommertsbank at the price 99.95%	KZT	January 2022	8.75	95,198	101,382
Debt securities issued of JSC Kazkommertsbank at the price 99.97%	KZT	November 2019	8.40	61,747	60,513
Issued bonds of Moscow Stars B.V. at the price of 99.00%	USD	December 2020	6.16	2,056	2,403
Issued promissory notes of OJSC Moskommertsbank	USD, RUR	On demand	4.50-12.00	351	515
				<b>435,749</b>	<b>586,961</b>

As at 31 March 2017, the nominal value of debt securities previously issued by JSC BTA Bank amounted to KZT 234,223 million, while discount amounted to KZT 56,433 million (31 December 2016: KZT 247,180 million and KZT 63,033 million, respectively).

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

During the three months ended 31 March 2017, the Group sold debt securities issued in the total amount of KZT 1,944 million (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.

### 16. Commitments and contingencies

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

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

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



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## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

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

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

	<b>31 March 2017 (unaudited) (KZT million)</b>	<b>31 December 2016 (KZT million)</b>
<b>Contingent liabilities and credit commitments:</b>		
Guarantees issued and similar commitments	122,741	137,628
Letters of credit and other transaction related to contingent obligations	45,048	48,084
Commitments on loans and unused credit lines (irrevocable)	28,248	25,849
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	13	16
<b>Total contingent liabilities and credit commitments</b>	<b>196,050</b>	<b>211,577</b>
Less collateral in cash*	(54,493)	(58,523)
Less provision for guarantees and other contingencies	(4,478)	(5,070)
<b>Total contingent liabilities and credit commitments, net</b>	<b>137,079</b>	<b>147,984</b>

\*Of these, KZT 48,156 million were taken into account as customer accounts, and as other borrowed funds KZT 6,337 million (31 December 2016: KZT 52,186 million and KZT 6,337 million, respectively).

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 31 March 2017, the amount of contingent liabilities on such unused credit lines equals to KZT 165,507 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.

#### *Sekerbank T.A.S.*

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

# Joint Stock Company Kazkommertsbank

## **Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)**

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

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

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

On 11 March 2016, as a result of the decision at the First Commercial Court of the First Instance in Istanbul, Turkey, the remaining 13.53% of Sekerbank shares out of encumbrance in the quantity of 17,083,367 shares were also blocked as the provision of guarantee of JSC BTA Bank on the loan to ELT LojistikLtd. Şti. (Turkey) issued by TürkiyeVakıflarBank T.A.O. (Turkey).

On 29 April 2016, a tender was held to sell the Sekerbank T.A.S. in the amount of 9.43% owned by BTA Securities, as part of the execution of this court decision. Sekerbank T.A.S. itself took part in the given trades, which became the winner of the auctions.

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

On 29 June 2016, a letter was sent to legal advisers about the refusal of the submitted application for cancellation of bidding, since in the event of a decision on this trial in favor of Türkiye Vakıflar Bank TAO, the court would oblige defendants to pay a state duty of 10% of the auction amount.

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

According to the official notification of the 14th Directorate for Execution of Judgements in Istanbul, which indicates the entry into force of the conducted tenders, it became necessary to re-issue shares in the amount of 9.43% on Sekerbank TAS, owned by BTA Securities earlier, as a result, based on the above document on 19 August 2016, the shares were written off. For the remaining 1.48% of the shares of Sekerbank T.A.S, owned by BTA Securities, the enforcement proceedings on the decision from 3 December 2015 continues. The Group recognised the corresponding losses in the consolidated statement of profit or loss for the year ended 31 December 2016.

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

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

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## **Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued)** **For the three months ended 31 March 2017 (Unaudited)**

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### **Taxation**

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

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

### **Operating environment**

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

### 17. 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:

	31 March 2017 (unaudited) (KZT million) Total category as per financial statements caption		31 December 2016 (KZT million) Total category as per financial statements caption	
	Related party balances		Related party balances	
<b>Loans and advances to banks and other financial institutions</b>	1,892	138,472	7,019	109,832
- other related parties	1,892		7,019	
<b>Loans to customers, before allowance</b>	2,469,373	4,182,988	2,542,237	4,330,152
- key management personnel of the Bank	1,670		1,625	
- BTA Bank	2,397,034		2,465,831	
- other related parties	70,669		74,781	
<b>Allowance for impairment losses on loans</b>	(15,518)	(541,979)	(14,960)	(573,447)
- key management personnel of the Bank	(62)		(67)	
- BTA Bank	(14,382)		(13,851)	
- other related parties	(1,074)		(1,042)	
<b>Other assets</b>	99	174,621	1,263	128,609
- BTA Bank	99		85	
- other related parties	-		1,178	
<b>Allowance for other assets</b>	-	(13,688)	(1,178)	(10,868)
- other related parties	-		(1,178)	
<b>Loans and advances from banks and other financial institutions</b>	54	751,757	873	491,505
- other related parties	54		873	
<b>Customer accounts</b>	5,358	2,717,869	9,167	2,915,438
- key management personnel of the Bank	2,242		828	
- BTA Bank	1,159		5,230	
- other related parties	1,957		3,109	
<b>Guarantees issued and similar commitments</b>	6,848	122,741	6,815	137,628
- BTA Bank	6,811		6,811	
- other related parties	37		4	
<b>Commitments on loans and unused credit lines</b>	208	45,048	410	25,849
- key management personnel of the Bank	208		410	
<b>Allowance for guarantees issued and similar commitments</b>	(83)	(4,478)	(83)	(5,070)
- BTA Bank	(83)		(83)	



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## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

Included in the interim consolidated statement of profit or loss for the three months ended 31 March 2017 and 2016 are the following amounts which arose due to transactions with related parties:

	For the three months ended 31 March 2017 (unaudited) (KZT million)		For the three months ended 31 March 2016 (unaudited) (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Interest income</b>	50,588	92,555	54,224	119,395
- key management personnel of the Bank	39		-	
- BTA Bank	48,432		50,364	
- other related parties	2,117		3,860	
<b>Interest expense</b>	(21)	(71,293)	(19)	(60,430)
- key management personnel of the Bank	(15)		(19)	
- other related parties	(6)		-	
<b>Operating expenses</b>	(852)	(18,489)	(66)	(15,468)
- short-term employee benefits	(852)	(11,491)	(66)	(8,438)
<b>(Provision)/recovery of provision for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies</b>	(2,246)	10,959	(19,844)	(22,749)
- key management personnel of the Bank	2		-	
- BTA Bank	(2,002)		(10,320)	
- other related parties	(246)		(9,524)	

Key management personnel compensation for the three months ended 31 March 2017 and 2016 is represented by short-term employee benefits.

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

## 18. 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.

# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

	Retail banking (unaudited) (KZT million)	Corporate banking (unaudited) (KZT million)	Investment banking (unaudited) (KZT million)	Other (unaudited) (KZT million)	Unallocated (unaudited) (KZT million)	Eliminations (unaudited) (KZT million)	As at and for the three months ended 31 March 2017 (unaudited) (KZT million)
External interest income	11,568	71,342	9,347	298	-	-	92,555
Internal interest income	26,451	14,852	84,738	-	-	(126,041)	-
External interest expenses	(18,313)	(11,955)	(41,025)	-	-	-	(71,293)
Internal interest expenses	(6,839)	(72,636)	(46,566)	-	-	126,041	-
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing assets	12,867	1,603	6,494	298	-	-	21,262
Recovery of provision/(provision) for impairment losses on interest bearing assets	2,993	11,875	-	(4)	-	-	14,864
<b>NET INTEREST INCOME</b>	<b>15,860</b>	<b>13,478</b>	<b>6,494</b>	<b>294</b>	<b>-</b>	<b>-</b>	<b>36,126</b>
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	58,028	-	-	-	58,028
Net gain/(loss) on foreign exchange and precious metals operations	588	5	(39,452)	1	-	-	(38,858)
Fee and commission income	8,162	3,718	112	-	-	-	11,992
Fee and commission expense	(3,557)	(482)	(289)	(93)	-	-	(4,421)
Net realized gain on investments available-for-sale	-	-	(971)	50	-	-	(921)
Dividend income	-	-	21	-	-	-	21
Net gain from sale of inventory	-	643	-	-	-	-	643
Revaluation of assets available- for-sale	-	(776)	(12)	-	-	-	(788)
Other income/(expenses)	88	(164)	3,523	2,371	-	-	5,818
<b>NET NON-INTEREST INCOME</b>	<b>5,281</b>	<b>2,944</b>	<b>20,960</b>	<b>2,329</b>	<b>-</b>	<b>-</b>	<b>31,514</b>
<b>OPERATING EXPENSES</b>	<b>(12,845)</b>	<b>(2,500)</b>	<b>(1,141)</b>	<b>(2,003)</b>	<b>-</b>	<b>-</b>	<b>(18,489)</b>
<b>PROFIT BEFORE OTHER OPERATING PROVISIONS</b>	<b>8,296</b>	<b>13,922</b>	<b>26,313</b>	<b>620</b>	<b>-</b>	<b>-</b>	<b>49,151</b>
(Provision)/recovery of provision for impairment losses on other transactions	-	(3,422)	1	(874)	-	-	(4,295)
Recovery of provision for guarantees and other contingencies	-	391	(1)	-	-	-	390
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>8,296</b>	<b>10,891</b>	<b>26,313</b>	<b>(254)</b>	<b>-</b>	<b>-</b>	<b>45,246</b>
Segment assets	471,842	3,530,713	803,986	100,687	-	(155,322)	4,751,906
Segment liabilities	1,308,124	1,549,818	1,564,642	73,271	728	(162,468)	4,334,115

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## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

	Retail banking (unaudited) (KZT million)	Corporate banking (unaudited) (KZT million)	Investment banking (unaudited) (KZT million)	Other (unaudited) (KZT million)	Unallocated (unaudited) (KZT million)	Eliminations (unaudited) (KZT million)	For the three months ended 31 March 2016 (unaudited) (KZT million)
External interest income	20,096	86,355	12,772	172	-	-	119,395
Internal interest income	20,840	17,261	69,463	-	-	(107,564)	-
External interest expenses	(13,623)	(16,222)	(30,585)	-	-	-	(60,430)
Internal interest expenses	(7,374)	(59,441)	(40,749)	-	-	107,564	-
Net interest income before (provision)/recovery of provision for impairment losses on interest bearing assets	19,939	27,953	10,901	172	-	-	58,965
(Provision)/recovery of provision for impairment losses on interest bearing assets	(3,195)	(19,674)	-	2	-	-	(22,867)
<b>NET INTEREST INCOME</b>	<b>16,744</b>	<b>8,279</b>	<b>10,901</b>	<b>174</b>	<b>-</b>	<b>-</b>	<b>36,098</b>
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	22,488	-	-	-	22,488
Net gain/(loss) on foreign exchange and precious metals operations	3,158	(68)	(22,519)	(51)	-	-	(19,480)
Fee and commission income	7,435	3,212	94	-	-	-	10,741
Fee and commission expense	(4,028)	(457)	(212)	(41)	-	-	(4,738)
Net realized gain/(loss) on investments available-for-sale	-	-	6	(431)	-	-	(425)
Dividend income	-	-	20	-	-	-	20
Net gain from sale of inventory	-	306	-	-	-	-	306
Revaluation of assets available- for-sale	-	738	-	-	-	-	738
Other (expenses)/income	(79)	(582)	1,736	3,147	-	-	4,222
<b>NET NON-INTEREST INCOME</b>	<b>6,486</b>	<b>3,149</b>	<b>1,613</b>	<b>2,624</b>	<b>-</b>	<b>-</b>	<b>13,872</b>
<b>OPERATING EXPENSES</b>	<b>(8,949)</b>	<b>(4,011)</b>	<b>(571)</b>	<b>(1,937)</b>	<b>-</b>	<b>-</b>	<b>(15,468)</b>
<b>PROFIT BEFORE OTHER OPERATING PROVISIONS</b>	<b>14,281</b>	<b>7,417</b>	<b>11,943</b>	<b>861</b>	<b>-</b>	<b>-</b>	<b>34,502</b>
Provision for impairment losses on other transactions	-	(287)	-	(372)	-	-	(659)
Recovery of provision for guarantees and other contingencies	-	776	1	-	-	-	777
<b>PROFIT BEFORE INCOME TAX</b>	<b>14,281</b>	<b>7,906</b>	<b>11,944</b>	<b>489</b>	<b>-</b>	<b>-</b>	<b>34,620</b>
<b>Segment assets*</b>	<b>371,395</b>	<b>3,752,052</b>	<b>809,502</b>	<b>93,484</b>	<b>2,805</b>	<b>(163,487)</b>	<b>4,865,751</b>
<b>Segment liabilities*</b>	<b>1,451,418</b>	<b>1,605,890</b>	<b>1,529,275</b>	<b>65,192</b>	<b>9,992</b>	<b>(177,296)</b>	<b>4,484,471</b>

\*As at 31 December 2016.

## 19. 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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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	31 March 2017 (unaudited) (KZT million)	Fair value as at 31 December 2016 (KZT million)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Derivative financial assets (Note 11)	1,911	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) Derivative financial assets (Note 11)	1,507	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.
3) Non-derivative financial assets at fair value through profit or loss (Note 11)						
Debt securities	147,283	160,164	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity investments	43,807	31,099	Level 1	Quoted bid prices in an active market.	N/A	N/A
4) Investments available-for-sale	18,602	19,706	Level 1	Quoted bid prices in an active market.	N/A	N/A
5) Investments available-for-sale	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). 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.	The fair value adjustment is based on an individual approach in view of the complex structure of the association and the restructuring of banks	The increase in equity capital increases the value of the joint bank shares
6) Derivative financial liabilities (Note 11)	3,337	59,890	Level 2	Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	N/A	N/A
7) Derivative financial liabilities (Note 11)	1,164	4,385	Level 3		KZT implied rate	Internal rate of return in KZT is determined at initial recognition of instrument and subsequently not recalculated

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## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

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

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

	<b>Derivative financial assets (KZT million)</b>	<b>Equity instruments available-for- sale (KZT million)</b>	<b>Derivative financial liabilities (KZT million)</b>
<b>31 December 2015</b>	<b>195,766</b>	<b>31</b>	<b>5,453</b>
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)
<b>31 December 2016</b>	<b>5,316</b>	<b>18</b>	<b>4,385</b>
<i>Total gains or (losses):</i>	(544)	-	(743)
- to profit or loss	-	(4)	-
Redemption	(2,883)	-	(2,478)
Refund of prepayment due to partial repayment	(382)	-	-
<b>30 March 2017 (unaudited)</b>	<b>1,507</b>	<b>14</b>	<b>1,164</b>

As at 31 March 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.



# Joint Stock Company Kazkommertsbank

## Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued) For the three months ended 31 March 2017 (Unaudited)

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:

	31 March 2017 (unaudited)		31 December 2016	
	Carrying amount	Fair value (KZT million)	Carrying Amount	Fair value (KZT million)
<b>Financial assets:</b>				
Loans to customers	3,641,009	3,648,336	3,756,705	3,747,919
Investments held to maturity	219,141	216,937	222,434	219,946
<b>Financial liabilities:</b>				
Customer accounts	2,717,869	2,718,770	2,915,438	2,919,247
Debt securities issued	435,749	480,544	586,961	580,396
Other borrowed funds	85,219	69,627	81,308	54,990
Subordinated debt	228,037	207,954	230,437	219,955

  

	Level 1 (KZT million)	Level 2 (KZT million)	31 March 2017 (unaudited) Level 3 (KZT million)	Total (KZT million)
<b>Financial assets:</b>				
Loans to customers	-	-	3,648,336	3,648,336
Investments held to maturity	216,937	-	-	216,937
<b>Financial liabilities:</b>				
Customer accounts	-	2,718,770	-	2,718,770
Debt securities issued	480,544	-	-	480,544
Other borrowed funds	-	69,627	-	69,627
Subordinated debt	207,954	-	-	207,954

  

	Level 1 (KZT million)	Level 2 (KZT million)	31 December 2016 Level 3 (KZT million)	Total (KZT million)
<b>Financial assets:</b>				
Loans to customers	-	-	3,747,919	3,747,919
Investments held to maturity	219,946	-	-	219,946
<b>Financial liabilities:</b>				
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.

# Joint Stock Company Kazkommertsbank

## **Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information (Continued)** **For the three months ended 31 March 2017 (Unaudited)**

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### **20. Subsequent events**

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

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

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

On 15 June 2017 the Sale and Purchase Agreements was signed by and between Mr. Kenes Rakishev and Halyk Bank and separately by and between Samruk-Kazyna and Halyk Bank pursuant to which Mr. Kenes Rakishev and Samruk-Kazyna are selling to Halyk Bank their entire respective ownership interests in Kazkommertsbank for the consideration of KZT 1 each. The closing of the transaction is subject to certain conditions precedent, including, inter alia: acquisition by JSC Problem Loans Fund of certain assets and claims from BTA Bank; redemption of a loan owed by BTA Bank to the Bank; Mr. Kenes Rakishev having acquired shares of the Bank currently held by Mr. Nurzhan Subkhanberdin and Central Asian Investment Company, with these equity stakes further being sold to Halyk Bank; receipt of customary regulatory approvals from the relevant regulatory bodies of Kazakhstan and other applicable jurisdictions.

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

On 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.