Subsidiary JSC VTB Bank (Kazakhstan)

Financial statements

Year ended 31 December 2013
Together with independent auditors' report

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Building a better working world

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Independent auditors' report

To the Shareholder and Board of Directors of Subsidiary JSC VTB Bank (Kazakhstan)

We have audited the accompanying financial statements of Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Subsidiary JSC VTB Bank (Kazakhstan) as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor / General Director
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

18 February 2014

STATEMENT OF FINANCIAL POSITION

As of 31 December 2013

(Thousands of tenge)

	Notes	2013	2012
Assets			
Cash and cash equivalents	6	**29,070,041**	11,160,774
Trading securities	7	**310,200**	315,293
Amounts due from credit institutions		**176,784**	79,971
Loans to customers	8	**108,280,391**	80,830,443
Held-to-maturity investment securities	9	**686,478**	697,389
Property, plant and equipment	10	**1,747,661**	1,766,528
Intangible assets	11	**682,513**	477,861
Current corporate income tax assets	12	**34,745**	34,745
Deferred corporate income tax assets	12	**472,167**	672,761
Other assets	13	**2,534,297**	553,062
Total assets		**143,995,277**	96,588,827
Liabilities			
Amounts due to credit institutions	14	**12,586,583**	11,400,735
Amounts due to customers	15	**97,155,406**	52,006,464
Debt securities issued	16	**15,188,479**	15,329,541
Other liabilities	13	**1,334,967**	740,877
Total liabilities		**126,265,435**	79,477,617
Equity			
Share capital	17	**20,000,000**	20,000,000
Accumulated deficit		**(2,270,158)**	(2,888,790)
Total equity		**17,729,842**	17,111,210
Total equity and liabilities		**143,995,277**	96,588,827

Signed and authorised for release on behalf of the Management Board of the Bank:

S.N. Gusarov — Chairman of the Management Board

A.V. Lavrentyeva — Chief Accountant

18 February 2014

The accompanying notes on pages 5 to 40 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

(Thousands of tenge)

	Notes	*2013*	*2012*
Interest income			
Loans to customers		**12,297,011**	8,135,880
Amounts due from credit institutions		**56,868**	13,270
Investment securities		**26,889**	33,114
		12,380,768	8,182,264
Trading securities		**12,349**	65,954
		12,393,117	8,248,218
Interest expense			
Amounts due to credit institutions		**(547,261)**	(420,237)
Amounts due to customers		**(3,435,459)**	(1,668,428)
Debt securities issued		**(908,938)**	(868,008)
		(4,891,658)	(2,956,673)
Net interest income before impairment		**7,501,459**	5,291,545
Impairment charge	8	**(1,690,931)**	(1,234,315)
Net interest income		**5,810,528**	4,057,230
Net fee and commission income	19	**1,651,695**	1,005,406
Net (losses)/gains from trading securities		**(4,558)**	3,869
Net gains/(losses) from foreign currencies:			
- dealing		**1,102,487**	520,294
- translation differences		**(18,116)**	(23,102)
Other income		**17,786**	15,316
Non-interest income		**2,749,294**	1,521,783
Personnel expenses	20	**(4,237,384)**	(3,169,793)
Other operating expenses	20	**(2,727,771)**	(2,337,012)
Depreciation and amortization	10, 11	**(562,985)**	(409,001)
Taxes other than corporate income tax		**(128,694)**	(153,724)
Other expenses		**(83,762)**	(83,706)
Non-interest expense		**(7,740,596)**	(6,153,236)
Profit/(loss) before corporate income tax (expense)/benefit		**819,226**	(574,223)
Corporate income tax (expense)/benefit	12	**(200,594)**	87,459
Profit/(loss) for the year		**618,632**	(486,764)
Other comprehensive income for the year		**–**	–
Total comprehensive income/(loss) for the year		**618,632**	(486,764)
Basic and diluted earnings/(loss) per share (in tenge)	21	**309.32**	(243.38)

The accompanying notes on pages 5 to 40 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

(Thousands of tenge)

	Share capital	*Accumulated deficit*	*Total equity*
31 December 2011	20,000,000	(2,402,026)	17,597,974
Comprehensive loss for the year	–	(486,764)	(486,764)
31 December 2012	20,000,000	(2,888,790)	17,111,210
Comprehensive income for the year	–	**618,632**	**618,632**
31 December 2013	**20,000,000**	**(2,270,158)**	**17,729,842**

The accompanying notes on pages 5 to 40 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

(Thousands of tenge)

	Notes	*2013*	*2012*
Cash flows from operating activities			
Interest income received		**11,701,738**	7,739,542
Interest expense paid		**(4,073,502)**	(2,755,612)
Fees and commissions received		**1,537,056**	899,900
Fees and commissions paid		**(176,876)**	(44,463)
Gains less losses from trading securities		**–**	(41)
Realised gains less losses from dealing in foreign currencies		**984,733**	520,294
Personnel expenses paid		**(4,072,352)**	(3,249,011)
Other operating expenses paid		**(2,774,045)**	(2,521,634)
Cash from operating activities before changes in operating assets and liabilities		**3,126,752**	588,975
Net (increase)/decrease in operating assets			
Trading securities		**–**	53,926
Amounts due from credit institutions		**(83,726)**	(68,696)
Loans to customers		**(28,252,662)**	(35,918,112)
Other assets		**255,522**	(56,312)
Net (decrease)/increase in operating liabilities			
Amounts due to credit institutions		**(537,888)**	10,362,514
Amounts due to customers		**44,110,581**	21,692,826
Other liabilities		**(135,971)**	127,956
Net cash flows from / (used in) operating activities before corporate income tax		**18,482,608**	(3,216,923)
Corporate income tax paid		**–**	(3,738)
Net cash from / (used in) operating activities		**18,482,608**	(3,220,661)
Cash flows from investing activities			
Purchase of property and equipment		**(306,046)**	(464,569)
Proceeds from sale of property and equipment		**–**	3,644
Purchase of intangible assets		**(363,088)**	(338,297)
Net cash used in investing activities		**(669,134)**	(799,222)
Cash flows from financing activities			
Proceeds from debt securities issued		**–**	2,247,077
Net cash from financing activities		**–**	2,247,077
Effect of exchange rates changes on cash and cash equivalents		**95,793**	(23,102)
Net increase/(decrease) in cash and cash equivalents		**17,909,267**	(1,795,908)
Cash and cash equivalents, beginning of the year		**11,160,774**	12,956,682
Cash and cash equivalents, end of the year	6	**29,070,041**	11,160,774

The accompanying notes on pages 5 to 40 are an integral part of these financial statements.

(Thousands of tenge, unless otherwise indicated)

1. Principal activities

Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank") was formed on 19 September 2008 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license № 1.1.259 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations on 22 May 2009.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's registered office is: 050040, Almaty, 28B Timiryazev Str., Republic of Kazakhstan. As at 31 December 2013 the Bank had 17 branches throughout Kazakhstan (31 December 2012 – 17).

The Bank is a member of the deposit insurance system. The system operates under the laws of the Republic of Kazakhstan and is governed by the National Bank of the Republic of Kazakhstan (the "NBRK"). Insurance covers the Bank's liabilities to individual depositors for an amount up to 5 million Kazakh Tenge for each individual in the event of business failure and revocation of the banking licence.

As at 31 December 2013 and 2012, the sole shareholder of the Bank is OJSC Bank VTB (Russia) (the "Parent"). The ultimate controlling party of the Bank is the Government of the Russian Federation.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are prepared under the historical cost convention except for recording at fair value of financial assets through profit or loss and classified as trading securities as required by IAS 39 *Financial Instruments: Recognition and Measurement.*

These financial statements are presented in thousands of tenge, unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS during the year:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the financial statements of the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures.* Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Bank provides these disclosures in Note 23.

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Bank's financial position.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group has no subsidiaries with material non-controlling interests as well as unconsolidated structured entities.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Banks' financial position or performance.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in *Note 23*.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Trading securities

Financial assets classified as held for trading are included in the category in trading securities. Financial assets are classified as trading securities if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income.

Held-to-maturity investment securities

Securities with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Securities intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the statement of comprehensive income when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses on such assets are recognised in the statement of comprehensive income upon derecognition or impairment as well as through the amortisation process.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets (continued)

Financial assets are reclassified at their fair value on the date of reclassification. Gains and expenses recognized in the statement of comprehensive income are not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amount due from the National Bank of the Republic of Kazakhstan and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to clients, amounts due to credit institutions and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of comprehensive income.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans to customers

For loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income . Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of comprehensive income.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of a loan has been changed the old loan is derecognised and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of: the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

The current corporate income tax charge is calculated in accordance with the tax legislation of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred corporate tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are disclosed in the statement of comprehensive income as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Furniture and fixtures	8
Leasehold improvements	10
Computers and office equipment	4-7
Motor vehicles	7
Other	4-10

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets include software and licenses and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 6 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Share capital is measured at the fair value of consideration received. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: "Corporate – investment banking" ("CIB"), (including the following sub-segments: "Investment – banking", "Loans and deposits" and "Transactional business"), "Retail business", "Treasury" and "Other".

Contingent assets and liabilities

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized when it is probable that the economic benefits will flow to the Bank and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as trading and available-for-sale instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These items include commission income and fees for the issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

- *Commission income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as purchase or sale of currency, transfer transactions or cash transactions are recognised on completion of such transaction.

3. Summary of significant accounting policies (continued)

Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the official exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The official exchange rate established at KASE as at 31 December 2013 and 2012, were KZT 154.06 and KZT 150.74 to USD 1, respectively. The currency exchange rate as at 18 February 2014 was 184.50 tenge to USD 1.

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of the Bank's financial liabilities. The Bank will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is expected that amendments will have no impact on the Bank since the Bank does not have subsidiaries.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments becomes effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have a material impact on its financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments becomes effective for annual periods beginning on or after 1 January 2014. The Bank had no derivative financial instruments during the current period. However, these amendments would be considered for future novations.

(Thousands of tenge, unless otherwise indicated)

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Segment information

Disclosure of segment information is presented on the basis consistent with IFRS data about reportable segments, adjusted if necessary, on intersegment reallocation. Qualitative and quantitative information about operating segments is reported to the management of the Bank in order to make decisions about allocation of resources to the segment and assess its performance.

Income, disclosed in this note, comprises the following: interest income, fee and commission income, other operating income, gains less losses on financial assets at fair value through profit or loss, gains less losses from operations with foreign currencies. Each of these items is considered in determining the income of a particular sub-segment/segment without sub-segments, if its value for this sub-segment/segment without sub-segments is positive. Totals are calculated as the sum of item-by-item components.

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

Transactions between segments are carried out mainly in the normal course of business.

Below is the information about the reportable segments of the Bank as at 31 December 2013, and segment results for the year ended 31 December 2013.

	Corporate – investment banking ("CIB")									
2013	*Investment banking*	*Loans and deposits*	*Transactional business*	*Total CIB*	*Treasury*	*Retail Banking*	*Other*	*Total before elimination of intersegment transactions*	*Elimination of intersegment transactions*	*Total*
Cash and cash equivalents	–	–	–	–	28,601,252	468,789	–	29,070,041	–	29,070,041
Trading securities	206,438	–	–	206,438	103,762	–	–	310,200	–	310,200
Amounts due from credit institutions	–	–	–	–	–	176,784	–	176,784	–	176,784
Loans to customers	–	64,279,133	–	64,279,133	–	44,001,258	–	108,280,391	–	108,280,391
Held-to-maturity investment securities	686,478	–	–	686,478	–	–	–	686,478	–	686,478
Property and equipment	–	288,583	199,955	488,538	22,843	1,236,280	–	1,747,661	–	1,747,661
Intangible assets	–	117,192	80,559	197,751	10,672	474,090	–	682,513	–	682,513
Deferred corporate income tax assets	–	–	87,662	87,662	110,132	274,373	–	472,167	–	472,167
Other assets	–	73,126	2,133,455	2,206,581	7,126	355,335	–	2,569,042	–	2,569,042
Intersegment/intersub-segment transfer of funds	–	56,772,586	17,778,368	74,550,954	96,695,757	28,353,816	–	199,600,527	(199,600,527)	–
Total assets	892,916	121,530,620	20,279,999	142,703,535	125,551,544	75,340,725	–	343,595,804	(199,600,527)	143,995,277
Amounts due to credit institutions	–	3,625,621	1,517,385	5,143,006	6,635,785	807,792	–	12,586,583	–	12,586,583
Amounts due to customers	–	53,005,421	17,175,217	70,180,638	–	26,974,768	–	97,155,406	–	97,155,406
Debt securities issued	–	–	–	–	15,188,479	–	–	15,188,479	–	15,188,479
Other liabilities	–	141,543	603,053	744,596	19,114	571,257	–	1,334,967	–	1,334,967
Intersegment/intersub-segment transfer of funds	803,771	54,165,223	–	54,968,994	102,904,770	41,726,763	–	199,600,527	(199,600,527)	–
Total liabilities	803,771	110,937,808	19,295,655	131,037,234	124,748,148	70,080,580	–	325,865,962	(199,600,527)	126,265,435
Total equity	89,145	10,592,812	984,344	11,666,301	803,396	5,260,145	–	17,729,842	–	17,729,842
Total liabilities and equity	892,916	121,530,620	20,279,999	142,703,535	125,551,544	75,340,725	–	343,595,804	(199,600,527)	143,995,277

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

2012	Corporate – investment banking ("CIB") Investment – banking	Loans and deposits	Transactional business	Total CIB	Treasury	Retail Banking	Other	Total before elimination of intersegment transactions	Elimination of intersegment transactions	Total
Cash and cash equivalents	–	–	–	–	10,952,310	208,464	–	11,160,774	–	11,160,774
Amounts due from credit institutions	–	–	–	–	–	79,971	–	79,971	–	79,971
Trading securities	–	–	–	–	315,293	–	–	315,293	–	315,293
Loans to customers	–	53,770,065	–	53,770,065	–	27,060,378	–	80,830,443	–	80,830,443
Held-to-maturity investment securities	697,389	–	–	697,389	–	–	–	697,389	–	697,389
Property and equipment	–	313,807	259,380	573,187	35,227	1,156,565	1,549	1,766,528	–	1,766,528
Intangible assets	–	86,594	68,215	154,809	8,243	314,809	–	477,861	–	477,861
Deferred income tax assets	–	171,802	88,207	260,009	152,243	260,509	–	672,761	–	672,761
Other assets	–	75,007	216,092	291,099	8,228	288,263	217	587,807	–	587,807
Intersegment/intersub-segment transfer of funds	–	29,370,505	13,340,941	42,711,446	69,233,771	14,574,956	1,287	126,521,460	(126,521,460)	–
Total assets	697,389	83,787,780	13,972,835	98,458,004	80,705,315	43,943,915	3,053	223,110,287	(126,521,460)	96,588,827
Amounts due to credit institutions	–	3,149,328	–	3,149,328	7,747,865	503,542	–	11,400,735	–	11,400,735
Amounts due to customers	–	26,167,371	12,235,549	38,402,920	–	13,603,544	–	52,006,464	–	52,006,464
Debt securities issued	–	–	–	–	15,329,541	–	–	15,329,541	–	15,329,541
Other liabilities	–	53,806	207,577	261,383	11,624	467,870	–	740,877	–	740,877
Intersegment/intersub-segment transfer of funds	572,491	44,526,138	–	45,098,629	57,287,689	24,135,142	–	126,521,460	(126,521,460)	–
Total liabilities	572,491	73,896,643	12,443,126	86,912,260	80,376,719	38,710,098	–	205,999,077	(126,521,460)	79,477,617
Total equity	124,898	9,891,137	1,529,709	11,545,744	328,596	5,233,817	3,053	17,111,210	–	17,111,210
Total liabilities and equity	697,389	83,787,780	13,972,835	98,458,004	80,705,315	43,943,915	3,053	223,110,287	(126,521,460)	96,588,827

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

	Corporate – investment banking ("CIB")														
	Investment – banking		Loans and deposits		Transactional business		Total CIB		Treasury		Retail Banking		Other	Elimi-nation of inter-segment tran-sactions	
2013	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers		Total
Interest income	35,122	–	5,966,876	2,867,403	–	137,230	6,001,998	3,004,633	60,900	5,836,991	6,330,219	1,265,104	–	(10,106,728)	12,393,117
Interest expense	–	(46,662)	(2,534,021)	(3,007,771)	–	–	(2,534,021)	(3,054,433)	(1,225,881)	(4,269,737)	(1,131,756)	(2,782,558)	–	10,106,728	(4,891,658)
Net interest income before impairment	35,122	(46,662)	3,432,855	(140,368)	–	137,230	3,467,977	(49,800)	(1,164,981)	1,567,254	5,198,463	(1,517,454)	–	–	7,501,459
Impairment charge	–	–	(545,226)	–	–	–	(545,226)	–	–	–	(1,145,705)	–	–	–	(1,690,931)
Net interest income	35,122	(46,662)	2,887,629	(140,368)	–	137,230	2,922,751	(49,800)	(1,164,981)	1,567,254	4,052,758	(1,517,454)	–	–	5,810,528
Net losses from trading securities	(3,039)	–	–	–	–	–	(3,039)	–	(1,519)	–	–	–	–	–	(4,558)
Net gains from foreign currencies	676,240	–	–	–	–	–	676,240	–	(18,116)	–	426,247	–	–	–	1,084,371
Net fee and commission income	193,003	–	–	–	846,484	–	1,039,487	–	(63,187)	–	675,395	–	–	–	1,651,695
Other operating income	–	–	–	–	15,136	–	15,136	–	1,552	–	1,098	–	–	–	17,786
Net non-interest income	866,204	–	–	–	861,620	–	1,727,824	–	(81,270)	–	1,102,740	–	–	–	2,749,294
Net operating income	901,326	(46,662)	2,887,629	(140,368)	861,620	137,230	4,650,575	(49,800)	(1,246,251)	1,567,254	5,155,498	(1,517,454)	–	–	8,559,822
Non-interest expense	(119,079)	–	(1,290,950)	–	(973,269)	–	(2,383,298)	–	(194,602)	–	(5,136,335)	–	(26,361)	–	(7,740,596)
Profit/(loss) before tax	782,247	(46,662)	1,596,679	(140,368)	(111,649)	137,230	2,267,277	(49,800)	(1,440,853)	1,567,254	19,163	(1,517,454)	(26,361)	–	819,226
Income tax (expense)/benefit	–	–	(175,289)	–	–	–	(175,289)	–	(38,083)	–	12,778	–	–	–	(200,594)
Net profit	782,247	(46,662)	1,421,390	(140,368)	(111,649)	137,230	2,091,988	(49,800)	(1,478,936)	1,567,254	31,941	(1,517,454)	(26,361)	–	618,632
Segment result							–	2,042,188	–	88,318	–	(1,485,513)	(26,361)	–	618,632

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

	Corporate – investment banking ("CIB")														
	Investment – banking		Loans and deposits		Transactional business		Total CIB		Treasury		Retail Banking		Other	Elimi-nation of inter-segment tran-sactions	
2012	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers		Total
Interest income	33,114	–	4,808,948	1,426,239	–	28,811	4,842,062	1,455,050	79,224	3,817,305	3,326,932	629,730	–	5,902,085	8,248,218
Interest expense	–	(43,217)	(1,248,669)	(2,256,512)	–	–	(1,248,669)	(2,299,729)	(1,149,018)	(2,084,780)	(558,986)	(1,517,576)	–	(5,902,085)	(2,956,673)
Net interest income before impairment	33,114	(43,217)	3,560,279	(830,273)	–	28,811	3,593,393	(844,679)	(1,069,794)	1,732,525	2,767,946	(887,846)	–	–	5,291,545
Impairment charge	–	–	(871,979)	–	–	–	(871,979)	–	–	–	(362,336)	–	–	–	(1,234,315)
Net interest income	33,114	(43,217)	2,688,300	(830,273)	–	28,811	2,721,414	(844,679)	(1,069,794)	1,732,525	2,405,610	(887,846)	–	–	4,057,230
Net gains from trading securities	–	–	–	–	–	–	–	–	3,869	–	–	–	–	–	3,869
Net gains from foreign currencies	255,478	–	–	–	–	–	255,478	–	25,196	–	216,518	–	–	–	497,192
Net fee and commission income	160,114	–	–	–	504,939	–	665,053	–	(3,417)	–	343,770	–	–	–	1,005,406
Other operating income	–	–	9,927	–	1,043	–	10,970	–	(22,077)	–	26,423	–	–	–	15,316
Net non-interest income	415,592	–	9,927	–	505,982	–	931,501	–	3,571	–	586,711	–	–	–	1,521,783
Net operating income	448,706	(43,217)	2,698,227	(830,273)	505,982	28,811	3,652,915	(844,679)	(1,066,223)	1,732,525	2,992,321	(887,846)	–	–	5,579,013
Non-interest expense	(101,920)	–	(1,138,312)	–	(893,865)	–	(2,134,097)	–	(160,156)	–	(3,855,767)	–	(3,216)	–	(6,153,236)
Profit/(loss) before tax	346,786	(43,217)	1,559,915	(830,273)	(387,883)	28,811	1,518,818	(844,679)	(1,226,379)	1,732,525	(863,446)	(887,846)	(3,216)	–	(574,223)
Income tax benefit	–	–	–	–	13,691	–	13,691	–	43,286	–	30,482	–	–	–	87,459
Net profit/(loss)	346,786	(43,217)	1,559,915	(830,273)	(374,192)	28,811	1,532,509	(844,679)	(1,183,093)	1,732,525	(832,964)	(887,846)	(3,216)	–	(486,764)
Segment result							–	687,830	–	549,432	–	(1,720,810)	(3,216)	–	(486,764)

(Thousands of tenge, unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	**2,101,528**	1,790,729
Cash on current account with the NBRK	**1,763,448**	4,239,806
Cash on current accounts with credit institutions	**241,305**	2,630,170
Time deposits with the NBRK with contractual maturity of 90 days or less	**17,500,000**	2,500,069
Time deposits with credit institutions with contractual maturity of 90 days or less	**7,463,760**	–
	29,070,041	11,160,774

In accordance with Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of the Bank liabilities. Such reserves must be held on the current account with the NBRK or physical cash computed based on average balances of the aggregate of cash balances on current account with the NBRK or physical cash during the period of reserve creation.

As at 31 December 2013 obligatory reserves amounted to KZT 1,895,438 thousand (31 December 2012: KZT 976,672 thousand).

7. Trading securities

As at 31 December 2013 and 2012 trading securities include treasury notes of the Ministry of Finance of the Republic of Kazakhstan with a total carrying amount of KZT 310,200 thousand and KZT 315,293 thousand, respectively, and maturity in 2014-2017. As at 31 December 2013 and 2012 the nominal interest rate on these trading securities varies within 4.30%-5.20% per annum.

8. Loans to customers

Loans to customers comprise:

	2013	*2012*
Corporate lending	**65,173,777**	54,966,932
Lending to small businesses	**20,395,003**	9,332,859
Consumer lending	**21,202,622**	14,576,594
Mortgage lending	**4,624,477**	3,616,080
Gross loans to customers	**111,395,879**	82,492,465
Less: allowance for impairment	**(3,115,488)**	(1,662,022)
Loans to customers	**108,280,391**	80,830,443

Allowance for impairment of loans to customers

A reconciliation of allowance for impairment of loans to customers by class is as follows:

	Corporate lending	*Lending to small businesses*	*Consumer lending*	*Mortgage lending*	*Total*
1 January 2013	**1,196,867**	**36,578**	**361,557**	**67,020**	**1,662,022**
Charge for the year	**616,591**	**729,892**	**335,683**	**8,765**	**1,690,931**
Transfer between categories	**(920,162)**	**920,162**	–	–	–
Sale of loans	–	–	**(240,789)**	–	**(240,789)**
Foreign exchange difference	**1,348**	**1,881**	**29**	**66**	**3,324**
31 December 2013	**894,644**	**1,688,513**	**456,480**	**75,851**	**3,115,488**
Individual impairment	**224,980**	**1,473,342**	–	–	**1,698,322**
Collective impairment	**669,664**	**215,171**	**456,480**	**75,851**	**1,417,166**
	894,644	**1,688,513**	**456,480**	**75,851**	**3,115,488**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**480,008**	**2,761,022**	–	–	**3,241,030**

(Thousands of tenge, unless otherwise indicated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Corporate lending	*Lending to small businesses*	*Consumer lending*	*Mortgage lending*	*Total*
1 January 2012	322,379	129	104,234	–	426,742
Charge for the year	873,562	36,449	257,315	66,989	1,234,315
Foreign exchange difference	926	–	8	31	965
31 December 2012	1,196,867	36,578	361,557	67,020	1,662,022
Individual impairment	892,638	–	–	–	892,638
Collective impairment	304,229	36,578	361,557	67,020	769,384
	1,196,867	36,578	361,557	67,020	1,662,022
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,776,098	–	–	–	1,776,098

In 2013 the Bank reclassified loans to customers with a gross carrying amount of KZT 6,762,418 thousand and corresponding provisions for impairment in the amount of KZT 920,162 thousand from the category of corporate lending to the category of lending to small businesses in accordance with the policies of VTB Group.

In October 2013 the Bank sold a pool of overdue, blank consumer loans to a collector firm. As at the sale date the gross carrying amount of such loans was KZT 327,778 thousand. No losses from selling the above loans to customers were recognized in these financial statements.

Loans individually determined to be impaired

As at 31 December 2013 interest income accrued on loans individually assessed as impaired amounted to KZT 486,671 thousand (31 December 2012: KZT 216,301 thousand).

According to the NBRK requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, production equipment, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

The Bank also receives guarantees of parent companies on loans issued to subsidiaries.

Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment.

Concentration of loans to customers

As at 31 December 2013, the Bank had a concentration of loans represented by KZT 25,095,472 thousand due from the ten largest third party entities (22.5% of gross loan portfolio) (31 December 2012: KZT 21,837,021 thousand or 26.5%). As of 31 December 2013, an impairment allowance of KZT 140,988 thousand (as of 31 December 2012: KZT 124,899 thousand) was recognised against these loans.

Loans have been extended to the following types of customers:

	2013	*2012*
Private companies	**85,568,780**	64,299,791
Individuals	**25,827,099**	18,192,674
	111,395,879	82,492,465

(Thousands of tenge, unless otherwise indicated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans were mainly extended to the customers in Kazakhstan performing their activities in the following economic sectors:

	2013	*2012*
Wholesale trading	**36,141,475**	21,185,700
Individuals	**25,827,099**	18,192,674
Food industry	**6,656,624**	2,352,212
Transport	**6,084,999**	5,185,612
Road and industrial construction	**5,473,736**	2,223,820
Housing construction	**4,156,085**	3,277,335
Production of machinery and equipment	**4,231,027**	6,156,850
Retail trading	**4,183,370**	4,761,827
Real estate investments	**3,799,641**	3,112,407
Energy	**3,569,408**	3,903,321
Oil and gas	**3,014,243**	2,187,925
Agriculture	**2,648,010**	1,037,549
Consumer goods industry	**1,818,174**	1,388,535
Hotel business and restaurants	**1,240,162**	679,698
Production of construction materials	**1,169,908**	1,053,115
Mining industry	**446,889**	1,448,905
Other	**935,029**	4,344,980
	111,395,879	82,492,465

9. Held-to-maturity investment securities

As at 31 December 2013, held-to-maturity investment securities comprise corporate bonds with a total carrying value of KZT 686,478 thousand (31 December 2012: KZT 697,389 thousand), with maturity in 2019, and nominal interest rate of 6.9% per annum (31 December 2012: in 2019, 6.0% per annum).

10. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Leasehold improvements*	*Computers and office equipment*	*Vehicles*	*Assets to be installed*	*Other assets*	*Total*
Cost							
31 December 2011	159,226	554,468	635,404	29,917	24,482	483,956	1,887,453
Additions	36,527	41,043	164,331	–	89,394	185,322	516,617
Disposals	(2,123)	–	(1,318)	–	–	(980)	(4,421)
Transfers	–	–	24,056	–	(24,056)	–	–
31 December 2012	193,630	595,511	822,473	29,917	89,820	668,298	2,399,649
Additions	**17,013**	**23,684**	**213,739**	**12,122**	**79,808**	**39,782**	**386,148**
Disposals	**(372)**	–	**(654)**	–	**(6)**	**(88)**	**(1,120)**
Transfers	–	–	**53,010**	–	**(53,010)**	–	–
31 December 2013	**210,271**	**619,195**	**1,088,568**	**42,039**	**116,612**	**707,992**	**2,784,677**
Accumulated depreciation							
31 December 2011	(23,218)	(43,695)	(191,740)	(5,903)		(34,180)	(298,736)
Depreciation charge	(21,110)	(56,352)	(106,787)	(4,274)		(146,639)	(335,162)
Disposals	–	–	777	–		–	777
31 December 2012	(44,328)	(100,047)	(297,750)	(10,177)		(180,819)	(633,121)
Depreciation charge	**(22,478)**	**(72,995)**	**(132,167)**	**(5,428)**		**(171,481)**	**(404,549)**
Disposals	–	–	**654**	–		–	**654**
31 December 2013	**(66,806)**	**(173,042)**	**(429,263)**	**(15,605)**		**(352,300)**	**(1,037,016)**
Net book value							
31 December 2011	136,008	510,773	443,664	24,014	24,482	449,776	1,588,717
31 December 2012	149,302	495,464	524,723	19,740	89,820	487,479	1,766,528
31 December 2013	**143,465**	**446,153**	**659,305**	**26,434**	**116,612**	**355,692**	**1,747,661**

As at 31 December 2013 and 2012, the Bank did not have any fully depreciated property and equipment.

(Thousands of tenge, unless otherwise indicated)

11. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Software*	*Assets to be installed*	*Total*
Cost				
31 December 2011	44,754	227,411	–	272,165
Additions	153,606	184,691	–	338,297
31 December 2012	198,360	412,102	–	610,462
Additions	**131,432**	**199,642**	**32,014**	**363,088**
31 December 2013	**329,792**	**611,744**	**32,014**	**973,550**
Accumulated amortization				
31 December 2011	(14,846)	(43,916)		(58,762)
Amortisation charges	(17,031)	(56,808)		(73,839)
31 December 2012	(31,877)	(100,724)		(132,601)
Amortisation charges	**(40,478)**	**(117,958)**		**(158,436)**
31 December 2013	**(72,355)**	**(218,682)**		**(291,037)**
Net book value				
31 December 2011	29,908	183,495	–	213,403
31 December 2012	166,483	311,378	–	477,861
31 December 2013	**257,437**	**393,062**	**32,014**	**682,513**

12. Taxation

The corporate income tax expense comprises:

	2013	*2012*
Current corporate tax charge	–	–
Deferred corporate income tax charge/(benefit) – origination and reversal of temporary differences	**231,727**	(87,459)
Adjustment of deferred tax for the previous periods	**(31,133)**	–
Corporate income tax expense/(benefit)	**200,594**	(87,459)

The Republic of Kazakhstan is the tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2013 and 2012.

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the periods ended 31 December is as follows:

	2013	*2012*
Profit/(loss) before tax	**819,226**	(574,223)
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expenses/(benefit) at the statutory rate	**163,845**	(114,845)
Non-deductible impairment charge on disposed assets	**49,967**	–
Non-deductible operating expenses	**25,036**	14,888
Non-deductible capital expenditures	–	13,486
Non-taxable income on state securities and securities officially listed at KASE	**(6,936)**	(782)
Adjustment of historical losses carried forward	**(31,133)**	–
Other differences	**(185)**	(206)
Corporate income tax expense/(benefit)	**200,594**	(87,459)

As at 31 December 2013, current corporate income tax assets comprised KZT 34,745 thousand (31 December 2012: KZT 34,745 thousand).

(Thousands of tenge, unless otherwise indicated)

12. Taxation (continued)

Deferred income tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2011	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2012*	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2013*
Tax effect of temporary deductible differences:					
Tax losses carried forward	608,386	250,842	859,228	**(483,062)**	**376,166**
Accrued expenses on unused vacations	17,511	15,160	32,671	**14,595**	**47,266**
Accrued expenses on bonuses	90,000	(31,653)	58,347	**18,445**	**76,792**
Accrued interest expense	–	–	–	**256,897**	**256,897**
Other accrued expenses	2,366	2,014	4,380	**12,947**	**17,327**
Deferred income tax assets	718,263	236,363	954,626	**(180,178)**	**774,448**
Tax effect of taxable temporary differences:					
Allowances for loan impairment	(8,807)	8,807	–	**–**	**–**
Dynamic reserves	–	(153,236)	(153,236)	**(49,124)**	**(202,360)**
Property and equipment	(123,383)	(4,475)	(127,858)	**27,937**	**(99,921)**
Deferred expenses	(771)	–	(771)	**771**	**–**
Deferred income tax liabilities	(132,961)	(148,904)	(281,865)	**(20,416)**	**(302,281)**
Net deferred income tax asset	585,302	87,459	672,761	**(200,594)**	**472,167**

In Kazakhstan tax losses are carried forward for a period of ten years. The Bank expects that tax losses carried forward will be utilized.

13. Other assets and liabilities

Other assets comprise at 31 December:

	2013	*2012*
Accounts receivable on guarantees and letters of credits	**2,091,083**	160,676
Other prepaid expenses	**173,408**	90,364
Rent prepayment	**136,547**	130,466
Inventory	**51,577**	27,559
Prepayments for acquisition of property and equipment	**31,215**	102,062
Other	**90,342**	41,935
	2,574,172	553,062
Less: allowance for impairment	**(39,875)**	–
	2,534,297	553,062

As at 31 December 2013 accounts receivable on guarantees and letters of credit comprise the Bank's amounts due on letters of credit issued with discounting in the amount of KZT 1,608,246 thousand (31 December 2012: nil).

As at 31 December other liabilities comprise:

	2013	*2012*
Deferred commission income	**429,683**	150,286
Bonuses accrued	**383,960**	295,557
Accrued expenses on unused vacations	**236,327**	163,354
Accrued administrative expenses	**80,419**	34,029
Provisions on guarantees and letters of credits	**63,427**	32,529
Taxes other than corporate income tax payable	**46,678**	1,054
Professional fees payable	**19,918**	16,500
Accounts payable for acquisition of property and equipment	**10,327**	1,538
Fee and commission expenses accrued	**2,888**	1,031
Other	**61,340**	44,999
	1,334,967	740,877

(Thousands of tenge, unless otherwise indicated)

14. Amounts due to credit institutions

As at 31 December amounts due to credit institutions comprise:

	2013	*2012*
Term deposits and loans	**12,350,604**	11,338,837
Current accounts	**235,979**	61,898
	12,586,583	11,400,735

As at 31 December 2013, term deposits and loans include deposits placed by the Parent totalling KZT 5,440,721 thousand (31 December 2012: KZT 7,128,792 thousand) (*Note 25*).

15. Amounts due to customers

Amounts due to customers comprised the following at 31 December:

	2013	*2012*
Time deposits	**72,332,670**	36,365,584
Current accounts	**24,822,736**	15,640,880
	97,155,406	52,006,464
Term deposits held as security against guarantees and letters of credit	**719,675**	431,013

As at 31 December 2013, the Bank's ten largest customers accounted for KZT 40,243,286 thousand or 41.4% of total amounts due to customers (31 December 2012: KZT 22,731,874 thousand or 43.7%).

Included in time deposits are deposits of individuals of KZT 17,617,480 thousand (31 December 2012: KZT 10,129,062 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at a considerably lower interest rate depending on the terms specified in the agreement.

Amounts due to customers include accounts of the following categories of customers:

	2013	*2012*
Private enterprises	**75,492,905**	41,026,498
Individuals	**21,662,501**	10,979,966
	97,155,406	52,006,464

A breakdown of customer accounts by sectors is as follows:

	2013	*2012*
Non-credit financial institutions	**35,708,003**	24,967,659
Individuals	**21,662,501**	10,979,966
Construction	**10,501,575**	3,839,981
Oil and gas production	**9,109,551**	27,431
Wholesale trading	**6,894,843**	4,951,129
Transport and communications	**4,777,378**	921,035
Chemical industry	**893,106**	502,138
Production of machinery and equipment	**735,372**	686,501
Retail trading	**649,398**	821,981
Real estate investments	**629,912**	92,525
Food industry	**433,902**	165,500
Education	**282,489**	193,551
Metallurgy	**246,863**	473,972
Agriculture	**188,689**	281,128
Mining industry	**115,249**	169,162
Energy	**94,879**	824,526
Consumer goods industry	**59,025**	120,458
Entertainment	**26,787**	4,896
Other	**4,145,884**	1,982,925
	97,155,406	52,006,464

(Thousands of tenge, unless otherwise indicated)

16. Debt securities issued

Debt securities issued comprise:

	2013	*2012*
Debt securities issued at KASE	**15,055,417**	15,055,417
Plus: unamortised premium	**138,014**	284,029
Less: unamortised cost of issuance	**(4,952)**	(9,905)
Debt securities issued	**15,188,479**	15,329,541

17. Share capital

As at 31 December 2013 and 2012 authorized and outstanding common shares in the amount of 2,000,000 pieces are issued and fully paid by the Parent at the price of placement of KZT 10 thousand per one common share.

No dividends were declared or paid in 2013 and 2012.

In accordance with the Resolution of NBRK No. 137 dated 27 May 2013, from 1 January 2013 the Bank calculated dynamic reserves associated with a risk of future losses on the loan portfolio. As at 31 December 2013, dynamic calculated in accordance with the NBRK requirements amounted to KZT 1,011,802 thousand.

18. Commitments and contingencies

Political and economic environment

Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, access to capital and cost of capital, which could affect the Bank's financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal issues

The Bank 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 reasonably estimated. The Bank did not generate any provisions in these financial statements for any legal liabilities related to legal proceedings.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakh laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2013. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

(Thousands of tenge, unless otherwise indicated)

18. Commitments and contingencies (continued)

Financial commitments and contingencies

Financial commitments and contingencies of the Bank as at 31 December comprise:

	2013	*2012*
Credit related commitments		
Guarantees	**16,390,000**	6,431,421
Undrawn loan commitments	**37,443,234**	27,029,477
Letters of credit	**3,176,980**	2,414,587
	57,010,214	35,875,485
Operating lease commitments		
Not later than 1 year	**373,851**	776,847
1 to 5 years	**265,800**	251,414
	639,651	1,028,261
Less: provisions for guarantees and letters of credits *(Note 13)*	**(63,427)**	(32,529)
Financial commitments and contingencies (before collateral)	**57,586,438**	36,871,217
Less: cash held as security against guarantees and letters of credit *(Note 15)*	**(719,675)**	(431,013)
Financial commitments and contingencies	**56,866,763**	36,440,204

The undrawn loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and other conditions.

The total outstanding contractual amount of commitments on undrawn loans, letters of credit and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary.

19. Fees and commissions

Net fee and commission income comprises:

	2013	*2012*
Guarantees issued	**509,075**	256,042
Transfer operations	**468,115**	261,012
Cash transactions	**398,074**	235,445
Foreign currency transactions	**266,149**	190,962
Letters of credit issued	**71,345**	52,937
Settlement transactions	**27,048**	10,325
Other	**86,908**	43,163
Fee and commission income	**1,826,714**	1,049,886
Settlement transactions	**(89,940)**	(12,774)
Transfer operations	**(60,886)**	(19,645)
Letters of credit and guarantees issued	**(22,875)**	(6,417)
Custodian services	**(960)**	(2,614)
Brokerage services	**–**	(803)
Other	**(358)**	(2,227)
Fee and commission expense	**(175,019)**	(44,480)
Net fee and commission income	**1,651,695**	1,005,406

(Thousands of tenge, unless otherwise indicated)

20. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2013	*2012*
Salaries and bonuses	**(3,854,949)**	(2,892,816)
Social security costs	**(382,435)**	(276,977)
Personnel expenses	**(4,237,384)**	(3,169,793)
Leases	**(854,478)**	(784,419)
Security	**(352,332)**	(322,174)
Marketing and advertising	**(292,734)**	(336,128)
Licenses	**(173,055)**	(112,065)
Legal services and consultancy	**(149,184)**	(90,046)
Communications	**(145,180)**	(120,867)
Repair and maintenance of property and equipment	**(122,875)**	(82,482)
Business trip expenses	**(112,318)**	(88,562)
Information services	**(68,089)**	(27,493)
Transport	**(65,133)**	(66,372)
Payments to the Deposit Insurance Fund	**(63,560)**	(26,897)
Cash collection	**(48,061)**	(37,958)
Entertainment expenses	**(48,047)**	(31,408)
Membership fee	**(42,144)**	(33,900)
Office supplies	**(34,241)**	(27,041)
Transfer services	**(17,668)**	(19,651)
Plastic cards	**(6,861)**	(3,214)
Insurance expenses	**(4,748)**	(3,924)
Training	**(3,888)**	(7,106)
Other	**(123,175)**	(115,305)
Other operating expenses	**(2,727,771)**	(2,337,012)

21. Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to common shareholders by the weighted average number of participating shares outstanding during the period. The Bank does not have any share options or convertible debt or equity instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2013	*2012*
Net profit / (net loss) for the year, attributable to shareholders of the Bank	**618,632**	(486,764)
Weighted average number of common shares for basic and diluted earnings per share computation	**2,000,000**	2,000,000
Basic and diluted earnings/(loss) per share (in tenge)	**309.32**	(243.38)

As at 31 December 2013 and 2012, the Bank did not have any financial instruments diluting earnings per share.

The carrying amount of one common share as at 31 December 2013 and 2012, is as follows:

	31 December 2013			*31 December 2012*		
Type of shares	*Number of outstanding shares*	*Net assets (in thousands of tenge)*	*Balance value of 1 share (in tenge)*	*Number of outstanding shares*	*Net assets (in thousands of tenge)*	*Balance value of 1 share (in tenge)*
Common	**2,000,000**	**17,047,329**	**8,523,66**	2,000,000	16,633,349	8,316,67

The management of the Bank believes that the book value per share is calculated in accordance with methodology provided in the KASE Listing rules.

(Thousands of tenge, unless otherwise indicated)

22. Risk management

Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. The Bank is also subject to operating risks. In managing risks the Bank applies approved group-wide standards and approaches.

Risk management structure

The Board of Directors is ultimately responsible for identifying risks, establishing permissible level and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Assets and liabilities management committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Control of risks

The Risk Control Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The unit is responsible for implementation of the credit policies of the Bank and fulfilment of requirements of internal documents and state regulatory authorities. It takes part in making decisions on accepting different risks. The unit develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. It develops and implements methodology and analytical instruments, which allow evaluating risks, controlling level of risk and organising procedures to mitigate risks.

Bank treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit department that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

(Thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The above information is provided to the Board of Directors, Management Board of the Bank, Committees of the Bank and managers of units. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios, risk profile changes. On a monthly basis detailed reporting of industry, customer and geography risks takes place. The appropriateness of the allowance for credit losses is assessed on a monthly basis. The Board of Directors receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties will fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 8* Loans to customers and *Note 18* Financial commitments and contingencies.

(Thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

2013	*Notes*	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash (excluding cash on hand)	6	**26,968,513**	**–**	**–**	**26,968,513**
Amounts due from credit institutions		**176,784**	**–**	**–**	**176,784**
Loans to customers	8				
Corporate lending		**64,143,737**	**550,032**	**480,008**	**65,173,777**
Lending to small businesses		**17,351,140**	**282,841**	**2,761,022**	**20,395,003**
Consumer lending		**20,161,954**	**1,040,668**	**–**	**21,202,622**
Mortgage lending		**4,434,241**	**190,236**	**–**	**4,624,477**
Held-to-maturity investment securities	9	**686,478**	**–**	**–**	**686,478**
Other financial assets		**2,172,049**	**–**	**–**	**2,172,049**
Total		**136,094,896**	**2,063,777**	**3,241,030**	**141,399,703**

2012	*Notes*	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash (excluding cash on hand)	6	9,370,045	–	–	9,370,045
Amounts due from credit institutions		79,971	–	–	79,971
Loans to customers	8				
Corporate lending		53,190,834	–	1,776,098	54,966,932
Lending to small businesses		9,218,026	114,833	–	9,332,859
Consumer lending		13,949,165	627,429	–	14,576,594
Mortgage lending		3,395,796	220,284	–	3,616,080
Held-to-maturity investment securities	9	697,389	–	–	697,389
Other financial assets		196,176	–	–	196,176
Total		90,097,402	962,546	1,776,098	92,836,046

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	2013				
	Less than 30 days	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers					
Corporate lending	**32,025**	**–**	**518,007**	**–**	**550,032**
Lending to small businesses	**3,590**	**930**	**31,147**	**247,174**	**282,841**
Consumer lending	**297,961**	**196,612**	**97,730**	**448,365**	**1,040,668**
Mortgage lending	**36,422**	**–**	**41,509**	**112,305**	**190,236**
Total	**369,998**	**197,542**	**688,393**	**807,844**	**2,063,777**

(Thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets (continued)

	2012				
	Less than 30 days	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers					
Lending to small businesses	21,104	40,572	20,155	33,002	114,833
Consumer lending	212,781	116,727	51,049	246,872	627,429
Mortgage lending	32,978	10,943	7,478	168,885	220,284
Total	266,863	168,242	78,682	448,759	962,546

See *Note 8* for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Approved group-wide approaches are used for corporate business transactions.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve financial performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for impairment on loans to customers that are not individually significant (including credit cards, residential mortgages, secured and unsecured consumer loans, borrowings received for car purchases, lending to small businesses) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2013			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets				
Cash and cash equivalents	**25,400,063**	**127,859**	**3,542,119**	**29,070,041**
Trading securities	**310,200**	–	–	**310,200**
Amounts due from credit institutions	**119,650**	–	**57,134**	**176,784**
Loans to customers	**105,158,669**	–	**3,121,722**	**108,280,391**
Held-to-maturity investment securities	**686,478**	–	–	**686,478**
Current income tax assets	**34,745**	–	–	**34,745**
Other monetary assets	**2,136,130**	**34,725**	**1,194**	**2,172,049**
	133,845,935	**162,584**	**6,722,169**	**140,730,688**
Liabilities				
Amounts due to credit institutions	**5,670,214**	**5,485,981**	**1,430,388**	**12,586,583**
Amounts due to customers	**97,155,406**	–	–	**97,155,406**
Debt securities issued	**15,188,479**	–	–	**15,188,479**
Other monetary liabilities	**119,268**	–	**2,652**	**121,920**
	118,133,367	**5,485,981**	**1,433,040**	**125,052,388**
Net assets/(liabilities)	**15,712,568**	**(5,323,397)**	**5,289,129**	**15,678,300**

	2012			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets				
Cash and cash equivalents	8,584,460	428,405	2,147,909	11,160,774
Amounts due from credit institutions	24,153	–	55,818	79,971
Trading securities	315,293	–	–	315,293
Loans to customers	77,790,729	–	3,039,714	80,830,443
Held-to-maturity investment securities	697,389	–	–	697,389
Current income tax assets	34,745	–	–	34,745
Other monetary assets	163,437	31,903	836	196,176
	87,610,206	460,308	5,244,277	93,314,791
Liabilities				
Amounts due to credit institutions	4,157,786	7,186,575	56,374	11,400,735
Amounts due to customers	52,006,464	–	–	52,006,464
Debt securities issued	15,329,541	–	–	15,329,541
Other monetary liabilities	64,369	–	–	64,369
	71,558,160	7,186,575	56,374	78,801,109
Net assets/(liabilities)	16,052,046	(6,726,267)	5,187,903	14,513,682

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

(Thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Liquidity risk and funding management (continued)

For the purpose of evaluation and decrease of risk of liquidity as well as to manage this risk, the Bank uses the following ways:

- Analysis of contractual maturities and forecasting cash flows (gap analysis), as well as analysis of deposit base concentration;
- Establishing limits for maturity gaps (gap limit) as well as establishing and regular updating of limits on the total volume of financing considering current and forecast levels of liquidity;
- Distribution and using of treasury securities portfolio to manage current liquidity;
- Development of emergency action plans (plans for emergency financing).

The Bank is also obliged to comply with liquidity requirements established by the regulators including requirements of the NBRK represented by obligatory norms.

The Banks monitors a number of internal liquidity indicators in a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains cash (obligatory reserve) with the NBRK, the amount of which depends on the level of customer deposits attracted.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2013				
Financial liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	**2,840,736**	**7,993,133**	**1,983,990**	**438,144**	**13,256,003**
Amounts due to customers	**32,823,564**	**36,761,788**	**34,151,122**	**58,786**	**103,795,260**
Debt securities issued	**–**	**16,050,000**	**–**	**–**	**16,050,000**
Other liabilities	**121,920**	**–**	**–**	**–**	**121,920**
Total undiscounted financial liabilities	**35,786,220**	**60,804,921**	**36,135,112**	**496,930**	**133,223,183**

	2012				
Financial liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	334,834	6,208,853	5,365,015	269,479	12,178,181
Amounts due to customers	19,473,702	12,147,444	24,914,036	16,358	56,551,540
Debt securities issued	–	1,050,000	16,050,000	–	17,100,000
Other liabilities	64,369	–	–	–	64,369
Total undiscounted financial liabilities	19,872,905	19,406,297	46,329,051	285,837	85,894,090

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. (*Note 15*)

(Thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	2013				
	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Commitments and contingencies	**5,941,114**	**14,928,108**	**36,045,649**	**734,994**	**57,649,865**

	2012				
	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Commitments and contingencies	4,475,051	9,608,397	22,154,318	665,980	36,903,746

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities held at 31 December 2013 and 2012.

Currency	*Changes in basis points 2013*	*Sensitivity of net interest income, 2013*	*Changes in basis points 2012*	*Sensitivity of net interest income, 2012*
Tenge	**100**	**808**	100	9,631
Tenge	**(100)**	**(808)**	(100)	(9,631)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Risk Committee established limits on foreign currency positions based on the NBRK regulations. Positions are monitored on a daily basis.

(Thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. All other variables are held constant. The negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	2013			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
US Dollars	**30.00%**	**56,164**	**10.00%**	**18,721**
Euro	**30.00%**	**(12,451)**	**10.00%**	**(4,150)**
Russian Rouble	**20.00%**	**(1,656)**	**-20.00%**	**1.656**

	2012			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
US Dollars	1.57%	(5,050)	-1.57%	5,050
Euro	10.77%	2,761	-10.77%	(2,761)
Russian Rouble	10.74%	1,627	-10.74%	(1,627)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties or commissions. The model is back tested against actual outcomes.

The effect on profit before tax and equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income
2013	**(137,533)**
2012	(85,909)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Thousands of tenge, unless otherwise indicated)

23. Fair value of financial instruments

The following table presents analysis of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

31 December 2013	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Trading securities	20 January 2014	**310,200**	–	–	**310,200**
Assets whose fair value is disclosed					
Cash and cash equivalents	20 January 2014	–	**29,070,041**	–	**29,070,041**
Amounts due from credit institutions	20 January 2014	–	**176,784**	–	**176,784**
Loans to customers	20 January 2014	–	–	**110,284,112**	**110,284,112**
Held-to-maturity investment securities	20 January 2014	–	**570,259**	–	**570,259**
Other financial assets	20 January 2014	–	–	**2,180,155**	**2,180,155**
Liabilities whose fair value is disclosed					
Amounts due to credit institutions	20 January 2014	–	**12,569,995**	–	**12,569,995**
Amounts due to customers	20 January 2014	–	**97,109,229**	–	**97,109,229**
Debt securities issued	20 January 2014	**14,999,475**	–	–	**14,999,475**
Other financial liabilities	20 January 2014	–	–	**121,920**	**121,920**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2012:

31 December 2012	*Level 1*	*Total*
Financial assets		
Trading securities	315,293	315,293

During 2013 and 2012 the Company did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2013			*2012*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	**29,070,041**	**29,070,041**	–	11,160,774	11,160,774	–
Amounts due from credit institutions	**176,784**	**176,784**	–	79,971	79,971	–
Loans to customers	**108,280,391**	**110,284,112**	**2,003,721**	80,830,443	84,213,274	3,382,831
Held-to-maturity investment securities	**686,478**	**570,259**	**(116,219)**	697,389	553,442	(143,947)
Other financial assets	**2,172,049**	**2,180,155**	**8,106**	196,176	196,176	–
Financial liabilities						
Amounts due to credit institutions	**12,586,583**	**12,569,995**	**16,588**	11,400,735	11,400,735	–
Amounts due to customers	**97,155,406**	**97,109,229**	**46,177**	52,006,464	51,752,764	253,700
Debt securities issued	**15,188,479**	**14,999,475**	**189,004**	15,329,541	14,837,835	(491,706)
Other financial liabilities	**121,920**	**121,920**	–	64,369	64,369	–
Total unrecognized change in unrealized fair value			**2,147,377**			3,000,878

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in these financial statements.

(Thousands of tenge, unless otherwise indicated)

23. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In determining the current interest rate, the Bank uses available information published on the official site of the NBRK.

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 22* "Risk management" for the Company's contractual undiscounted repayment obligations.

	2013			*2012*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**29,070,041**	**–**	**29,070,041**	11,160,774	–	11,160,774
Trading securities	**310,200**	**–**	**310,200**	315,293	–	315,293
Amounts due from credit institutions	**176,784**	**–**	**176,784**	79,971	–	79,971
Loans to customers	**47,919,231**	**60,361,160**	**108,280,391**	27,436,720	53,393,723	80,830,443
Held-to-maturity investment securities	**14,260**	**672,218**	**686,478**	12,400	684,989	697,389
Property and equipment	**–**	**1,747,661**	**1,747,661**	–	1,766,528	1,766,528
Intangible assets	**–**	**682,513**	**682,513**	–	477,861	477,861
Current income tax assets	**34,745**	**–**	**34,745**	34,745	–	34,745
Deferred income tax assets	**–**	**472,167**	**472,167**	–	672,761	672,761
Other assets	**2,153,871**	**380,426**	**2,534,297**	553,062	–	553,062
Total	**79,679,132**	**64,316,145**	**143,995,277**	39,592,965	56,995,862	96,588,827
Amounts due to credit institutions	**10,480,825**	**2,105,758**	**12,586,583**	6,141,634	5,259,101	11,400,735
Amounts due to customers	**68,172,271**	**28,983,135**	**97,155,406**	30,788,579	21,217,885	52,006,464
Debt securities issued	**15,188,479**	**–**	**15,188,479**	55,417	15,274,124	15,329,541
Other liabilities	**1,217,547**	**117,420**	**1,334,967**	731,801	9,076	740,877
Total	**95,059,122**	**31,206,313**	**126,265,435**	37,717,431	41,760,186	79,477,617
Net position	**(15,379,990)**	**33,109,832**	**17,729,842**	1,875,534	15,235,676	17,111,210

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2013 the Bank has a negative liquidity gap of KZT 15,379,990 thousand within a year. The management has an action plan in place to discharge its obligations including attraction of subordinated interbank borrowing at the market of short-term capital and other measures including increase of the charter capital, additional issuance of debt securities at the local market as well as extending the term of deposits of major customers of the Bank.

25. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

(Thousands of tenge, unless otherwise indicated)

25. Related party transactions (continued)

Transactions with government-related entities

The Russian Federation, acting through the Federal Agency for State Property Management, controls the Bank.

The Russian Federation state directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as "government-related entities".

In the course of its daily activities the Bank performs transactions with related parties at prices established on the basis of market rates.

The volumes of related party transactions, outstanding balances at the year-end and related expense and income for the year are as follows:

	2013			
	Parent	*Entities under common control*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents as at 1 January	375,677	388,469	–	–
Receipts on current accounts during the year	102,651,833	37,392,874	–	–
Payments from the current accounts during the year	(102,921,131)	(37,764,959)	–	–
Cash and cash equivalents as at 31 December	106,379	16,384	–	–
Held-to-maturity investment securities as at 1 January	–	–	697,389	–
Accrual of interest income on held-to-maturity investment securities	–	–	26,889	–
Payment of interest income on held-to-maturity investment securities	–	–	(37,800)	–
Held-to-maturity investment securities at 31 December	–	–	686,478	–
Amounts due to credit institutions at 1 January	7,128,792	13,195	–	–
Proceeds during the year	65,435,688	358,396	–	–
Payments during the year	(67,123,759)	(326,331)	–	–
Amounts due to credit institutions at 31 December	5,440,721	45,260	–	–
Amounts due to customers at 1 January	–	–	–	4,062
Receipts on current accounts during the year	–	–	–	351,444
Payments from the current accounts during the year	–	–	–	(350,493)
Amounts due to customers at 31 December	–	–	–	5,013

(Thousands of tenge, unless otherwise indicated)

25. Related party transactions (continued)

Transactions with government-related entities (continued)

	2012			
	Parent	*Entities under common control*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents as at 1 January	169,842	8,615	–	–
Receipts on current accounts during the year	62,263,411	27,657,292	–	–
Payments from the current accounts during the year	(62,057,576)	(27,277,438)	–	–
Cash and cash equivalents as at 31 December	375,677	388,469	–	–
Held-to-maturity investment securities at 1 January	–	–	–	–
Purchase of held-to-maturity investment securities	–	–	718,575	–
Amortisation of premium on held-to-maturity investment securities	–	–	(21,186)	–
Held-to-maturity investment securities at 31 December	–	–	697,389	–
Amounts due to credit institutions at 1 January	438,608	32	–	–
Proceeds during the year	109,237,254	101,323	–	–
Payments during the year	(102,547,070)	(88,160)	–	–
Amounts due to credit institutions at 31 December	7,128,792	13,195	–	–
Amounts due to customers at 1 January	–	–	–	1,465
Receipts on current accounts during the year	–	–	–	233,843
Payments from the current accounts during the year	–	–	–	(231,246)
Amounts due to customers at 31 December	–	–	–	4,062

	2013			*2012*		
	Parent	*Entities under common control*	*Government-related entities*	*Parent*	*Entities under common control*	*Government-related entities*
Cash and cash equivalents						
Interest income	**901**	**755**	–	744	7,499	–
Interest rates	**0.50%-1.00%**	**0.10%-0.20%**	–	0.50%-1.00%	0.15%-1.70%	–
Held-to-maturity investment securities						
Interest income	–	–	**26,889**	–	–	33,114
Interest rates	–	–	**4.50%**	–	–	6.00%
Amounts due to credit institutions						
Interest expenses	**(296,831)**	–	–	(250,813)	–	–
Interest rates	**4.53%-5.73%**	–	–	4.36%-5.73%	–	–

(Thousands of tenge, unless otherwise indicated)

25. Related party transactions (continued)

Transactions with government-related entities (continued)

Compensation to key management personnel totalling 6 persons (in 2012 – 5 persons) includes the following:

	2013	*2012*
Salary and other short-term benefits	**248,639**	209,658
Social security costs	**3,358**	3,139
Total key management personnel compensation	**251,997**	212,797

26. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Committee for the Control and Supervision of Financial Market and Financial Institutions of the National Bank of Kazakhstan ("FMSC") in supervising the activities of the Bank.

During the 2013, the Bank had complied in full with all its external statutory capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The FMSC requires banks to maintain a capital adequacy ratio (Tier 1) not less than 5% of assets and a total capital adequacy ratio (Tier 2) not less than 10% of risk weighted assets, computed based on requirements of FMSC. As at 31 December 2013, the Bank's capital adequacy ratio based on FMSC methodology exceeded the statutory minimum.

The Bank's capital adequacy ratio, computed in accordance with the FMSC requirements as at 31 December, comprise:

	2013	*2012*
Tier 1 capital	**16,329,585**	16,496,753
Total assets	**143,964,144**	96,603,223
Tier 1 capital ratio	**11%**	17%

	2013	*2012*
Tier 2 capital	**17,695,007**	16,496,753
Risk weighted assets	**133,592,085**	95,722,717
Tier 2 capital ratio	**13%**	17%

27. Subsequent events

On 11 February 2014 the exchange rate of Tenge was devalued against US dollar and other major currencies. The exchange rates before and after devaluation were KZT 155.56 and KZT 184.50 to USD 1, respectively.