



**JOINT STOCK COMPANY
BANK CENTERCREDIT**

**Consolidated Financial Statements
for the year ended 31 December 2013**

JOINT STOCK COMPANY BANK CENTERCREDIT

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JOINT STOCK COMPANY BANK CENTERCREDIT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Joint Stock Company Bank CenterCredit and its subsidiaries ("the Group") as at 31 December 2013, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2013 were authorized for issue on 25 February 2014 by the Management Board of the Group.

On behalf of the Management Board of the Group:


Lee V.S.
Chairman

25 February 2014
Almaty


Oh Ki Hong
Managing Director

25 February 2014
Almaty


Nurgaliyeva A.T.
Chief Accountant

25 February 2014
Almaty



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit:

We have audited the accompanying consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

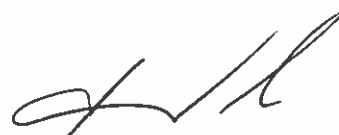
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Joint Stock Company Bank CenterCredit and its subsidiaries as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 4 to the consolidated financial statements which describe the restatement of corresponding figures for the year ended 31 December 2012. Our audit opinion is not qualified in that respect.



Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice 78586
Australia



Deloitte, LLP
State license on auditing in the Republic of
Kazakhstan №0000015, type MFU - 2, issued by the
Ministry of Finance of the Republic of Kazakhstan
dated 13 September 2006



Nurlan Bekenov
Qualified Auditor
Certificate of competence № 0082
Dated 13 June 1994
General Director
Deloitte, LLP

25 February 2014
Almaty

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2013

(in Kazakhstani tenge and in millions, except for (loss)/earnings per share which is in tenge)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	5, 28	85,269	73,631
Interest expense	5, 28	(49,610)	(54,154)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		35,659	19,477
Provision for impairment losses on interest bearing assets	6	(27,779)	(11,932)
NET INTEREST INCOME		7,880	7,545
Net gain on financial assets and liabilities at fair value through profit or loss	7	13	634
Net realized (loss)/gain on investments available-for-sale		(3)	94
Net loss on repurchase of debt securities issued	23	-	(1,483)
Net gain on foreign exchange operations	8	4,491	3,849
Fee and commission income	9	22,524	20,059
Fee and commission expense	9	(1,886)	(1,797)
Provision for impairment losses on other transactions	6	(1,256)	(1,400)
Other expenses		(123)	(18)
NET NON-INTEREST INCOME		23,760	19,938
OPERATING INCOME		31,640	27,483
OPERATING EXPENSES	10, 28	(29,345)	(26,882)
OPERATING PROFIT BEFORE INCOME TAX		2,295	601
Income tax expense	11	(1,982)	(251)
NET PROFIT		313	350
Attributable to:			
Owners of the parent		(31)	222
Non-controlling interest		344	128
		313	350
(LOSS)/EARNINGS PER SHARE			
Basic (KZT)	12	(0.19)	1.10
Diluted (KZT)	12	(0.15)	1.10

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

25 February 2014
Almaty



Oh Ki Hong
Managing Director

25 February 2014
Almaty

Nurgaliyeva A.T.
Chief Accountant

25 February 2014
Almaty

The notes on pages 10-79 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013 (in Kazakhstani tenge and in millions)

	Year ended 31 December 2013	Year ended 31 December 2012
NET PROFIT	<u>313</u>	<u>350</u>
OTHER COMPREHENSIVE (LOSS)/INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(299)	593
Net loss resulting on revaluation of investments available-for-sale during the year	(293)	(540)
Reclassification adjustment relating to investments available for sale disposed of in the year	<u>3</u>	<u>(94)</u>
Other comprehensive loss for the year, net of income tax of KZT nil million	<u>(589)</u>	<u>(41)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME	<u>(276)</u>	<u>309</u>
Attributable to:		
Owners of the parent	(620)	181
Non-controlling interest	<u>344</u>	<u>128</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME	<u>(276)</u>	<u>309</u>

On behalf of the Management Board of the Group:

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25 February 2014
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JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

(in Kazakhstani tenge and in millions)

	Notes	31 December 2013	31 December 2012 (Restated)	1 January 2012 (Restated)
ASSETS:				
Cash and cash equivalents	13, 28	141,511	134,054	121,815
Obligatory reserves	13	16,645	15,075	26,956
Financial assets at fair value through profit or loss	14	27,253	25,178	16,331
Investments available-for-sale	15	53,931	57,549	86,369
Investments held to maturity	16	15,846	26,373	20,778
Due from banks	17	3,994	2,036	6,010
Loans to customers and banks	18, 28	783,895	789,096	764,806
Current income tax assets		1,436	2,148	2,713
Deferred income tax assets	11	1,132	2,036	2,008
Other assets	19	22,685	11,058	10,747
Property, equipment and intangible assets	20	25,154	23,214	23,384
TOTAL ASSETS		1,093,482	1,087,817	1,081,917
LIABILITIES AND EQUITY				
LIABILITIES:				
Due to banks and financial institutions	21, 28	89,436	106,176	106,176
Customer and banks accounts	22, 28	806,553	790,550	727,334
Debt securities issued	23	49,045	65,204	121,565
Other liabilities	24	8,544	5,520	6,642
Subordinated bonds	25	53,034	33,249	33,392
Total liabilities		1,006,612	1,000,699	995,109
EQUITY:				
Equity attributable to owners of the parent:				
Share capital	26	69,826	69,798	69,797
Investments available-for-sale fair value reserve		(258)	32	666
Foreign currency translation reserve		(325)	(26)	(619)
Statutory reserves	3	-	3,723	1,633
Retained earnings		16,077	12,385	14,253
Total equity attributable to owners of the parent		85,320	85,912	85,730
Non-controlling interest		1,550	1,206	1,078
Total equity		86,870	87,118	86,808
TOTAL LIABILITIES AND EQUITY		1,093,482	1,087,817	1,081,917
Book value per ordinary share (KZT)	12	452	452	449
Book value per preference share (KZT)	12	300	300	300

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

25 February 2014
Almaty



Oh Ki Hong
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25 February 2014
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Chief Accountant

25 February 2014
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JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 (in Kazakhstani tenge and in millions)

	Share capital	Investments available-for-sale fair value reserve	Foreign currency translation reserve	Statutory reserves	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
31 December 2011	69,797	666	(619)	1,633	14,253	85,730	1,078	86,808
Net profit	-	-	-	-	222	222	128	350
Other comprehensive loss for the year, net of income tax	-	(634)	593	-	-	(41)	-	(41)
Transfer to statutory reserve	-	-	-	2,090	(2,090)	-	-	-
Sale of treasury shares (Note 26)	1	-	-	-	-	1	-	1
31 December 2012	69,798	32	(26)	3,723	12,385	85,912	1,206	87,118
Net (loss)/profit	-	-	-	-	(31)	(31)	344	313
Other comprehensive loss for the year, net of income tax	-	(290)	(299)	-	-	(589)	-	(589)
Transfer from statutory reserve (Note 3)	-	-	-	(3,723)	3,723	-	-	-
Sale of treasury shares (Note 26)	28	-	-	-	-	28	-	28
31 December 2013	69,826	(258)	(325)	-	16,077	85,330	1,550	86,870

On behalf of the Managing Board of the Group:



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Lee V.S.
Chairman

N.A.
Nurgaliyeva A.T.
Chief Accountant

25 February 2014
Almaty

25 February 2014
Almaty

The notes on pages 10-79 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

(in Kazakhstani tenge and in millions)

	Year ended 31 December 2013	Year ended 31 December 2012 (Restated*)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	64,819	76,038
Interest paid	(48,899)	(53,863)
Fee and commission received	20,099	20,089
Fee and commission paid	(1,738)	(2,033)
Other expenses paid	(49)	(18)
Operating expenses paid	<u>(24,570)</u>	<u>(26,279)</u>
Cash inflow from operating activities before changes in operating assets and liabilities	9,662	13,934
Changes in operating assets and liabilities:		
Obligatory reserves	(1,570)	11,881
Financial assets at fair value through profit or loss	(2,002)	(8,140)
Due from banks	(1,941)	3,966
Loans to customers and banks	2,100	(39,174)
Other assets	(11,827)	757
Due to banks and financial institutions	(16,510)	25
Customer and bank accounts	14,965	61,142
Other liabilities	<u>2,567</u>	<u>(1,729)</u>
Cash (outflow)/inflow from operating activities before taxation	(4,556)	42,662
Income tax (paid)/received	<u>(366)</u>	<u>286</u>
Net cash (outflow)/inflow from operating activities	<u>(4,922)</u>	<u>42,948</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds on sale of investments available-for-sale	27,211	113,165
Purchase of investments available-for-sale	(23,797)	(86,758)
Proceeds on maturity of investments held to maturity	14,105	9,889
Purchase of investments held to maturity	(3,682)	(13,630)
Purchase of property, equipment and intangible assets	(5,660)	(2,098)
Proceeds on sale of property and equipment	<u>235</u>	<u>10</u>
Net cash inflow from investing activities	<u>8,412</u>	<u>20,578</u>

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

(in Kazakhstani tenge and in millions)

	Year ended 31 December 2013	Year ended 31 December 2012 (Restated*)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of treasury shares (Note 26)	28	1
Repayment of debt securities issued	(18,910)	(56,122)
Proceeds from debt securities issued	2,447	2,221
Proceeds from subordinated bonds issued	18,305	-
	<u>1,870</u>	<u>(53,900)</u>
Net cash inflow/(outflow) from financing activities	<u>1,870</u>	<u>(53,900)</u>
<i>Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents</i>	2,097	2,613
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,457	12,239
CASH AND CASH EQUIVALENTS, beginning of the year (Note 13)	<u>134,054</u>	<u>121,815</u>
CASH AND CASH EQUIVALENTS, end of the year (Note 13)	<u><u>141,511</u></u>	<u><u>134,054</u></u>

*As restated. Please see Note 4

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

25 February 2014
Almaty



Oh Ki Hong
Managing Director

25 February 2014
Almaty

Nurgaliyeva A.T.
Chief Accountant

25 February 2014
Almaty

The notes on pages 10-79 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(in Kazakhstani tenge and in millions, unless otherwise stated)

1. ORGANIZATION

JSC Bank CenterCredit (“the Bank”) is a Joint Stock Company (“JSC”), which was incorporated in the Republic of Kazakhstan and started its operations in 1988. The Bank is regulated by the legislation of the Republic of Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan (“the NBRK”) and the Committee for control and supervision of the financial market and financial organizations of the NBRK (“the FMSC”). The Bank conducts its business under license number 248, renewed on 13 December 2007 by the FMSC. On 27 August 2008, Kookmin Bank (South Korea) purchased 23% of the Bank’s issued ordinary share capital. As at 31 December 2013, Kookmin Bank’s share was 41.93% and the International Financial Corporation’s (“IFC”) share was 10% of the issued capital of the Bank.

The Bank’s primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, loan origination activities and guarantees.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the “KDIF”). The registered address is: 98 Panfilov Street, Almaty, the Republic of Kazakhstan. As at 31 December 2013 and 2012, the Bank had 20 branches in the Republic of Kazakhstan.

The Bank is a parent company of a banking group (the “Group”) which consists of the following subsidiaries consolidated in its consolidated financial statements:

Name	Country of operation	31 December 2013	31 December 2012	Type of operations
JSC APF Capital	Republic of Kazakhstan	75.06%	75.06%	Pension fund management
LLP Center Leasing	Republic of Kazakhstan	90.75%	90.75%	Finance lease
JSC BCC Invest	Republic of Kazakhstan	100%	100%	Brokerage and dealer activity
LLC Bank BCC- Moscow	Russian Federation	100%	100%	Banking services
LLP BCC-SAOO	Republic of Kazakhstan	100%	-	Management of distressed assets

JSC Accumulated Pension Fund Capital (“APF Capital”) was established as a closed joint stock company in October 2001, in accordance with legislation of the Republic of Kazakhstan. In December 2003, APF Capital was registered as a joint stock company. APF Capital manages pension contribution inflows and the accumulation of individual pension accounts in accordance with the requirements of legislative authorities of the Republic of Kazakhstan.

The new Law of the Republic of Kazakhstan #105-V enacted on 21 June 2013 and amendments to it together with the decree of the Government of the Republic of Kazakhstan #747 issued on 31 July 2013 ruled to start the new reform of the national pension system of the Republic of Kazakhstan by unifying all pension assets and associated liabilities managed by private pension funds into wholly state owned Single Accumulating Pension Fund (hereafter – “SAPF”).

As a result of this reform, on 18 November 2013 the APF Capital stopped accepting pension contributions from its clients and transferred all pension assets and associated liabilities under management to SAPF. Since then the APF Capital’s activity is concentrated on managing its own investment portfolio only.

In September 2002, LLP Center Leasing was established as a limited liability partnership in accordance with the legislation of the Republic of Kazakhstan. The main activity of LLP Center Leasing is leasing operations.

In May 1998, JSC BCC Invest was established as a limited liability partnership (previously named “LLP KIB ASSET MANAGEMENT”) in accordance with legislation of the Republic of Kazakhstan. On 26 September 2006, LLP KIB ASSET MANAGEMENT was registered as a joint stock company. The main activity of JSC BCC Invest consists of management of assets of mutual funds and management of investment portfolios.

In August 2006, the Bank received permission from the FMSC for establishment of its subsidiary LLC Bank BCC-Moscow. On 21 March 2008, LLC Bank BCC-Moscow received its license from the Central Bank of Russian Federation. The main activity of LLC Bank BCC-Moscow consists of banking services.

In December 2011, Kazakhstan adopted the Law of the Republic of Kazakhstan on the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan regarding the Regulation of Banking Activities and Financial Institutions with Respect to Risk Mitigation, which stipulated that commercial banks create special subsidiaries to purchase banks’ non-working (distressed) assets and manage them. On 21 August 2013, the Bank’s special subsidiary for the management of distressed assets – LLP BCC-SAOO was registered by the Ministry of Justice of the Republic of Kazakhstan.

As at 31 December 2013 and 2012 the following ultimate beneficial shareholders owned individually more than 5% of the issued shares of the Group:

	31 December 2013 %	31 December 2012 %
Kookmin Bank	41.93	41.93
Baiseitov B.R.	25.11	25.11
IFC	10.00	10.00
Other (individually hold less than 5%)	<u>22.96</u>	<u>22.96</u>
Total	<u><u>100.00</u></u>	<u><u>100.00</u></u>

The consolidated financial statements were authorized for issue by the Management Board of the Group on 25 February 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in millions of Kazakhstani tenge (“KZT millions”), unless otherwise indicated. These consolidated financial statements have been prepared on the accrual basis of accounting under the historical cost convention, except for the certain properties and financial instruments that are measured at lower of carrying value and fair value less costs to sell or fair values at the end of each reporting period, as explained in the accounting policies below.

The Group maintains its accounting records in accordance with the accounting policies authorized by the Resolution of the Board of Directors of the Group.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 33.

The principal accounting policies are set out below.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income. Penalties for late interest payments are classified within interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided and included in “fees and commission income” line item in the consolidated statement of profit or loss. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (“FVTPL”), investments held to maturity (“HTM”), investments available-for-sale (“AFS”) and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'net gain on financial assets and liabilities at fair value through profit or loss' line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in Note 31.

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity, other than (a) those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity designates as available for sale; and (c) those that meet the definition of loans and receivables. Investments held to maturity are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as investments available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two years.

Investments available-for-sale

Investments available-for-sale are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

Listed shares and debt securities held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in Note 31. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends earned on investments available-for-sale are included in other income in the consolidated statement of profit or loss.

AFS equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans to customers and banks and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers and banks granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated statement of profit or loss according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers and banks are carried net of any allowance for impairment losses.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions with original maturities of 90 days or less. For purposes of determining cash flows, the obligatory reserve required by the central/(national) banks are not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory reserves

Obligatory reserves represent mandatory reserve deposits with the National Bank of Kazakhstan, Central Bank of the Russian Federation and restricted cash which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks and loans to customers and banks.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group 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. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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 effective interest rate.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses based on the decision of the Group's authorized body, after the Group has exercised all possible measures for recovery of the overdue debt, and the possibility of recovery of these amounts is low or does not exist. Subsequently, if in the assessment of the authorized body, a loan previously written off is deemed recoverable, the amounts previously written off are recorded in loans to customers and banks and the related allowance for impairment loss accounts.

Individual assessment of impairment of loans to customers

Individual assessment of impairment losses is calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held and the timing of anticipated receipts. The impairment allowances on individually significant loans are reviewed at least quarterly and more regularly if circumstances required.

Those loans with outstanding amount of debt exceeding certain amount are considered to be individually significant loans. All individually significant loans are assessed for the indicators of impairment, such as overdue of more than 90 days, worsening of credit rating of the borrower, prolongations, restructuring and debt forgiveness related to deterioration of financial condition of the borrower.

If the borrower has any of the four indicators of impairment on any of its loans exceeding threshold, the borrower belongs to the group of individually significant loans. These borrowers are analysed and assessed it for impairment on an individual basis.

Collective assessment of impairment of loans to customers

The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default on each assets (or pool of assets) and loss given default by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If the borrower has no impairment indicators on any of its loans then it is included in the category of non-impaired loans which are not individually significant and assessed on a collective basis. Collective assessment of impairment in respect of group of loans with similar characteristics is performed using roll rate analysis.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group 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 Group 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.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments issued by a Group's entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including due to banks and financial institutions, customer and bank accounts, debt securities issued and subordinated bonds, are initially measured at fair value, net of transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowings, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in consolidated statement of profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 14. Derivative financial instruments entered into by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive to the Group and as liabilities when it is negative to the Group. Derivatives are included in financial assets and liabilities at FVTPL in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the consolidated statement of profit or loss.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated statement of profit or loss as a loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Repossessed collateral

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The assets are initially recognized at fair value when acquired and subsequently measured at cost less accumulated impairment.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives to their residual values. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	1.25-2.5%
Furniture and computer equipment	7-20%
Intangible assets	12-60%

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been substantively enacted during the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is charged or credited in the consolidated statement of profit or loss, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with accordingly.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share capital

Share capital is recognized at historical cost.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is charged to share capital (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Financial guarantee contracts issued and letters of credit

A financial guarantee or letters of credit contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts and letters of credit issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Contingencies

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

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depository services to its customers which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Retirement and other benefit obligations

In accordance with the requirements of the countries in which the Group operates, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged to the consolidated statement of profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the historical rate at the date of the transaction. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KZT using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2013	31 December 2012
Tenge/1 US Dollar	154.06	150.74
Tenge/1 Euro	212.02	199.22

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- 'Investment available-for-sale' reserve which comprises changes in fair value of available-for-sale investments;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Statutory reserve' which reflects the difference between provisions calculated in accordance with local requirements and provisions calculated under IFRS. The difference is attributable to fundamental methodological deviations including the impact of discounted future cash flows and the impact which certain forms of collateral have on the level of provision. This reserve is required by legislation of the Republic of Kazakhstan and is created through appropriations of retained earnings. This requirement was cancelled by NBRK effective from 1 January 2013.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Group does not offset the transferred asset and the associated liability.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the Group's revenue is included in reportable segments.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Investments held-to-maturity

The management has reviewed the Group's investments held-to-maturity in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. Details of these assets are set out in Note 16.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to the allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in countries in which it operates and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 31 December 2013 and 2012 the gross loans to customers totaled KZT 972,866 million and KZT 920,891 million, respectively, and allowance for impairment losses amounted to KZT 197,214 million and KZT 137,420 million, respectively.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Valuation of financial instruments

As described in Note 31, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 31 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Recoverability of deferred tax assets

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax to be recovered. The carrying value of deferred tax assets amounted to KZT 1,132 million and KZT 2,036 million as at 31 December 2013 and 2012, respectively.

3. APPLICATION OF NEW AND REVISED IFRS

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements.

Standards affecting the financial statements

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of IFRS 10.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

The management of the Group has assessed the adoption of IFRS 10 and concluded that it did not result in any change in the consolidation status of its subsidiaries.

Impact of the application of IFRS 11.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for.

The management of the Group has assessed the adoption of IFRS 11 and concluded that it did not result in any changes as there were no such investments classified as jointly controlled entity under IAS 31.

Impact of the application of IFRS 12.

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

Amendments to IFRS 7 Financial instruments: Disclosures.

The Group has applied the amendments to IFRS 7 titled *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

In the current year, the Group transferred some financial assets that are not derecognised. The application of the amendments has resulted in more disclosures regarding the transfer of financial assets (see Note 30).

Amendments to IAS 1 Presentation of financial statements (amended June 2011).

The Group has applied the amendments to IAS 1 titled *Presentation of Items of Other Comprehensive Income* in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the statement of comprehensive income.

The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The financial statements have also been amended to analyse income tax on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

IFRS 13 Fair Value Measurement.

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012).

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

IAS 19 Employee Benefits (revised June 2011)

In the current year, the Group has applied IAS 19 (as revised in June 2011) *Employee Benefits*. The amendments to IAS 19 change the accounting for defined benefit schemes and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and scheme assets. The application of IAS 19 (June 2011) had no significant impact, as the Group has no defined benefit plans.

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

IAS 32 Financial Instruments: Presentation requires offsetting of financial assets and financial liabilities when certain criteria are met. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 *Financial Instruments*

Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*

Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*¹

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*¹

Amendments to IAS 36 *Impairment of Assets*¹

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*¹

Amendments to IFRIC 21 *Levies*¹

¹ Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. Disclose effect of changes if expected.

IFRS 9 *Financial Instruments*.

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

The management of the Group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities.

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. The management of the Group does not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Bank is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities.

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The management of the Group does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

- The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
- The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.
- IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

4. RESTATEMENT

In 2013 the Group's management determined that mandatory cash deposits with National Bank of Kazakhstan and Central Bank of Russia and restricted cash balances, included in cash and cash equivalents for the purposes of the consolidated statement of cash flows had not been appropriately presented for the year ended 31 December 2012. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," these consolidated financial statements have been restated as detailed in the following paragraph.

The effect of the adjustments made to the consolidated financial statements for the year ended 31 December 2012 is as follows:

Financial statement line item	As previously reported	Adjustment	As restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Obligatory reserves	-	11,881	11,881
Cash inflow from operating activities before taxation	30,781	11,881	42,662
Net cash inflow from operating activities	31,067	11,881	42,948
CASH AND CASH EQUIVALENTS, beginning of the year	148,771	(26,956)	121,815
CASH AND CASH EQUIVALENTS, end of the year	149,129	(15,075)	134,054
Statement of financial position			
Cash and cash equivalents	149,129	(15,075)	134,054
Obligatory reserves	-	15,075	15,075

The effect of the adjustments made to the consolidated statement of financial position as at 1 January 2012 is as follows:

Financial statement line item	As previously reported	Adjustment	As restated
Statement of financial position			
Cash and cash equivalents	148,771	(26,956)	121,815
Obligatory reserves	-	26,956	26,956

5. NET INTEREST INCOME

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired assets	40,878	35,540
- interest income on impaired assets	39,743	34,233
Interest income on financial assets recorded at fair value	<u>4,648</u>	<u>3,858</u>
Total interest income	<u>85,269</u>	<u>73,631</u>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers and banks	77,966	66,834
Interest on investments held to maturity	1,498	1,260
Interest on due from banks and cash equivalents	298	295
Penalties on loans to customers and banks	<u>859</u>	<u>1,384</u>
Total interest income on financial assets recorded at amortized cost	<u>80,621</u>	<u>69,773</u>
Interest income on financial assets recorded at fair value comprises:		
Interest income on investments available-for-sale	2,847	2,659
Interest income on financial assets at fair value through profit or loss	<u>1,801</u>	<u>1,199</u>
Total interest income on financial assets recorded at fair value	<u>4,648</u>	<u>3,858</u>
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost		
	<u>49,610</u>	<u>54,154</u>
Total interest expense	<u>49,610</u>	<u>54,154</u>
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer and banks accounts	33,899	34,770
Interest on debt securities issued	5,805	9,770
Interest on due to banks and financial institutions	6,765	6,832
Interest on subordinated bonds	<u>3,141</u>	<u>2,782</u>
Total interest expense on financial liabilities recorded at amortized cost	<u>49,610</u>	<u>54,154</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>35,659</u>	<u>19,477</u>

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Consumer loans	Corporate loans	Credit cards	Total (Note 18)
31 December 2011	12,065	112,423	48	124,536
Additional provision recognized	1,881	9,877	174	11,932
Write-off of assets	(237)	(314)	(180)	(731)
Recoveries of assets previously written off	328	55	-	383
Exchange rate difference	<u>253</u>	<u>1,047</u>	<u>-</u>	<u>1,300</u>
31 December 2012	<u>14,290</u>	<u>123,088</u>	<u>42</u>	<u>137,420</u>
Additional provision recognized	15,794	11,818	167	27,779
Write-off of assets	(110)	(5,351)	-	(5,461)
Recoveries of assets previously written off	12,147	25,791	-	37,938
Exchange rate difference	<u>(91)</u>	<u>(357)</u>	<u>-</u>	<u>(448)</u>
31 December 2013	<u>42,030</u>	<u>154,989</u>	<u>209</u>	<u>197,228</u>

In November 2013 year, the Group has recovered previously written off loans to customers in amount of KZT 34,328 million due to the changes in NBRK regulations and prospects of recovery of these loans. As a result, recovered individually significant loans amounted to KZT 19,973 million and the recovered allowance against them amounted to KZT 19,074 million. Additional provision was recognized against the recovered loans assessed on a collectively basis.

The movements in provision for impairment losses on other transactions were as follows:

	Other assets (Note 19)	Guarantees and letters of credit (Note 24)	Total
31 December 2011	1,149	968	2,117
Additional provision recognised	483	917	1,400
Write-off of assets	(531)	(17)	(548)
Recoveries of assets previously written off	130	-	130
Exchange rate difference	11	(89)	(78)
31 December 2012	<u>1,242</u>	<u>1,779</u>	<u>3,021</u>
Additional provision recognised	1,256	-	1,256
Write-off of assets	(617)	(6)	(623)
Exchange rate difference	10	7	17
31 December 2013	<u><u>1,891</u></u>	<u><u>1,780</u></u>	<u><u>3,671</u></u>

7. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2013	Year ended 31 December 2012
Realized gain on trading operations	47	338
Unrealized (loss)/gain on fair value adjustment	(65)	234
Realized gain on operations with derivative financial instruments	165	48
Unrealized (loss)/gain on operations with derivative financial instruments	(134)	14
Total net gain on financial assets and liabilities at fair value through profit or loss	<u><u>13</u></u>	<u><u>634</u></u>

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2013	Year ended 31 December 2012
Dealing, net	4,465	4,355
Translation differences, net	26	(506)
Total net gain on foreign exchange operations	<u><u>4,491</u></u>	<u><u>3,849</u></u>

9. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2013	Year ended 31 December 2012
Fee and commission income:		
Cash operations	5,392	4,500
Settlements	4,488	4,379
Payment cards	3,878	3,585
Guarantees	3,324	2,977
Trust operations	2,636	1,952
Foreign exchange operations	1,036	1,018
Custodian activities	610	559
Internet-banking operations	439	364
Documentary operations	139	172
Other	582	553
	<u>22,524</u>	<u>20,059</u>
Total fee and commission income		
Fee and commission expense:		
Settlements	972	808
Custodian activities	617	510
Documentary operations	66	101
Brokerage services	42	90
Securities operations	33	23
Foreign exchange operations	18	40
Other	138	225
	<u>1,886</u>	<u>1,797</u>
Total fee and commission expense		

10. OPERATING EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Staff costs	11,737	11,016
Taxes other than income tax	3,508	2,182
Operating leases	3,033	3,335
Deposit Insurance Fund expenses	2,729	2,923
Depreciation and amortization	2,259	2,144
Administrative expenses	1,733	1,548
Security expenses	734	656
Advertising costs	649	600
Telecommunications	633	646
Professional services	376	229
Property and equipment maintenance	336	352
Business trip expenses	269	294
Other	1,349	957
	<u>29,345</u>	<u>26,882</u>
Total operating expenses		

11. INCOME TAXES

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

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses such as business development expenses and a tax free regime for certain income such as income on finance lease and income from operations with state securities and securities listed on the Kazakhstan Stock Exchange.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2013 and 31 December 2012 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax losses carried forward expire in 2022. Based on the business plans prepared, management concluded that it is appropriate to recognise a deferred tax asset amounting to KZT 1,132 million and KZT 2,036 million as at 31 December 2013 and 2012, respectively.

On 26 December 2012, certain changes to the Tax Code were adopted in Kazakhstan. Most of those tax amendments took effect on 1 January 2013. Significant changes that were introduced relate to interest expense deduction, deduction of provision for impairment losses, introduction of dynamic provision and changes in the deduction of doubtful debts. In particular, the amount of interest expense deductible for corporate income tax purposes shall be recognised in the amount of interest that is paid in the reporting tax period, up to the amount of interest recognised as expenses in the reporting tax period and(or) in tax periods prior to the reporting tax period, up to the amount of interest recognised as expense in the reporting tax period. According to changes to the Tax Code, banks shall determine the deductible provision for impairment losses based on IFRS and Kazakhstan legislation, except for provisions accrued against finance lease and loans provided to related parties or to third parties against related parties' liabilities.

Deferred taxes on temporary differences as at 31 December 2013 and 2012 comprise:

	31 December 2013	31 December 2012
Accrued interest payable	2,030	-
Accrued interest on loans to customers, written off	654	2,916
Other	108	91
Tax losses carried forward	9	677
Impairment loss on debt securities	-	546
Loans to customers	-	(798)
Property, equipment and intangible assets	(1,018)	(700)
Financial assets and liabilities at fair value through profit or loss	(651)	(697)
Net deferred tax asset	1,132	2,036

Relationships between tax expenses and accounting profit for the period ended 31 December 2013 and 2012 are explained as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Operating profit before income tax	<u>2,295</u>	<u>601</u>
Tax at the statutory tax rate	459	120
Change in deferred tax asset not recognized	-	(3,720)
Tax-exempt interest income and other related income on state and their qualifying securities	(947)	(236)
Non-deductible interest expense	143	1,572
Non-deductible provision for impairment losses on doubtful debt	2,027	1,357
Non-deductible operating and other expenses	<u>300</u>	<u>1,158</u>
Income tax expense	<u>1,982</u>	<u>251</u>
Current income tax expense	1,078	279
Deferred income tax expense/(benefit)	<u>904</u>	<u>(28)</u>
Income tax expense	<u>1,982</u>	<u>251</u>

The tax rate used for the year ended 31 December 2013 and 2012 reconciliations above is the corporate tax rate of 20%, payable by corporate entities in the Republic of Kazakhstan on taxable profits under tax law in that jurisdiction.

	31 December 2013	31 December 2012
Deferred income tax assets		
Beginning of the year	2,036	2,008
Change in deferred tax assets	<u>(904)</u>	<u>28</u>
End of the year	<u>1,132</u>	<u>2,036</u>

12. (LOSS)/EARNINGS PER SHARE AND BOOK VALUE PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

	Year ended 31 December 2013	Year ended 31 December 2012
Basic (loss)/earnings per share		
Net (loss)/profit for the year attributable to owners of the Parent	(31)	222
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	-	(44)
	<u>(31)</u>	<u>178</u>
(Loss)/earnings attributable to ordinary shareholders		
Weighted average number of ordinary shares for purposes of basic earnings per share	162,329,387	161,860,158
	<u>(0.19)</u>	<u>1.10</u>
Diluted (loss)/earnings per share		
Net (loss)/profit for the period attributable to ordinary shareholders	(31)	178
Add: additional dividends that would be paid on full distribution of profit to the preferred shareholders	-	44
	<u>(31)</u>	<u>222</u>
Net (loss)/profit used in the calculation of total diluted earnings per share		
Weighted average number of ordinary shares for purposes of diluted earnings per share	162,329,387	161,860,158
Shares deemed to be issued:		
Weighted average number of common shares that would be issued for the convertible preferred shares	39,249,255	39,249,255
Weighted average number of ordinary shares for purposes of diluted earnings per share	<u>201,578,642</u>	<u>201,109,413</u>
	<u>(0.15)</u>	<u>1.10</u>

On 25 August 2010 the KASE has introduced new rules for listed companies that require the disclosure of book value of one share per each class of shares in the listed company's financial statements. The Group has calculated the book value of one share per each class of shares in accordance with the methodology for computation of the book value of one share, provided by KASE.

The book value of one share per each class of shares as at 31 December 2013 and 2012 is as follows:

Class of shares	31 December 2013			31 December 2012		
	Outstanding shares (number outstanding)	Amount for calculation of book value KZT million	Book value of one share, KZT	Outstanding shares (number outstanding)	Amount for calculation of book value KZT million	Book value of one share, KZT
Ordinary shares	162,288,670	73,334	452	162,155,381	73,230	452
Preference shares	39,249,000	<u>11,775</u>	300	39,249,255	<u>11,775</u>	300
		<u>85,109</u>			<u>85,005</u>	

The book value of one preference share is calculated as the ratio of the amount of equity attributable to preference shares to the outstanding number of preference shares as at the reporting date. The book value of one ordinary share is calculated as the ratio of the amount of net asset value of the Group for ordinary shares to the outstanding number of ordinary shares as at reporting date. The net asset value of the Group for ordinary shares is calculated as the total equity net of intangible assets and the amount of equity attributable to preference shares as at reporting date. Outstanding number of ordinary and preference shares is calculated as outstanding shares authorized and issued net of repurchased shares by the Group as at reporting date.

The Management of the Group believes that it fully complies with the requirement of KASE as at the reporting date.

13. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Short-term deposits with financial institutions	104,746	94,200
Cash on hand	32,760	34,725
Cash in transit	4,005	5,129
	<u>141,511</u>	<u>134,054</u>
Total cash and cash equivalents	<u>141,511</u>	<u>134,054</u>

As at 31 December 2013 the Group had deposits with NBRK, Bank of New York Mellon, USA, Citibank, N.Y., BNP Paribas, France and LBW Stuttgart, Germany which individually and in the aggregate exceeded 10% of the Group's equity. As at 31 December 2012 the Group had deposits with Citibank, N.Y., BNP Paribas, France, Societe Generale, France, JP Morgan A.G Frankfurt and LBW Stuttgart, Germany which individually and in the aggregate exceeded 10% of the Group's equity.

Obligatory reserves

Minimum reserve requirements are determined as a percentage of average balances of deposits and international borrowings in accordance with the requirements of the NBRK. The Group has maintained an average balance in compliance with the NBRK requirements.

	31 December 2013	31 December 2012
Mandatory cash deposits with the National Bank of the Republic of Kazakhstan ("NBRK")	15,596	13,566
Restricted cash	574	538
Mandatory cash deposits with the Central Bank of Russian Federation ("CBR")	475	971
	<u>16,645</u>	<u>15,075</u>
Total obligatory reserves	<u>16,645</u>	<u>15,075</u>

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

	31 December 2013	31 December 2012
Financial assets held for trading:		
Debt securities	23,088	20,976
Equity securities	353	284
	<u>23,441</u>	<u>21,260</u>
Total financial assets held for trading	<u>23,441</u>	<u>21,260</u>
Derivative financial instruments	3,812	3,918
	<u>27,253</u>	<u>25,178</u>
Total financial assets at fair value through profit or loss	<u>27,253</u>	<u>25,178</u>

	31 December 2013		31 December 2012	
	Nominal interest rate %	Fair value	Nominal interest rate %	Fair value
Debt securities:				
Russian corporate bonds	7.4-12.25	8,291	3.70-6.00	8,109
Government bonds of the Republic of Kazakhstan	4.80-7.80	8,181	7.00-13.00	6,276
Kazakhstan corporate bonds	5.90-13.00	5,152	3.15-11.25	5,817
Government bonds of the Russian Federation	7.00-8.15	<u>1,464</u>	6.88-7.10	<u>774</u>
Total debt securities		<u>23,088</u>		<u>20,976</u>
		31 December 2013		31 December 2012
Equity securities*:				
Shares of Kazakhstan corporations		347		284
Shares of International corporations		<u>6</u>		<u>-</u>
Total equity securities		<u>353</u>		<u>284</u>

*Ownership interest in equity securities is below 1%

	Notional amount	31 December 2013		Notional amount	31 December 2012	
		Fair value			Fair value	
		Asset	Liability (Note 24)		Asset	Liability (Note 24)
Foreign currency contracts:						
Swaps	28,993	3,804	12	35,046	3,786	95
Embedded derivatives	38	<u>8</u>	<u>-</u>	857	<u>132</u>	<u>-</u>
Total derivative financial instruments		<u>3,812</u>	<u>12</u>		<u>3,918</u>	<u>95</u>

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index. Cross currency swap is an exchange of differently defined interest rates payable and different currencies on a fixed nominal amount (principal) between two contracting parties.

As at 31 December 2013 and 2012 financial assets at fair value through profit or loss included Treasury bonds of the Ministry of Finance of Republic of Kazakhstan and other securities of KZT 13,551 million and KZT 6,731 million, respectively, were pledged under repurchase agreements with the other banks (Note 21). All repurchase agreements as at 31 December 2013 and 31 December 2012 mature before 22 January 2014 and 4 January 2013, respectively.

15. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2013	31 December 2012
Debt securities	53,729	57,310
Equity securities	202	239
Total investments available-for-sale	53,931	57,549

	31 December 2013		31 December 2012	
	Nominal interest rate %	Fair value	Nominal interest rate %	Fair value
Debt securities:				
Government bonds of the Republic of Kazakhstan	3.10-8.75	36,610	2.25-8.75	46,239
Kazakhstan corporate bonds	4.40-8.50	13,267	5.36-9.00	11,071
Russian corporate bonds	5.25-10.40	3,852	-	-
Total debt securities		53,729		57,310
		31 December 2013		31 December 2012
Equity securities:				
Kazakhstan corporate shares		202		239
Total equity securities		202		239
Total investments available-for-sale		53,931		57,549

As at 31 December 2013 and 2012 investments available-for-sale included short-term NBRK notes and Treasury bonds of the Ministry of Finance of Republic of Kazakhstan of KZT 25,427 million and KZT 9,367 million, respectively, were pledged under repurchase agreements with the other banks (Note 21). All repurchase agreements as at 31 December 2013 and 31 December 2012 mature before 22 January 2014 and 4 January 2013, respectively.

16. INVESTMENTS HELD TO MATURITY

	31 December 2013		31 December 2012	
	Nominal interest rate %	Amount	Nominal interest rate %	Amount
Government bonds of the Republic of Kazakhstan	4.30-8.75	10,558	4.30-8.75	19,061
Kazakhstan corporate bonds	5.41-13.00	3,880	5.01-13.00	5,771
Russian corporate bonds	5.03	1,112	5.03-9.63	1,241
International corporate bonds	2.82	296	5.05	300
Total investments held to maturity		15,846		26,373

As at 31 December 2013 and 2012 investments held to maturity included short-term NBRK notes and Treasury bonds of the Ministry of Finance of Republic of Kazakhstan pledged under repurchase agreements with other banks amounting to KZT 6,931 million and KZT 5,797 million, respectively (Note 21). All repurchase agreements as at 31 December 2013 and 31 December 2012 mature before 22 January 2014 and 4 January 2013, respectively.

17. DUE FROM BANKS

	31 December 2013	31 December 2012
Time deposits	3,965	2,024
Accrued interest	29	12
Total due from banks	<u>3,994</u>	<u>2,036</u>

As at 31 December 2013 and 31 December 2012, included in balances due from banks are guarantee deposits placed by the Group for its credit card operations amounting to KZT 1,161 million and KZT 854 million, respectively.

18. LOANS TO CUSTOMERS AND BANKS

	31 December 2013	31 December 2012
Originated loans to customers	898,987	866,044
Net investment in finance lease	5,616	5,947
Accrued interest	68,263	48,900
	<u>972,866</u>	<u>920,891</u>
Less: allowance for impairment losses	(197,214)	(137,420)
Total loans to customers	<u>775,652</u>	<u>783,471</u>
Originated loans to banks and other financial institutions	7,911	5,617
Accrued interest	19	8
	<u>(14)</u>	<u>-</u>
Less: allowance for impairment losses	(14)	-
Total loans to banks and other financial institutions	<u>7,916</u>	<u>5,625</u>
Loans under reverse repurchase agreements	<u>327</u>	<u>-</u>
Total loans to customers and banks	<u>783,895</u>	<u>789,096</u>

Movement in allowances for impairment losses on loans to customers and banks for the years ended 31 December 2013 and 2012 are disclosed in Note 6. As disclosed in Note 6, the increase in allowance for impairment losses in 2013 is due to additional provision recognized and recovery of previously written off loans in fourth quarter of 2013.

The table below summarizes the amount of loans to customers secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2013	31 December 2012
Loans collateralized by real estate	714,280	671,391
Loans collateralized by goods	104,333	100,118
Loans collateralized by equipment	56,176	52,415
Loans collateralized by corporate guarantees	44,819	43,765
Loans collateralized by cash	17,237	10,321
Loans collateralized by other assets	16,937	30,738
Unsecured loans	19,084	12,143
	<u>972,866</u>	<u>920,891</u>
Less: allowance for impairment losses	<u>(197,214)</u>	<u>(137,420)</u>
Total loans to customers	<u><u>775,652</u></u>	<u><u>783,471</u></u>
	31 December 2013	31 December 2012
Analysis by sector:		
Individuals	358,722	325,994
Trading	165,462	186,439
Industrial construction	63,233	61,832
Manufacturing	58,464	50,716
Rent of real estate	55,233	43,632
Food industry	51,161	49,269
Residential construction	48,904	49,464
Agriculture	48,474	36,542
Transportation and equipment maintenance	27,640	26,432
Oil and gas	21,318	22,377
Telecommunications and transport	13,147	12,653
Energy	10,015	8,620
Mass media	5,303	3,431
Other	45,790	43,490
	<u>972,866</u>	<u>920,891</u>
Less: allowance for impairment losses	<u>(197,214)</u>	<u>(137,420)</u>
Total loans to customers	<u><u>775,652</u></u>	<u><u>783,471</u></u>

During the years ended 31 December 2013 and 2012 the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2013 and 2012 such assets amounting to KZT 15,213 million and KZT 6,999 million, respectively, are included in other assets (Note 19).

Loans to individuals comprise the following products:

	31 December 2013	31 December 2012
Mortgage loans	167,174	157,862
Consumer loans	113,981	106,386
Business development	69,756	56,853
Car loans	7,811	4,893
	<u>358,722</u>	<u>325,994</u>
Less: allowance for impairment losses	(43,441)	(16,203)
Total loans to individuals	<u><u>315,281</u></u>	<u><u>309,791</u></u>

As at 31 December 2013 and 2012 the Group provided loans to 15 and 16 borrowers totaling KZT 208,451 million and KZT 251,502 million, which individually and in aggregate exceeded 10% of the Group's equity, respectively.

As at 31 December 2013 and 2012 a significant amount of loans (95% and 98% of total portfolio, respectively) were granted to companies operating in the Republic of Kazakhstan, which represents a significant geographical concentration in one region.

As at 31 December 2013 and 2012 loans to customers and banks included loans totaling KZT 79,931 million and KZT 103,981 million, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

	31 December 2013			31 December 2012		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	319,694	(133,056)	186,638	293,076	(106,112)	186,964
Loans to customers collectively determined to be impaired	170,453	(24,497)	145,956	177,552	(14,498)	163,054
Unimpaired loans	<u>482,719</u>	<u>(39,661)</u>	<u>443,058</u>	<u>450,263</u>	<u>(16,810)</u>	<u>433,453</u>
Total	<u><u>972,866</u></u>	<u><u>(197,214)</u></u>	<u><u>775,652</u></u>	<u><u>920,891</u></u>	<u><u>(137,420)</u></u>	<u><u>783,471</u></u>

In determining the impairment allowance for the loans that are individually significant, management makes the assumption of delay of 1-3 year in obtaining proceeds from sale of collateral.

As at 31 December 2013 and 2012 the Group entered as a lessor into finance leasing agreements. The interest rate inherent in leases is fixed at the contract date for all of the lease terms.

The components of net investment in finance lease as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013	31 December 2012
Not later than one year	1,649	2,049
From one year to five years	1,711	1,915
More than five years	<u>11,163</u>	<u>6,495</u>
Minimum lease payments	14,523	10,459
Less: unearned finance income	<u>(8,907)</u>	<u>(4,512)</u>
Net investment in finance lease	<u><u>5,616</u></u>	<u><u>5,947</u></u>
Current portion	1,466	1,666
Long-term portion	<u>4,150</u>	<u>4,281</u>
Net investment in finance lease, before allowance for impairment	5,616	5,947
Less: allowance for impairment losses	<u>(974)</u>	<u>(912)</u>
Net investment in finance lease, net of allowance for impairment	<u><u>4,642</u></u>	<u><u>5,035</u></u>

There are no restrictions placed upon the lessee by entering into these contracts.

Fair values of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013		31 December 2012	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
NBRK notes	205	205	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	<u>122</u>	<u>149</u>	<u>-</u>	<u>-</u>
Total	<u><u>327</u></u>	<u><u>354</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

19. OTHER ASSETS

	31 December 2013	31 December 2012
Other financial assets:		
Receivables	4,362	2,155
Accrued commission	2,865	440
Western Union and other wireless transfers	80	34
Other	-	31
	<u>7,307</u>	<u>2,660</u>
Less allowances for impairment losses	<u>(1,059)</u>	<u>(240)</u>
Total other financial assets	<u>6,248</u>	<u>2,420</u>
Other non-financial assets:		
Non-current assets held for sale	9,376	6,999
Reposessed collateral	5,837	-
Tax settlements, other than income tax	1,086	1,075
Advances paid	836	1,362
Inventory	134	204
	<u>17,269</u>	<u>9,640</u>
Less accumulated impairment	<u>(832)</u>	<u>(1,002)</u>
Total other non-financial assets	<u>16,437</u>	<u>8,638</u>
Total other assets	<u>22,685</u>	<u>11,058</u>

Movement in allowances for impairment losses and accumulated impairment on other assets for the years ended 31 December 2013 and 2012 are disclosed in Note 6.

As at 31 December 2013 and 31 December 2012 non-current assets held for sale are represented by assets foreclosed by the Group from non-performing borrowers. These assets have been initially recognized at fair value and subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active program to locate a buyer and complete the sale plan has been initiated. The Group expects to dispose of these assets within a year. The Group does not occupy reposessed properties for business use.

Reposessed collateral represents real estate accepted by the Group from the non-performing borrowers. These assets have been initially recognized at fair value and subsequently measured at cost less accumulated impairment. As at 31 December 2013, the Management has not yet decided on whether the reposessed collateral will be sold or used as property and equipment.

20. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Construction in progress	Intangible assets	Total
At initial cost					
31 December 2011	13,690	11,889	2,628	3,086	31,293
Additions	17	1,020	96	851	1,984
Transfers	1,740	-	(1,740)	-	-
Disposals	-	(834)	-	(81)	(915)
Foreign exchange effect	10	-	-	-	10
31 December 2012	15,457	12,075	984	3,856	32,372
Additions	1,741	1,774	1,745	400	5,660
Reclassified as held for sale	-	-	(838)	-	(838)
Disposals	(387)	(974)	-	(102)	(1,463)
Foreign exchange effect	50	9	-	(26)	33
31 December 2013	16,861	12,884	1,891	4,128	35,764
Accumulated depreciation and impairment					
31 December 2011	(240)	(6,327)	-	(1,342)	(7,909)
Depreciation expenses	(205)	(1,454)	-	(485)	(2,144)
Disposals	-	826	-	69	895
31 December 2012	(445)	(6,955)	-	(1,758)	(9,158)
Depreciation expenses	(194)	(1,395)	-	(670)	(2,259)
Impairment losses	(89)	(10)	-	-	(99)
Disposals	42	804	-	60	906
31 December 2013	(686)	(7,556)	-	(2,368)	(10,610)
Net book value					
31 December 2013	16,175	5,328	1,891	1,760	25,154
31 December 2012	15,012	5,120	984	2,098	23,214

Intangible assets include software, patents and licenses.

21. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Interest rate, %	31 December 2013	31 December 2012
Long-term loans due to banks and financial institutions	1.13-6.65	23,455	26,896
Perpetual debt	9.13	11,941	11,563
Short-term loans due to banks and financial institutions	1.5-6.50	6,454	5,961
Subordinated loan	LIBOR +4.5-		
Correspondent accounts of banks	LIBOR +6.5	3,834	25,538
Loans due to international credit organizations	-	526	348
Loans due to Government of the Republic of Kazakhstan and NBRK	4.9	453	14,245
Accrued interest	5.5	165	262
	-	837	1,094
		47,665	85,907
Loans under repurchase agreements	3.0-7.0	41,771	20,269
Total due to banks and financial institutions		89,436	106,176

The Perpetual non-cumulative debt was issued by the Group in March 2006 with an option to repay in whole, but not in part, on any interest payment date from and including 3 March 2016 at face value of USD 100 million. Interest payment dates are 3 March and 3 September in each year. Interest and principal on loans due to banks are repayable either quarterly, semiannually or at the end of the term, depending on the agreed repayment schedule.

Interest on the subordinated loan is repayable semiannually, and principal is repayable at the end of the term in 2015.

During the year ended 31 December 2013 the Group has repaid loans received from IFC, Eurasian Development Bank, Deutsche Investitions-Und Entwicklungsgesellschaft MBH and certain loans received from European Bank for Reconstruction and Development (“EBRD”) in amounts of KZT 14,202 million, KZT 10,425 million, KZT 6,164 million and KZT 2,360 million, respectively.

During the year ended 31 December 2012 the Group has repaid loans received from Asian Development Bank and certain loans received from EBRD and IFC in amounts of KZT 1,200 million, KZT 7,716 million and KZT 2,356 million respectively.

In the event of bankruptcy or liquidation of the Group, repayment of all subordinated loans is subordinate to the repayments of the Group’s liabilities to all other creditors.

The Group is obligated to comply with financial covenants in relation to due to banks and subordinated loans. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2013 and 2012.

As at 31 December 2013, the Group had long-term loans received from JSC Entrepreneurship Development Fund DAMU (“DAMU”) that individually and in aggregate exceeded 10% of the Group’s equity. As at 31 December 2012, the Group had long-term loans received from Eurasian Development Bank, DAMU, IFC that individually and in aggregate exceeded 10% of the Group’s equity.

As at 31 December 2013 and 2012 included in deposits by banks are loans under repurchase agreements of KZT 41,771 million and KZT 20,269 million that were settled before 22 January 2014 and 4 January 2013, respectively.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013		31 December 2012	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Bonds of the Ministry of Finance of the Republic of Kazakhstan	34,288	37,946	9,072	9,765
Government bonds of Russian Federation	1,361	1,361	759	774
Corporate bonds	6,122	6,222	2,437	2,858
NBRK notes	-	-	8,001	8,421
Total	41,771	45,529	20,269	21,818

22. CUSTOMER AND BANK ACCOUNTS

	31 December 2013	31 December 2012
Recorded at amortized cost:		
Customer accounts	796,131	772,387
Bank accounts	<u>3,106</u>	<u>11,885</u>
	799,237	784,272
Accrued interest	<u>7,316</u>	<u>6,278</u>
Total customer and bank accounts	<u><u>806,553</u></u>	<u><u>790,550</u></u>
	31 December 2013	31 December 2012
Time deposits	543,953	524,058
Demand deposits	<u>252,178</u>	<u>248,329</u>
	796,131	772,387
Accrued interest	<u>7,291</u>	<u>5,477</u>
Total customer accounts	<u><u>803,422</u></u>	<u><u>777,864</u></u>

As at 31 December 2013 and 2012 customer accounts totalling KZT 123,795 million and KZT 45,000 million, respectively, were due to four and two customers, which represents a significant concentration.

	31 December 2013	31 December 2012
Analysis by sector:		
Individuals	331,387	368,710
Social services	147,325	135,922
Real estate construction	75,646	58,297
Insurance companies and pension funds	54,893	36,581
Trade	44,781	37,499
Education and health care	25,275	27,002
Oil and gas	20,153	6,837
Transportation and communication	17,040	15,756
Manufacturing	13,219	8,754
Energy	9,911	11,757
Research and engineering	8,557	9,104
Agriculture	4,032	6,759
Fuel	3,864	7,895
Entertainment services	3,792	4,639
Machinery	2,790	1,342
Chemical production	2,599	1,309
Metallurgy	2,517	9,756
Other	<u>35,641</u>	<u>29,945</u>
Total customer accounts	<u><u>803,422</u></u>	<u><u>777,864</u></u>

Bank accounts as at 31 December 2013 and 2012 comprised the following:

	31 December 2013	31 December 2012
Time deposits	3,100	11,600
Demand deposits	<u>6</u>	<u>285</u>
	3,106	11,885
Accrued interest	<u>25</u>	<u>801</u>
Total banks accounts	<u><u>3,131</u></u>	<u><u>12,686</u></u>

23. DEBT SECURITIES ISSUED

	CCY	Issue date	Maturity date	Annual coupon rate %	31 December 2013	31 December 2012
International bonds	USD	30/01/2007	30/01/2014	8.63	37,821	55,713
Kazakhstani bonds	KZT	29/12/2004-27/11/2009	27/11/2014-27/12/2015	6.40-8.00	9,729	7,676
Bonds issued in Russian Federation	USD	18/08/2011	30/05/2013	1.00	-	19
Bonds issued in Russian Federation	RUR	07/03/2012	07/04/2013	-	-	15
					<u>47,550</u>	<u>63,423</u>
Accrued interest					<u>1,495</u>	<u>1,781</u>
Total debt securities issued					<u><u>49,045</u></u>	<u><u>65,204</u></u>

During the year ended 31 December 2013, the Bank repaid Eurobonds with par value of KZT 18,843 million. During the year ended 31 December 2012, the Bank repurchased Eurobonds with par value of KZT 52,340 million and incurred a loss on repurchase of debt securities issued amounting to KZT 1,483 million.

During the year ended 31 December 2013, the Bank has issued new bonds with par value of KZT 2,447 million under the previously issued prospectus.

The Group is obligated to comply with financial covenants in relation to debt securities issued. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2013 and 2012. Interest on debt securities issued is repayable semiannually.

24. OTHER LIABILITIES

	31 December 2013	31 December 2012
Other financial liabilities:		
Obligations under financial guarantees issued	2,645	-
Settlements on other transactions	1,946	2,085
Provision for guarantees and letters of credit (Note 6)	1,780	1,779
Accrued commission expenses	409	261
Derivative financial instruments (Note 14)	12	95
	<u>6,792</u>	<u>4,220</u>
Other non-financial liabilities:		
Taxes payable, other than income tax	1,314	1,072
Other non-financial liabilities	438	228
	<u>1,752</u>	<u>1,300</u>
Total other liabilities	<u><u>8,544</u></u>	<u><u>5,520</u></u>

Movement in the provision for guarantees and letters of credit for the years ended 31 December 2013 and 2012 are disclosed in Note 6.

25. SUBORDINATED BONDS

	CCY	Issue year	Maturity year	Annual coupon rate %	31 December 2013	31 December 2012
Floating rate	KZT	2005-2013	2015-2023	6.40-7.90	38,902	26,961
Fixed rate	KZT	2008-2013	2018-2024	11.00	13,645	5,994
					<u>52,547</u>	<u>32,955</u>
Accrued interest					<u>487</u>	<u>294</u>
Total subordinated bonds					<u><u>53,034</u></u>	<u><u>33,249</u></u>

Interest on the subordinated bonds is repayable semiannually, and principal is repayable at the end of the term.

During the year ended 31 December 2013, the Bank has issued subordinated bonds with par value of KZT 18,305 million under the previously issued prospectus.

In the event of bankruptcy or liquidation of the Group, repayment of all subordinated bonds is subordinate to the repayments of the Group's liabilities to all other creditors.

26. SHARE CAPITAL

As at 31 December 2013 the Bank's share capital comprised the following number of shares:

	Authorized share capital	Share capital authorized and not issued	Repurchased share capital	Total share capital
Ordinary shares	260,750,745	(98,293,945)	(168,130)	162,288,670
Preference shares	39,249,255	-	(255)	39,249,000

As at 31 December 2013 the Bank's share capital represented by:

	Authorized and issued share capital (KZT million)	Repurchased shares (KZT million)	Total (KZT million)
Ordinary shares	58,087	(36)	58,051
Preference shares	11,775	-	11,775
Total	<u>69,862</u>	<u>(36)</u>	<u>69,826</u>

As at 31 December 2012 the Bank's share capital comprised the following number of shares:

	Authorized share capital	Share capital authorized and not issued	Repurchased share capital	Total share capital
Ordinary shares	260,750,745	(98,293,945)	(301,419)	162,155,381
Preference shares	39,249,255	-	-	39,249,255

As at 31 December 2012 the Bank's share capital represented by:

	Authorized and issued share capital (KZT million)	Repurchased shares (KZT million)	Total (KZT million)
Ordinary shares	58,087	(64)	58,023
Preference shares	11,775	-	11,775
Total	69,862	(64)	69,798

All ordinary shares are ranked equally, carry one vote, and have no par value.

Preference shares are cumulative and convertible into ordinary shares according to the decision of the Board of Directors, one preferred share can be exchanged for one ordinary share.

According to Kazakhstan legislation on joint stock companies dividends are payable on ordinary shares in the form of money or securities of the Bank on condition that the decision was made at the annual meeting of shareholders of the Bank. In accordance with Regulation of the Group dividend payments are made on the basis of financial results for the year.

Preference shares have no voting rights and are not redeemable. Preference shares have a right to receive dividends prior to common stockholders. Conversion of preferred shares is performed based on the decision of the Board of Directors. Preference shares receive dividends of KZT 0.01 per share.

	31 December 2013 Quantity (in thousands)	31 December 2012 Quantity (in thousands)
Preference shares, beginning of the year	39,249	39,249
Preference shares issued	-	-
Preference shares, end of the year	39,249	39,249
Ordinary shares, beginning of the year	162,155	162,225
Treasury shares purchased	(410)	(1,179)
Treasury shares sold	544	1,109
Ordinary shares, end of the year	162,289	162,155
	31 December 2013 (KZT million)	31 December 2012 (KZT million)
Preference shares, beginning of the year	11,775	11,775
Preference shares issued	-	-
Preference shares, end of the year	11,775	11,775
Ordinary shares, beginning of the year	58,023	58,070
Treasury shares purchased	(74)	(229)
Treasury shares sold	102	230
Ordinary shares, end of the year	58,051	58,023

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

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

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

Provision for losses on financial guarantees and commitments totaled KZT 1,780 million and KZT 1,779 million as at 31 December 2013 and 2012, respectively.

As at 31 December 2013 and 2012 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2013		31 December 2012	
	Nominal amount	Risk weighted amount	Nominal Amount	Risk weighted amount
Financial guarantees and commitments				
Guarantees issued and similar commitments	90,987	86,101	91,487	83,998
Letters of credit and other transaction related contingent obligations	<u>3,743</u>	<u>749</u>	<u>3,210</u>	<u>642</u>
Total financial guarantees and commitments	<u><u>94,730</u></u>	<u><u>86,850</u></u>	<u><u>94,697</u></u>	<u><u>84,640</u></u>

The table below summarizes the amounts of financial guarantees and similar commitments secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2013	31 December 2012
Receivables	39,048	26,436
Movables	9,285	7,201
Real estate	8,636	9,416
Corporate guarantees	8,443	13,236
Cash deposits	3,106	5,710
Land	1,720	714
Goods in turnover	391	2,024
Other	33	195
Unsecured guarantees	<u>20,325</u>	<u>26,555</u>
Total	<u><u>90,987</u></u>	<u><u>91,487</u></u>

The table below summarizes the amounts of letters of credit and other transactions related to contingent obligations secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2013	31 December 2012
Cash deposits	2,687	2,159
Unsecured letters of credit	401	225
Receivables	188	-
Real estate	99	826
Goods in turnover	2	-
Other	366	-
	<u>3,743</u>	<u>3,210</u>
Total	<u>3,743</u>	<u>3,210</u>

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as at 31 December 2013 and 2012.

Operating lease commitments

There was no material operating lease commitments under non-cancelable operating leases outstanding as at 31 December 2013 and 2012.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited right of decision making with clients for management of their assets in accordance with specific criteria established by the client. The Group may be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The balance of the clients' funds under the management of the Group as at 31 December 2013 and 2012, including assets under trusteeship are KZT 189,293 million and KZT 241,042 million, respectively.

Managed assets are not included in the consolidated statement of financial position of the Group, as these assets are not assets of the Group. The face values of the securities presented below differ from the market value of the indicated securities. Fiduciary assets are divided by face value into the following categories:

	31 December 2013	31 December 2012
Securities	183,882	216,444
Units of investment funds	3,786	13,586
Investments into real estate, cars, equipment, transport and other property	1,405	854
Bank deposits	45	9,979
Other assets	175	179
	<u>189,293</u>	<u>241,042</u>
Total fiduciary assets	<u>189,293</u>	<u>241,042</u>

As at 31 December 2013 and 2012 assets of pension funds under trust management comprise KZT nil million and KZT 84,114 million, respectively.

The Group maintains the accounting records and prepares financial statements related to the assets and results of operations of the pension and investment funds, which manages assets, other legal entities and operations with their assets, performs reconciliations with the managing company in respect of served assets in accordance with the requirements of the legislation of the Republic of Kazakhstan and rules of the FMSC.

Legal proceedings

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

Taxation

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

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no provision has been made in the consolidated financial statements.

Pensions and retirement plans

Employees of the Group receive pension benefits from pension funds in accordance with the laws and regulations of the Republic of Kazakhstan and Russian Federation. As at 31 December 2013 and 2012 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment

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

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

28. TRANSACTIONS WITH RELATED PARTIES

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

	31 December 2013		31 December 2012	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Cash and cash equivalents	100	141,511	148	134,054
- shareholder	100		148	
Loans to customers and banks, gross	342	981,123	473	926,516
- key management personnel of the entity or its parent	201		-	
- close family members of key management personnel	141		473	
Allowance for impairment losses on loans to customers and banks	(57)	(197,228)	(3)	(137,420)
- key management personnel of the entity or its parent	(35)		-	
- close family members of key management personnel	(22)		(3)	
Due to banks and financial institutions	-	89,436	1	106,176
- shareholder	-		1	
Customer and banks accounts	15,113	806,553	22,051	790,550
- key management personnel of the entity or its parent	12,431		12,645	
- close family members of key management personnel	2,682		9,406	
Guarantees issued and similar commitment	-	94,730	2	94,697
- key management personnel of the entity or its parent	-		2	

Secured and unsecured loans and guarantees are made to key management personnel of the entity and shareholders in the ordinary course of business. The transactions did not involve more than the normal risk of repayment or present other unfavorable features.

Amounts deposited by the parent and other related parties earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees within the Group.

Included in the consolidated statement of profit or loss for the years ended 31 December 2013 and 2012 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2013		Year ended 31 December 2012	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	2	85,269	5	73,631
- key management personnel of the entity or its parent	1		-	
- close family members of key management personnel	1		5	
Interest expense	(1,334)	(49,610)	(1,780)	(54,154)
- key management personnel of the entity or its parent	(885)		(1,049)	
- close family members of key management personnel	(449)		(731)	
Operating expenses	(236)	(29,345)	(233)	(26,882)
- key management personnel of the entity or its parent	(236)		(233)	

Key management personnel compensation for the years ended 31 December 2013 and 2012 represent short-term employee benefits. Total remuneration of members of Board of Directors and Management Board amounted to KZT 236 million and to KZT 233 million for the year ended 31 December 2013 and 2012 respectively.

29. SEGMENT REPORTING

Operating segments

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Investment banking – representing financial instruments trading, structured financing, money market operations, repo, foreign currency and derivative products, brokerage and asset management services, merger and acquisitions advice, provision of Group's funding through issue of debt securities and attracting loans. This segment is responsible for redistribution of funds attracted by other segments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Board reviews discrete financial information for each of its segments, including measures of operating income, assets and liabilities. The segments are managed primarily on the basis of their results, which do not include the effects of intercompany eliminations.

Segment assets and liabilities comprise all assets and liabilities, excluding income tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. All revenues and expenses are attributable only to external customers, and there are no transactions between business segments.

More specific information on the revenues from external customers for each product and service, or each group of similar products and services is not available and the cost to develop it is excessive. Hence the Group presents operating segments on the basis of three main segments. Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Investment banking	Unallocated	Year ended 31 December 2013
Interest income*	36,208	42,485	4,997	1,903	85,593
Interest expense*	(20,387)	(10,653)	(18,013)	(881)	(49,934)
Provision for impairment losses on interest bearing assets	(15,961)	(11,818)	-	-	(27,779)
Net non-interest income/(expenses)	5,016	16,372	2,839	(467)	23,760
Operating expenses	<u>(12,854)</u>	<u>(15,194)</u>	<u>(1,297)</u>	<u>-</u>	<u>(29,345)</u>
Operating (loss)/profit before income tax	<u>(7,978)</u>	<u>21,192</u>	<u>(11,474)</u>	<u>555</u>	<u>2,295</u>
Segment assets**	<u>314,048</u>	<u>675,004</u>	<u>101,862</u>	<u>-</u>	<u>1,090,914</u>
Segment liabilities	<u>341,772</u>	<u>569,178</u>	<u>95,662</u>	<u>-</u>	<u>1,006,612</u>
Other segment items:					
Loans to customers and banks	315,281	468,614	-	-	783,895
Customer and bank accounts	331,387	475,166	-	-	806,553
Financial guarantees and commitments	-	94,730	-	-	94,730
Depreciation and amortization	(990)	(1,170)	(99)	-	(2,259)

*- In order to reconcile to the amounts presented in the consolidated statement of profit or loss, interest income, interest expense, include non-eliminated intercompany transactions in the amount of KZT 324 million, KZT (324) million, respectively.

**- Excluding current income tax assets and deferred income tax assets. Income tax expense is unallocated.

	Retail banking	Corporate banking	Investment banking	Unallocated	Year ended 31 December 2012
Interest income*	32,405	37,083	4,655	-	74,143
Interest expense*	(26,748)	(6,792)	(21,045)	(81)	(54,666)
Provision for impairment losses on interest bearing assets	(2,055)	(9,877)	-	-	(11,932)
Net non-interest income/(expenses)	4,754	14,881	(131)	434	19,938
Operating expenses	(12,146)	(13,062)	(1,674)	-	(26,882)
Operating (loss)/profit before income tax	(3,790)	22,233	18,195	353	601
Segment assets**	324,373	645,607	113,653	-	1,083,633
Segment liabilities	394,333	470,230	136,136	-	1,000,699
Other segment items:					
Loans to customers and banks	309,791	479,305	-	-	789,096
Customer and bank accounts	368,710	421,840	-	-	790,550
Financial guarantees and commitments	-	94,697	-	-	94,697
Depreciation and amortization	(969)	(1,042)	(133)	-	(2,144)

*- In order to reconcile to the amounts presented in the consolidated statement of profit or loss, interest income, interest expense, include non-eliminated intercompany transactions in the amount of KZT 512 million, KZT (512) million, respectively.

** - Excluding current income tax assets and deferred income tax assets. Income tax expense is unallocated.

Geographical segments

The Group operates principally with the Kazakhstan. However, management believes, based on the distribution of its operations, that the below breakdown is the most appropriate geographically.

The geographic information comprises:

	Kazakhstan	Other non-OECD countries	OECD countries	As at and for the year ended 31 December 2013
Interest income	82,108	3,161	-	85,269
Interest expense	(48,120)	(1,490)	-	(49,610)
Segment assets*	1,063,157	27,757	-	1,090,914
Segment liabilities	982,016	24,596	-	1,006,612
Financial guarantees and commitments	94,730	-	-	94,730
Capital expenditure	5,660	-	-	5,660

	Kazakhstan	Other non-OECD countries	OECD countries	As at and for the year ended 31 December 2012
Interest income	70,067	3,564	-	73,631
Interest expense	(52,801)	(1,353)	-	(54,154)
Segment assets*	1,046,275	37,344	14	1,083,633
Segment liabilities	969,969	30,726	4	1,000,699
Financial guarantees and commitments	94,697	-	-	94,697
Capital expenditure	2,034	64	-	2,098

*- Excluding current income tax assets and deferred income tax assets

Interest income, interest expenses, segment assets and segment liabilities, financial guarantees and commitments, and capital expenditure have generally been allocated based on domicile of the counterparty. Tangible assets (cash on hand, precious metals, premises and equipment) have been allocated based on the country in which they are physically held.

30. TRANSFERRED FINANCIAL ASSETS

Transfers that did not qualify for derecognition of the financial asset in its entirety

Securities lending and repurchase agreements

The Group enters a repo and reverse repo transactions on a regular basis. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These transactions are conducted under KASE terms. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

The Group may sell or repledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Group, which instead recognise a separate asset for any cash collateral provided.

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2013 are disclosed below:

	Financial assets at fair value through profit or loss (Note 14)	Investments available-for-sale (Note 15)	Investments held-to-maturity (Note 16)	Total
Total carrying amount of the original assets before the transfer	13,551	25,427	6,931	45,909
As at 31 December 2013:				
Carrying amount of assets	13,551	25,427	6,931	45,909
Carrying amount of associated liabilities (Loans under repurchase agreements)	12,093	23,573	6,105	41,771
As at 31 December 2012:				
Carrying amount of assets	6,731	9,367	5,797	21,895
Carrying amount of associated liabilities (Loans under repurchase agreements)	6,024	8,744	5,501	20,269

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unlisted equity securities.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobser- vable input(s)	Relationship of unobservable inputs to fair value
	31 December 2013	31 December 2012				
Non-derivative financial assets at fair value through profit or loss- debt securities (Note 14)	23,088	20,976	Level 1	Quoted bid prices in an active market.	N/A	N/A
Non-derivative financial assets at fair value through profit or loss- equity securities (Note 14)	353	284	Level 1	Quoted bid prices in an active market.	N/A	N/A
Non-derivative investments available-for-sale- debt securities (Note 15)	53,729	57,309	Level 1	Quoted bid prices in an active market.	N/A	N/A
Derivative financial assets (Note 14)	3,812	3,918	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	N/A	N/A
5) Derivative financial liabilities (see Note 14)	12	95	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	N/A	N/A

There were no transfers between Level 1 and 2 in the period.

As at 31 December 2013 and 2012, equity securities included in investments available for sale amounted to KZT 202 million and KZT 239 million, respectively, are carried at cost because it is practically difficult to quantify the intrinsic value of the equity securities issued by unlisted entities. In addition, probabilities and range of estimated cash flows of the unlisted equity securities cannot be reasonably assessed.

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

Except as detailed below, management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value (the fair value of which varies from carrying value within the range of 5%):

	31 December 2013		31 December 2012	
	Carrying value	Fair value	Carrying value	Fair value
Loans to customers and banks	783,895	662,872	789,096	648,659
Subordinated bonds	53,034	49,583	33,249	30,670

The carrying amount of cash and cash equivalents, due from banks, other financial assets and other financial liabilities approximates fair value due to short-term nature of such financial assets.

	31 December 2013			Total
	Level 1	Level 2	Level 3	
Loans to customers and banks	-	-	662,872	662,872
Subordinated bonds	49,583	-	-	49,583

Fair value of subordinated bonds was calculated based on quoted market prices.

Fair value of loans to customers and banks was determined on the basis of contractual cash flows discounted at market rates, published by NBRK and prevailed at the year end and adjusted for credit risk of counterparties.

32. REGULATORY MATTERS

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes:

Composition of regulatory capital	31 December 2013	31 December 2012
Tier 1		
Share capital	69,826	69,798
Retained earnings and statutory reserves	16,077	16,108
Non-controlling interest	1,550	1,206
Total qualifying tier 1 capital	87,453	87,112
Tier 2		
Subordinated debt	43,727	43,556
Perpetual debt	11,941	11,563
Other reserves	(583)	6
Total qualifying tier 2 capital	55,085	55,125
Total regulatory capital	142,538	142,237
Risk weighted assets	893,368	891,670
Tier 1 capital ratio	9.79%	9.77%
Total capital adequacy ratio	15.96%	15.95%

Quantitative measures established by the Basel Capital Accord 1988 (Basel I) to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total capital adequacy (8%) and tier 1 capital (4%) to risk weighted assets.

The total capital adequacy ratio was calculated according to the principles employed by the Basel I by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses.

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2013 and 2012 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier I capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors. Other reserves, included in tier 2, are represented by investment available-for-sale fair value reserve and foreign currency translation reserve.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Notes 21 and 25, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board reviews the capital structure on a quarterly basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2012.

33. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly, quarterly and annually by the Management Board, depending on the level of credit risk. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to financial guarantees as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. Collateral pledged is determined based on its estimated fair value on the day of origination of the loan and limited to the outstanding balance of each loan as at reporting date.

As at 31 December 2013:

	Maximum exposure	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash equivalents*	104,746	104,746	-	104,746
Obligatory reserves	16,645	16,645	-	16,645
Financial assets at fair value through profit or loss	27,253	27,253	-	27,253
Investments available-for-sale	53,931	53,931	-	53,931
Investments held to maturity	15,846	15,846	-	15,846
Due from banks	3,994	3,994	-	3,994
Loans to customers and banks	783,895	783,895	756,895	27,000
Other financial assets	6,248	6,248	-	6,248
Total financial assets	1,012,558	1,012,558	756,895	255,663
Contingent liabilities and credit commitments	94,730	94,730	74,004	20,726

As at 31 December 2012:

	Maximum exposure	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash equivalents*	94,200	94,200	-	94,200
Obligatory reserves	15,075	15,075	-	15,075
Financial assets at fair value through profit or loss	25,178	25,178	-	25,178
Investments available-for-sale	57,549	57,549	-	57,549
Investments held to maturity	26,373	26,373	-	26,373
Due from banks	2,036	2,036	-	2,036
Loans to customers and banks	789,096	789,096	771,328	17,768
Other financial assets	2,420	2,420	-	2,420
Total financial assets	1,011,927	1,011,927	771,328	240,599
Contingent liabilities and credit commitments	94,697	94,697	67,917	26,780

*Amount represents the short-term loans and deposits with original maturities less than three months, which are considered as cash equivalents

Off-balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Collateral

Collateral value is assessed at the issuance of loan. Valuation of collateral is updated in accordance with the Collateral Policy of the Group.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions – securities;
- For commercial lending – charges over real estate properties, inventory; and
- For retail lending – mortgages over residential properties.

Management monitors the market value of collateral, 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 losses.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Credit quality by class of financial assets

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Standard and Poor's, Fitch and Moody's Investors Service. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group as at 31 December 2013 and 2012:

	AA	A	BBB	<BBB	Not Rated	Total at 31 December 2013
Cash equivalents	14,802	69,549	2,582	17,813	-	104,746
Obligatory reserves	-	-	16,645	-	-	16,645
Financial assets at fair value through profit or loss	5	3,802	10,178	13,123	145	27,253
Investments available-for-sale	-	-	38,378	15,351	202	53,931
Investments held to maturity	-	296	10,946	4,572	32	15,846
Due from banks	-	1,161	-	2,833	-	3,994
Loans to customers and banks	-	-	671	2,715	780,509	783,895
Other financial assets	-	-	-	-	6,248	6,248
	AA	A	BBB	<BBB	Not rated	Total at 31 December 2012
Cash equivalents	2,406	80,528	6,313	4,953	-	94,200
Obligatory reserves	-	-	15,075	-	-	15,075
Financial assets at fair value through profit or loss	-	3,785	12,710	8,592	91	25,178
Investments available-for-sale	-	-	50,872	6,503	174	57,549
Investments held to maturity	300	-	20,317	5,756	-	26,373
Due from banks	15	839	512	670	-	2,036
Loans to customers and banks	-	-	1,996	3,267	783,833	789,096
Other financial assets	-	-	-	-	2,420	2,420

The banking industry is generally exposed to credit risk through its financial assets and financial guarantees and commitments, loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to ratings of international rating agencies. These models include rating models for corporate customers and scoring models for individuals and small business.

Rating model

The Group has developed an internal rating model, based on the principles and methods used by international rating agencies for the assessment of credit risk of corporate borrowers. The rating of a corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and the borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Group revises the model when deficiencies are identified.

Scoring models

The Group uses scoring models as a statistical tool to assess the future creditworthiness of new and existing borrowers of the Group. Scoring models are applied for assessment of the credit risk of individuals and small business enterprises.

The scoring models interpret socio-demographic and financial indicators, behavioural variables, the credit history of borrowers and historic data from external sources, such as Credit Bureau reports. Each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardize and automate the process of decision making and decrease the operating expenses and operational risks of the Group. The scoring model is also used in the internal management decision making process as it permits the forecasting of profits and losses of the credit departments. The scoring model is assessed on a continual basis for its effectiveness and validity.

The Group applies internal rating and scoring methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated statement of financial position. As such, more detailed information is not being presented.

The following table details the carrying value of financial assets before impairment loss:

As at 31 December 2013:

	Neither past due nor impaired	Financial assets past due but not impaired Up to 3 months	Financial assets that have been impaired		Total
			Collectively	Individually	
Cash equivalents	104,746	-	-	-	104,746
Obligatory reserves	16,645	-	-	-	16,645
Financial assets at fair value through profit or loss	27,253	-	-	-	27,253
Investments available-for-sale	53,931	-	-	-	53,931
Investments held to maturity	15,846	-	-	-	15,846
Due from banks	3,994	-	-	-	3,994
Loans to customers and banks	463,524	27,452	170,453	319,694	981,123
Other financial assets	6,248	-	-	1,059	7,307

As at 31 December 2012:

	Neither past due nor impaired	Financial assets past due but not impaired Up to 3 months	Financial assets that have been impaired		Total
			Collectively	Individually	
Cash equivalents	94,200	-	-	-	94,200
Obligatory reserves	15,075	-	-	-	15,075
Financial assets at fair value through profit or loss	25,178	-	-	-	25,178
Investments available-for-sale	57,549	-	-	-	57,549
Investments held to maturity	26,373	-	-	-	26,373
Due from banks	2,036	-	-	-	2,036
Loans to customers and banks	433,090	22,798	177,552	293,076	926,516
Other financial assets	2,420	-	-	240	2,660

Geographical concentration

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2013 Total
Financial assets				
Cash and cash equivalents	53,779	3,862	83,870	141,511
Obligatory reserves	16,170	475	-	16,645
Financial assets at fair value through profit or loss	13,688	9,757	3,808	27,253
Investments available-for-sale	50,079	3,852	-	53,931
Investments held to maturity	14,438	1,112	296	15,846
Due from banks	2,833	-	1,161	3,994
Loans to customers and banks	746,032	37,774	89	783,895
Other financial assets	5,282	966	-	6,248
Total financial assets	902,301	57,798	89,224	1,049,323
Financial liabilities				
Due to banks and financial institutions	67,010	13,713	8,713	89,436
Customer and banks accounts	800,593	5,960	-	806,553
Debt securities issued	49,045	-	-	49,045
Other financial liabilities	6,743	49	-	6,792
Subordinated bonds	53,034	-	-	53,034
Total financial liabilities	976,425	19,722	8,713	1,004,860
Net position	(74,124)	38,076	80,511	

	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2012 Total
Financial assets				
Cash and cash equivalents	35,843	6,933	91,278	134,054
Obligatory reserves	14,104	971	-	15,075
Financial assets at fair value through profit or loss	18,587	6,591	-	25,178
Investments available-for-sale	57,549	-	-	57,549
Investments held to maturity	24,832	1,241	300	26,373
Due from banks	1,182	-	854	2,036
Loans to customers and banks	769,504	17,237	2,355	789,096
Other financial assets	2,348	72	-	2,420
Total financial assets	<u>923,949</u>	<u>33,045</u>	<u>94,787</u>	<u>1,051,781</u>
Financial liabilities				
Due to banks and financial institutions	50,259	23,089	32,828	106,176
Customer and banks accounts	781,206	9,344	-	790,550
Debt securities issued	65,170	34	-	65,204
Other financial liabilities	4,181	39	-	4,220
Subordinated bonds	33,249	-	-	33,249
Total financial liabilities	<u>934,065</u>	<u>32,506</u>	<u>32,828</u>	<u>999,399</u>
Net position	<u>(10,116)</u>	<u>539</u>	<u>61,959</u>	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimization. The Financial Department determines the optimum structure of balance and limits on liquidity ratios. Gap-positions are approved by the ALMC. The Financial Department performs monitoring of liquidity ratios.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest possible contractual maturity, except for financial assets at fair value through profit or loss and investments available-for-sale, which are based on expected maturity. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
Financial assets							
Cash and cash equivalents	0.38%	58,125	10,360	-	-	-	68,485
Financial assets at fair value through profit or loss	7.25%	26,900	-	-	-	-	26,900
Investments available-for-sale	4.17%	53,729	-	-	-	-	53,729
Investments held to maturity	6.18%	273	3,855	1,291	9,291	1,136	15,846
Due from banks	4.78%	1,082	486	1,179	-	-	2,747
Loans to customers and banks	8.95%	161,283	48,757	144,862	260,648	168,345	783,895
Total interest bearing financial assets		301,392	63,458	147,332	269,939	169,481	951,602
Cash and cash equivalents		73,026	-	-	-	-	73,026
Obligatory reserves		16,645	-	-	-	-	16,645
Financial assets at fair value through profit or loss		353	-	-	-	-	353
Investments available-for-sale		202	-	-	-	-	202
Due from banks		1,247	-	-	-	-	1,247
Other financial assets		6,248	-	-	-	-	6,248
Total financial assets		399,113	63,458	147,332	269,939	169,481	1,049,323
Financial liabilities							
Due to banks and financial institutions	3.24%	48,749	3,578	4,158	31,708	717	88,910
Customer and banks accounts	4.62%	66,389	49,236	230,680	208,529	1,791	556,625
Debt securities issued	8.29%	39,181	115	3,320	6,429	-	49,045
Subordinated bonds	7.82%	-	59	429	24,789	27,757	53,034
Total interest bearing financial liabilities		154,319	52,988	238,587	271,455	30,265	747,614
Due to banks and financial institutions		526	-	-	-	-	526
Customer and banks accounts		249,928	-	-	-	-	249,928
Other financial liabilities		6,792	-	-	-	-	6,792
Total financial liabilities		411,565	52,988	238,587	271,455	30,265	1,004,860
Liquidity gap		(12,452)	10,470	(91,255)	(1,516)	139,216	
Interest sensitivity gap		147,073	10,470	(91,255)	(1,516)	139,216	
Cumulative interest sensitivity gap		147,073	157,543	66,288	64,772	203,988	
Cumulative interest sensitivity gap as a percentage of total financial assets		14.02%	15.01%	6.32%	6.17%	19.44%	

	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2012 Total
Financial assets							
Cash and cash equivalents	0.18%	45,173	23,371	-	-	-	68,544
Financial assets at fair value through profit or loss	6.96%	24,894	-	-	-	-	24,894
Investments available-for-sale	3.96%	57,310	-	-	-	-	57,310
Investments held to maturity	5.35%	231	5,361	6,940	12,622	1,219	26,373
Due from banks	6.24%	1,524	-	-	-	-	1,524
Loans to customers and banks	8.46%	119,887	53,381	168,456	279,604	167,768	789,096
Total interest bearing financial assets		249,019	82,113	175,396	292,226	168,987	967,741
Cash and cash equivalents		65,510	-	-	-	-	65,510
Obligatory reserves		15,075	-	-	-	-	15,075
Financial assets at fair value through profit or loss		284	-	-	-	-	284
Investments available-for-sale		239	-	-	-	-	239
Due from banks		512	-	-	-	-	512
Other financial assets		2,420	-	-	-	-	2,420
Total financial assets		333,059	82,113	175,396	292,226	168,987	1,051,781
Financial liabilities							
Due to banks and financial institutions	7.14%	19,330	5,470	19,002	45,157	12,862	101,821
Customer and banks accounts	6.27%	36,365	61,466	309,068	132,854	6,632	546,385
Debt securities issued	9.45%	1,331	94	19,185	44,594	-	65,204
Subordinated bonds	6.79%	-	51	244	18,737	14,217	33,249
Total interest bearing financial liabilities		57,026	67,081	347,499	241,342	33,711	746,659
Due to banks and financial institutions		799	453	3,103	-	-	4,355
Customer and banks accounts		244,165	-	-	-	-	244,165
Other financial liabilities		4,220	-	-	-	-	4,220
Total financial liabilities		306,210	67,534	350,602	241,342	33,711	999,399
Liquidity gap		26,849	14,579	(175,206)	50,884	135,276	
Interest sensitivity gap		191,993	15,032	(172,103)	50,884	135,276	
Cumulative interest sensitivity gap		191,993	207,025	34,922	85,806	221,082	
Cumulative interest sensitivity gap as a percentage of total financial assets		18.25%	19.68%	3.32%	8.16%	21.02%	

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest.

Based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
Financial liabilities						
Due to banks and financial institutions	49,164	3,916	5,675	35,279	742	94,776
Customer and banks accounts	66,462	50,074	240,003	226,216	3,464	586,219
Debt securities issued	39,484	171	4,378	6,998	-	51,031
Subordinated bonds	-	79	3,975	37,651	34,324	76,029
Total interest bearing financial liabilities	155,110	54,240	254,031	306,144	38,530	808,055
Due to banks and financial institutions	1,052	-	-	-	-	1,052
Customer and banks accounts	249,928	-	-	-	-	249,928
Other financial liabilities	6,792	-	-	-	-	6,792
Total financial liabilities	412,882	54,240	254,031	306,144	38,530	1,065,827
Financial guarantees and commitments	94,730	-	-	-	-	94,730
Derivative financial instruments	11,899	-	53	17,041	-	28,993
	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2012 Total
Financial liabilities						
Due to banks and financial institutions	19,533	5,856	20,327	48,820	13,073	107,609
Customer and banks accounts	36,463	61,906	317,672	152,737	6,993	575,771
Debt securities issued	2,661	191	19,283	44,788	-	66,923
Subordinated bonds	-	99	783	20,093	14,702	35,677
Total interest bearing financial liabilities	58,657	68,052	358,065	266,438	34,768	785,980
Due to banks and financial institutions	799	453	3,103	-	-	4,355
Customer and banks accounts	244,165	-	-	-	-	244,165
Other financial liabilities	4,220	-	-	-	-	4,220
Total financial liabilities	307,841	68,505	361,168	266,438	34,768	1,038,720
Financial guarantees and commitments	94,697	-	-	-	-	94,697
Derivative financial instruments	5,746	-	7,537	21,763	-	35,046

The timing of cash outflows has been prepared on the following basis:

Derivative financial instruments

Contractual payments for derivative financial instruments are determined based on gross settlements due to initial and final exchange of notional amounts and applicable interest rates in accordance with the terms of these financial instruments.

Prepaid liabilities

Where a financial liability can be prepaid by the counterparty, the cash outflow has been included at the earliest date on which the counterparty can require repayment regardless whether or not such early repayment results in penalty. If the repayment of financial liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, it is included at the earliest possible that the conditions could be fulfilled without considering probability of the conditions being met.

The financial guarantees and commitments are included in the "On demand" category because payments can be required upon request.

Market Risk

Market risk is that the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2013.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Financial Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Financial Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2013 and 2012 and the effect of revaluation instruments with fixed rates accounted at fair value. The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluation investments available-for-sale securities with fixed rates.

Impact on profit before tax based on asset values as at 31 December 2013 and 2012:

	As at 31 December 2013		As at 31 December 2012	
	Interest rate +1.0%	Interest rate -0.5%	Interest rate +1.0%	Interest rate -0.5%
Financial assets:				
Financial assets at fair value through profit or loss	(373)	231	(481)	268
Investments available-for-sale	(9)	4	(12)	6
Investments held to maturity	(187)	254	(220)	115
Financial liabilities:				
Due to banks and financial institutions	(173)	87	(276)	138
Net impact on profit before tax	(742)	576	(989)	527

Impact on shareholders equity:

	As at 31 December 2013		As at 31 December 2012	
	Interest rate +1.0%	Interest rate -0.5%	Interest rate +1.0%	Interest rate -0.5%
Financial assets:				
Financial assets at fair value through profit or loss	(298)	185	(394)	219
Investments available-for-sale	(1,272)	661	(1,186)	617
Investments held to maturity	(150)	203	(176)	92
Financial liabilities:				
Due to banks and financial institutions	(138)	70	(221)	110
Net impact on shareholders equity	(1,858)	1,119	(1,977)	1,038

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The Financial Department determines limits on open currency positions, arbitrary positions and stop-loss. All limits and restrictions are approved by the Management and the Board of Directors. The Financial Department performs monitoring of the Group's currency position with the aim to match the requirements of the NBRK. Group's exposure to foreign currency exchange rate risk as at 31 December 2013 is presented in the tables below:

	KZT	USD 1 USD = 154.06 KZT	EUR 1 EUR = 212.02 KZT	Other currencies	31 December 2013 Total
Financial assets					
Cash and cash equivalents	32,086	98,395	8,563	2,467	141,511
Obligatory reserves	16,170	-	-	475	16,645
Financial assets at fair value through profit or loss	13,510	3,984	-	9,759	27,253
Investments available-for- sale	44,596	9,068	-	267	53,931
Investments held to maturity	12,972	1,762	1,112	-	15,846
Due from banks	1,670	2,321	3	-	3,994
Loans to customers and banks	651,493	118,847	2,893	10,662	783,895
Other financial assets	4,077	2,072	38	61	6,248
Total financial assets	776,574	236,449	12,609	23,691	1,049,323
Financial liabilities					
Due to banks and financial institutions	53,819	21,358	3,975	10,284	89,436
Customer and banks accounts	611,120	178,526	10,445	6,462	806,553
Debt securities issued	9,864	39,181	-	-	49,045
Other financial liabilities	5,569	932	54	237	6,792
Subordinated bonds	53,034	-	-	-	53,034
Total financial liabilities	733,406	239,997	14,474	16,983	1,004,860
Open position	43,168	(3,548)	(1,865)	6,708	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2013:

	KZT	USD 1 USD = 154.06 KZT	EUR 1 EUR = 212.02 KZT	Other currencies	31 December 2013 Total
Accounts receivable on spot and derivative contracts	-	15,936	2,862	10,195	28,993
Accounts payable on spot and derivative contracts	(2,839)	(8,990)	(497)	(16,667)	(28,993)
Net spot and derivative financial instruments position	(2,839)	6,946	2,365	(6,472)	-
Total open position	40,329	3,398	500	236	

The Group's exposure to foreign currency exchange rate risk as at 31 December 2012 is presented in the table below:

	KZT	USD 1 USD = 150.74 KZT	EUR 1 EUR = 199.22 KZT	Other currencies	31 December 2012 Total
Financial assets					
Cash and cash equivalents	19,075	94,581	16,325	4,073	134,054
Obligatory reserves	14,104	-	-	971	15,075
Financial assets at fair value through profit or loss	17,769	883	-	6,526	25,178
Investments available-for-sale	54,382	1,867	1,300	-	57,549
Investments held to maturity	21,616	3,674	1,083	-	26,373
Due from banks	515	1,521	-	-	2,036
Loans to customers and banks	608,724	160,658	2,369	17,345	789,096
Other financial assets	1,542	593	279	6	2,420
Total financial assets	737,727	263,777	21,356	28,921	1,051,781
Financial liabilities					
Due to banks and financial institutions	44,372	49,334	3,295	9,175	106,176
Customer and banks accounts	592,150	164,899	23,576	9,925	790,550
Debt securities issued	7,773	57,416	-	15	65,204
Other financial liabilities	2,982	699	386	153	4,220
Subordinated bonds	33,249	-	-	-	33,249
Total financial liabilities	678,747	272,348	27,257	19,268	999,399
Open position	57,201	(8,571)	(5,901)	9,653	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2012:

	KZT	USD 1 USD = 150.74 KZT	EUR 1 EUR = 199.22 KZT	Other currencies	31 December 2012 Total
Accounts receivable on spot and derivative contracts	301	20,134	-	14,611	35,046
Accounts payable on spot and derivative contracts	(11,913)	(8,518)	-	(14,615)	(35,046)
Net spot and derivative financial instruments position	(11,612)	11,616	-	(4)	-
Total open position	(45,589)	3,045	(5,901)	9,649	

Currency risk sensitivity

The ALMC and Investment Committee controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the NBRK.

A VaR calculation is used to determine the Group's exposure to currency risk, and is based on statistical data for previous periods Historical VaR assuming the following:

- benchmark data – average KASE rate used by the Group to recalculate currency positions;
- length of period – one year from the calculation date (252 working days);
- confidence interval – 95%; and
- positions are assessed for each risk currency, i.e. those which are more than 5% of the Group's equity.

The aim of this method is to assess the risk of a potential negative revaluation of the Group's open currency positions in order to ensure effective management of market currency risks.

The table below indicates the currencies in which the Group had significant exposure as at 31 December 2013 and 2012 and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss, while a positive amount reflects a net potential increase.

Impact on net profit and equity based on asset values as at 31 December 2013 and 2012:

	As at 31 December 2013		As at 31 December 2012	
	KZT/USD	KZT/USD	KZT/USD	KZT/USD
	+2.53%	-20%	+4.48%	-4.48%
Impact on profit or loss and equity	(27)	216	133	(133)

	As at 31 December 2013		As at 31 December 2012	
	KZT/EUR	KZT/EUR	KZT/EUR	KZT/EUR
	+2.18%	-20%	+4.16%	-4.16%
Impact on profit or loss and equity	(1)	5	(65)	65

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

The results of the analysis of the sensitivity of the Groups profit before tax for the year to changes in prices of securities on a simplified scenario of 10% symmetrical increase or decrease in all securities prices for 2013 and 2012, respectively, are given in the table below:

	31 December 2013		31 December 2012	
	10% increase in equity securities price	10% decrease in equity securities price	10% increase in equity securities Price	10% decrease in equity securities price
Impact on profit or loss before tax	4	(4)	19	(19)

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 Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

34. SUBSEQUENT EVENTS

On 30 January 2014 the Group repaid its US dollar denominated Eurobonds with par value of KZT 38,169 million.

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to U.S. dollar fell to KZT 184.5 as at 13 February 2014, i.e. by 19%. To prevent the destabilization of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the U.S. dollar at KZT 182-188 per U.S. dollar. The management of the Group believes that it has taken all necessary measures to maintain the economic stability of the Group under these conditions.

Subsequent to KZT devaluation, information regarding the Bank's financial position, which Management considers to be misleading, has been circulated via social media. The Bank continues to meet all its payment obligations on a timely basis and Management believes that the Bank will continue to do so. Management closely monitors the Bank's liquidity position and compliance with liquidity ratios.