Joint Stock Company "Trust-Bank"

Financial statements

Year ended 31 December 2013
together with independent auditors' report

CONTENTS

INDEPENDENT AUDITORS' REPORT

NOTES TO FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

(In thousands of Kazakh tenge)

Assets			
Cash and cash equivalents	5	**4,341,095**	6,675,108
Amounts due from credit institutions		**–**	18,720
Reverse repurchase agreements	6	**504,498**	3,966,443
Loans to customers	7	**9,540,652**	8,670,339
Finance lease receivables	8	**63,766**	68,612
Property and equipment	9	**45,977**	16,852
Intangible assets	10	**28,856**	33,562
Other assets	13	**34,327**	29,076
Total assets		**14,559,171**	19,478,712
Liabilities			
Amounts due to customers	11	**3,403,144**	8,701,846
Deferred income tax liabilities	12	**19,518**	138,586
Other liabilities	13	**55,830**	29,296
Total liabilities		**3,478,492**	8,869,728
Equity	14		
Share capital		**10,050,000**	9,045,000
Additional paid-in capital		**122,037**	223,946
Retained earnings		**908,642**	1,340,038
Total equity		**11,080,679**	10,608,984
Total equity and liabilities		**14,559,171**	19,478,712

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

Gupalo Yelena Anatoliyevna — Chairwoman of the Management Board

Seitova Rimma — Chief Accountant

28 February 2014

The accompanying notes on page 5 to 32 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

(In thousands of Kazakh tenge)

	Notes	2013	2012
Interest income			
Loans to customers		**1,235,770**	767,752
Reverse repurchase agreements		**8,778**	33,398
Finance lease receivables		**23,648**	593
Amounts due from credit institutions		**80**	83
		1,268,276	801,826
Interest expense			
Amounts due to customers		**(91,111)**	(196,869)
Subordinated loan		**–**	(13,453)
		(91,111)	(210,322)
Net interest income		**1,177,165**	591,504
Allowance for loan impairment	7	**(717,735)**	(116,759)
Net interest income after allowance for loan impairment		**459,430**	474,745
Net fee and commission income	16	**88,195**	127,374
Initial recognition of gain on loans to customers, adjusted for losses on changes in future cash flows	17	**83,159**	91,520
Net gains from foreign currencies	18	**42,130**	13,718
Other income		**904**	77
Non-interest income		**214,388**	232,689
Personnel expenses	19	**(184,799)**	(141,069)
Other operating expenses	19	**(150,936)**	(139,207)
Reversal of other impairment		**–**	102,291
Non-interest expense		**(335,735)**	(177,985)
Profit before income tax expense		**338,083**	529,449
Income tax expense	12	**(47,949)**	(166,916)
Profit for the year		**290,134**	362,533
Other comprehensive income		**–**	–
Total comprehensive income		**290,134**	362,533

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

(In thousands of Kazakh tenge)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
31 December 2011	3,266,250	–	977,505	4,243,755
Total comprehensive income for the year	–	–	362,533	362,533
Increase in additional paid-in capital (Note 14)	–	223,946	–	223,946
Issue of share capital (Note 14)	5,778,750	–	–	5,778,750
31 December 2012	9,045,000	223,946	1,340,038	10,608,984
Total comprehensive income for the year	**–**	**–**	**290,134**	**290,134**
Decrease in additional paid-in capital (Note 14)	**–**	**(101,909)**	**–**	**(101,909)**
Dividends converted to share capital (Note 14)	**691,679**	**–**	**(691,679)**	**–**
Dividends paid to shareholders (Note 14)	**–**	**–**	**(29,851)**	**(29,851)**
Issue of share capital (Note 14)	**313,321**	**–**	**–**	**313,321**
31 December 2013	**10,050,000**	**122,037**	**908,642**	**11,080,679**

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

(In thousands of Kazakh tenge)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		**1,176,486**	708,334
Interest paid		**(163,811)**	(12,433)
Fees and commissions received		**91,506**	129,560
Fees and commissions paid		**(4,241)**	(3,251)
Realised gains less losses from dealing in foreign currencies		**14,110**	12,896
Other income received		**904**	77
Personnel expenses paid		**(183,322)**	(140,089)
Other operating expenses paid		**(134,863)**	(115,987)
Cash flows from operating activities before changes in operating assets and liabilities		**796,769**	579,107
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**18,739**	(3,225)
Finance lease receivables		**4,252**	(68,018)
Loans to customers		**(1,403,584)**	(4,384,658)
Other assets		**(5,254)**	(7,752)
Net increase/(decrease) in operating liabilities			
Amounts due to customers		**(5,299,891)**	8,431,711
Other liabilities		**7,237**	722
Net cash flows used in operating activities before income tax		**(5,881,732)**	4,547,887
Income tax paid		**(146,554)**	(74,066)
Net cash used in operating activities		**(6,028,286)**	4,473,821
Cash flows from investing activities			
Purchase of reverse repurchase agreements		**–**	(3,957,005)
Proceeds from sale of reverse repurchase agreements		**3,453,005**	–
Purchase of property and equipment	9	**(38,202)**	(9,974)
Purchase of intangible assets	10	**(4,000)**	(24,739)
Net cash used in investing activities		**3,410,803**	(3,991,718)
Cash flows from financing activities			
Proceeds from issue of share capital	14	**313,321**	5,778,750
Redemption of subordinated loan		**–**	(100,000)
Dividends paid to shareholders	14	**(29,851)**	–
Net cash from financing activities		**283,470**	5,678,750
Net change in cash and cash equivalents		**(2,334,013)**	6,160,853
Cash and cash equivalents, beginning	5	**6,675,108**	514,255
Cash and cash equivalents, ending	5	**4,341,095**	6,675,108

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28 February 2014

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(In thousands of Kazakh tenge)

1. Principal activities

Joint Stock Company "Trust-Bank" (hereinafter – "the Bank") operates in the Republic of Kazakhstan since 1991. The Bank accepts deposits from the public and extends credits, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers in accordance with license No. 11 issued on 24 December 2007 by Committee on Regulation and Supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan (hereinafter – the "FMSC").

The Bank is a member of the deposit insurance system. The system operates under the Kazakhstan laws and regulations and is governed by Kazakhstan Fund of Guarantees Insurance. The insurance covers Bank's obligations to individual depositors for the amount of up to KZT 5,000 thousand for each individual in case of Bank's failure to meet its obligations and/or loss of the license.

The legal registered office of the Bank is located at 111A Mashhur Zhusup Street, Ekibastuz, 141206, the Republic of Kazakhstan.

As at 31 December 2013 and 2012, the following shareholders owned the issued shares:

Shareholder	*2013 (%)*	*2012 (%)*
Abguzhinov A.T.	**61.9**	60.7
Abguzhinov T.S	**26.8**	32.9
Islamic Corporation for the Development of the Private Sector	**5.0**	–
Other shareholders (individually holding less than 3%)	**6.3**	6.4
Total	**100.0**	100.0

As at 31 December 2013, members of the Board of Directors and Management Board controlled 2,736,805 shares (26.8%) 2012: 3,007,585 shares (32.9%) of the Bank.

On 23 May 2013, the Islamic Corporation for the Development of the private sector (the "ICD") announced its footsteps with a mandate of converting the Bank into Islamic Bank with expected investments up to 35% of the subscribed and paid up capital of the Bank. Accordingly, Bank will become second Islamic Bank in the Republic of Kazakhstan.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These financial statements are presented in thousands of Kazakh tenge ("KZT") except per share amounts and unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IF RIC Interpretations during the year. The principal effects of these changes are as follows:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

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

IFRS 13 Fair Value Measurement

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

(In thousands of Kazakh tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 13 Fair Value Measurement (continued)

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

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach").

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The amendment has no impact on the Bank's financial statement's since the Bank has no subsidiaries.

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

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

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

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

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

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

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 21.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

(In thousands of Kazakh tenge)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Reclassification of financial assets

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

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

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

(In thousands of Kazakh tenge)

3. Summary of accounting policies (continued)

Reclassification of financial assets (continued)

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, correspondent accounts with other banks, Nostro account with the National Bank of the Republic of Kazakhstan that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to customers and non-convertible subordinated loan. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Leases

Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Bank as lessee

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

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(In thousands of Kazakh tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank assesses individually whether objective evidence of impairment exists for financial assets.

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

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

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

(In thousands of Kazakh tenge)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Financial guarantees

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

There are requirements on tax charges and payments regarding the business activity of the Bank in the Republic of Kazakhstan, where the Bank conducts the business. These taxes are reflected in the statement of comprehensive income as a part of operating expenses.

Property and equipment

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(In thousands of Kazakh tenge)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated rates:

	Depreciation rates
Computers and office equipment	20-50%
Vehicles	15-20%
Furniture	15-20%
Land	0%

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

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

Intangible assets other than goodwill

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

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

Dividends

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

Contingencies

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

(In thousands of Kazakh tenge)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Kazakhstani Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

Below are listed exchange rates used by the Bank in preparation of the financial statements:

	31 December	
	2013	***2012***
KZT/USD	**154.06**	150.74
KZT/EUR	**212.02**	199.22
KZT/RUB	**4.68**	4.96

As at date of the issue of the financial statements official listed exchange rates were KZT/USD-184.08; KZT/EUR-252.5 and KZT/RUR-5.09.

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank, since none of the entities in the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

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

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loans impairment

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

Taxation

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

(In thousands of Kazakh tenge)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Taxation (continued)

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

Adequacy of provisions for guarantees issued

The Bank regularly reviews its exposures under guarantees and similar off balance sheet credit instruments issued. These instruments are assessed and provision made in a similar manner as for loans. The Bank uses its experienced judgment to adjust the provisions against guarantees issued based on probability of outflow of resources required to settle the obligation under the guarantee.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	**240,744**	113,330
Nostro account with the National Bank of the Republic of Kazakhstan	**3,595,818**	6,438,140
Correspondent accounts with other banks	**435,439**	–
Obligatory reserve with the National Bank of the Republic of Kazakhstan	**69,094**	123,638
Cash and cash equivalents	**4,341,095**	6,675,108

The Bank is required to maintain a non-interest earning cash deposit (obligatory reserve) with the National Bank of the Republic of Kazakhstan, the amount of which depends on the level of funds attracted by the Bank. This reserve is not restricted.

6. Reverse repurchase agreements

As at 31 December 2013, the Bank entered into reverse repurchase agreements with short-term government securities with the carrying value of KZT 504,498 thousand issued in December 2013 with maturity of 14 days and effective interest rate of 5% (2012: KZT 3,966,443 thousand and effective interest rate of 4.5%). The fair value of securities as at 31 December 2013 was KZT 538,704 thousand (2012: KZT 3,970,672 thousand).

7. Loans to customers

Loans to customers comprise:

	2013	*2012*
Corporate lending	**10,001,364**	8,581,589
Individual entrepreneurs	**559,589**	416,937
Consumer lending	**37,500**	24,606
Small business lending	**29,564**	44,457
Residential mortgages	**40,874**	13,254
Gross loans to customers	**10,668,891**	9,080,843
Less: allowance for impairment	**(1,128,239)**	(410,504)
Loans to customers	**9,540,652**	8,670,339

(In thousands of Kazakh tenge)

7 Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Corporate lending 2013	*Individual entrepre-neurs 2013*	*Small business lending 2013*	*Consumer lending 2013*	*Residential mortgages 2013*	*Total 2013*
At 1 January 2013	**388,371**	**4,551**	**16,966**	**42**	**574**	**410,504**
Charge/(reversal) for the year	**711,205**	**7,146**	**–**	**(42)**	**(574)**	**717,735**
At 31 December 2013	**1,099,576**	**11,697**	**16,966**	**–**	**–**	**1,128,239**
Individual impairment	**1,099,576**	**11,697**	**16,966**	**–**	**–**	**1,128,239**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**4,265,550**	**33,581**	**16,966**	**–**	**–**	**4,316,097**

	Corporate lending 2012	*Individual entrepre-neurs 2012*	*Small business lending 2012*	*Consumer lending 2012*	*Residential mortgages 2012*	*Total 2012*
At 1 January 2012	217,796	57,752	16,750	1,447	–	293,745
Charge for the year	170,575	(53,201)	216	(1,405)	574	116,759
At 31 December 2012	388,371	4,551	16,966	42	574	410,504
Individual impairment	388,371	4,551	16,966	42	574	410,504
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	3,207,326	85,764	16,966	164	2,963	3,313,183

Interest income accrued on loans, for which impairment allowances have been recognized, for the year ended 31 December 2013, comprised KZT 249,136 (2012: KZT 83,968 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and other;
- 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 loan impairment.

(In thousands of Kazakh tenge)

7 Loans to customers (continued)

Concentration of loans to customers

As of 31 December 2013, the Bank had a concentration of loans represented by KZT 6,371,554 thousands due from the ten largest third party borrowers (60% of gross loan portfolio) (2012: KZT 6,860,234 thousands, 74% of gross loan portfolio). An allowance of KZT 337,227 thousands (2012: KZT 145,928 thousands) was recognized against these loans.

Loans have been extended to the following types of customers:

	2013	*2012*
Private companies	**8,904,294**	8,220,709
Individuals and entrepreneurs	**636,358**	449,630
Loans to customers	**9,540,652**	8,670,339

Loans are made principally within Kazakhstan in the following industry sectors:

	2013	*2012*
Trading enterprises	**3,855,186**	2,471,809
Agriculture and food processing	**2,312,247**	3,174,871
Construction and maintenance	**868,735**	576,556
Services	**810,020**	528,994
Individuals and entrepreneurs	**626,265**	449,630
Publishing activities	**359,568**	370,612
Coal mining	**333,483**	387,271
Metal products manufacturing	**307,923**	349,064
Machine-building	**55,573**	36,941
Transport	**–**	286,247
Other	**11,652**	38,344
Loans to customers	**9,540,652**	8,670,339

8. Finance lease receivables

The analysis of finance lease receivables at 31 December 2013 and 31 December 2012 are as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance lease	**30,649**	**40,282**	**–**	**70,931**
Unearned future finance income on finance leases	**(2,667)**	**(4,498)**	**–**	**(7,165)**
Net investment in finance lease	**27,982**	**35,784**	**–**	**63,766**
Finance lease receivables	**27,982**	**35,784**	**–**	**63,766**

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance lease as at 1 January 2012	–	71,000	–	71,000
Unearned future finance income on finance leases	–	(2,388)	–	(2,388)
Net investment in finance lease	–	68,612	–	68,612
Finance lease receivables as at 31 December 2012	–	68,612	–	68,612

(In thousands of Kazakh tenge)

9. Property and equipment

The movements in property and equipment were as follows:

	Land	*Computers and office equipment*	*Vehicles*	*Furniture*	*Total*
Cost					
31 December 2011	3,975	4,423	–	12,670	21,068
Additions	–	7,587	–	2,387	9,974
Disposals	–	(1,442)	–	(1,565)	(3,007)
31 December 2012	3,975	10,568	–	13,492	28,035
Additions	**–**	**25,820**	**6,584**	**5,798**	**38,202**
Disposals	**–**	**(1,586)**	**–**	**(5,243)**	**(6,829)**
31 December 2013	**3,975**	**34,802**	**6,584**	**14,047**	**59,408**
Accumulated depreciation					
31 December 2011	–	2,270	–	7,441	9,711
Depreciation charge	–	2,191	–	2,248	4,439
Disposals	–	(1,442)	–	(1,525)	(2,967)
31 December 2012	–	3,019	–	8,164	11,183
Depreciation charge	**–**	**5,272**	**768**	**2,721**	**8,761**
Disposals	**–**	**(1,343)**	**–**	**(5,170)**	**(6,513)**
31 December 2013	**–**	**6,948**	**768**	**5,715**	**13,431**
Net book value					
31 December 2011	3,975	2,153	–	5,229	11,357
31 December 2012	3,975	7,549	–	5,328	16,852
31 December 2013	**3,975**	**27,854**	**5,816**	**8,332**	**45,977**

10. Intangible assets

The movements in intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2011	29,443
Additions	24,739
Disposals	(9,666)
31 December 2012	44,516
Additions	**4,000**
Disposals	**(2,205)**
31 December 2013	**46,311**
Accumulated amortisation	
31 December 2011	15,404
Depreciation charge	5,167
Disposals	(9,617)
31 December 2012	10,954
Depreciation charge	**8,706**
Disposals	**(2,205)**
31 December 2013	**17,455**
Net book value	
31 December 2011	14,039
31 December 2012	33,562
31 December 2013	**28,856**

(In thousands of Kazakh tenge)

11. Amounts due to customers

The amounts due to customers include the following:

	2013	***2012***
Current accounts	**1,591,740**	4,817,085
Time deposits	**1,811,404**	3,884,761
Amounts due to customers	**3,403,144**	8,701,846
Held as security against guarantees	**778,598**	69

As at 31 December 2013, amounts due to customers of KZT 3,220,023 thousand (94.62%) were due to the ten largest customers (2012: KZT 8,544,789 thousand (98%))

Included in time deposits are deposits of individuals in the amount of KZT 639,979 thousand (2012: KZT 3,756,975 thousand). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2013	***2012***
Private enterprises	**1,636,721**	865,515
Individuals	**1,766,423**	7,836,331
Amounts due to customers	**3,403,144**	8,701,846

An analysis of customer accounts by economic sector follows:

	2013	***2012***
Individuals	**1,766,423**	7,836,331
Fuel	**1,149,320**	36,443
Real estate construction	**306,397**	61,837
Trade	**95,454**	367,529
Agriculture	**23,637**	138
Manufacturing	**14,669**	107,499
Energetics	**14,130**	251,187
Transport and communication	**7,178**	6,632
Financial leasing	**3,682**	23,684
Other	**22,254**	10,566
Amounts due to customers	**3,403,144**	8,701,846

12. Taxation

The corporate income tax expense comprises:

	2013	***2012***
Current tax charge	**167,017**	76,86
Deferred tax charge (credit) – origination and reversal of temporary differences	**(119,068)**	90,04
Income tax expense	**47,949**	166,91

(In thousands of Kazakh tenge)

12. Taxation (continued)

Kazakhstani legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate comprised 20% for 2013 and 2012. The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2013	*2012*
Profit before tax	**338,083**	529,449
Statutory tax rate	**20%**	20%
Theoretical income tax expense at the statutory rate	**67,617**	105,890
Non-taxable interest income on finance lease	**(1,755)**	(119)
Non-deductible expenses		
- allowance for loan impairment charges	**–**	43,740
- amounts due to customers	**(19,743)**	20,417
- expenses not related to entrepreneurship activities	**1,604**	491
- tax related penalties	**–**	(114)
- loans to customers (premium)	**482**	(5,518)
- other	**(256)**	2,129
Income tax expense	**47,949**	166,916

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

	2011	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2012*	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2013*
Tax effect of deductible temporary differences					
Accrued professional services	1,976	–	1,976	**–**	**1,976**
Commission on guarantees	1,057	(104)	953	**(953)**	**–**
Unused vacation accrual	710	196	906	**295**	**1,201**
Other assets	26	(22)	4	**(4)**	**–**
Payroll payments	–	–	–	**2,270**	**2,270**
Deferred tax asset	3,769	70	3,839	**1,608**	**5,447**
Tax effect of taxable temporary differences					
Allowance for loan impairment	(28,660)	(41,176)	(69,836)	**69,836**	**–**
Time deposits	–	(24,372)	(24,372)	**24,130**	**(242)**
Provision for guarantees issued	(17,530)	(17,470)	(35,000)	**35,000**	**–**
Loans to customers	(6,945)	(4,733)	(11,678)	**(9,874)**	**(21,552)**
Property, equipment and intangible assets	828	(2,367)	(1,539)	**(1,632)**	**(3,171)**
Deferred tax liability	(52,307)	(90,118)	(142,425)	**117,460**	**(24,965)**
Net deferred tax liability	(48,538)	(90,048)	(138,586)	**119,068**	**(19,518)**

13. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Prepayments for goods and services	**23,384**	22,558
Prepaid state taxes other than corporate income tax	**5,724**	–
Prepaid corporate income tax	**–**	3,451
Other	**5,219**	3,067
Other assets	**34,327**	29,076

(In thousands of Kazakh tenge)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	2013	*2012*
Corporate income tax payable	**17,012**	–
Payables to employees	**11,350**	–
Payable for professional services	**9,878**	9,878
Unused vacation reserves	**6,007**	4,530
Due to Kazakhstan Deposit Insurance Fund JSC	**5,380**	8,974
Deferred income on commission income from guarantee issued	**3,502**	4,763
Other	**2,701**	1,151
Other liabilities	**55,830**	29,296

14. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of ordinary shares	*Placement value, tenge*	*Total*
31 December 2011	3,250,000	1,005	3,266,250
Increase in share capital	5,750,000	1,005	5,778,750
31 December 2012	9,000,000	1,005	9,045,000
Increase in share capital	**1,000,000**	**1,005**	**1,005,000**
31 December 2013	**10,000,000**	**1,005**	**10,050,000**

The share capital of the Bank was contributed by the shareholders in KZT and they are entitled to dividends and any capital distribution in KZT. Each ordinary share has one vote. At the Shareholders meeting held on 12 April 2013, it was decided to declare dividends of KZT 721,530 thousand and convert these dividends into share capital in order to meet National Bank of Kazakhstan requirements. As a result, dividends in the total amount of KZT 691,679 thousand were converted into ordinary shares net of withholding tax of KZT 29,851 thousand paid on the behalf of shareholders during 2013. On 12 April 2013, Shareholders meeting of the Bank approved further increase in share capital in the total amount of KZT 313,321 thousand. The amount was paid in cash by existing shareholders in 2013.

During the year, additional paid-in capital decreased in the amount of KZT 101,909 thousand due to initial recognition of premium on discounting of long-term deposit issued from related parties of the Bank (2012: increase in additional paid in capital KZT 223,946 thousand).

15. Commitments and contingencies

Operating environment

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

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

Also, factors including increased reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

While Management of the Bank believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

(In thousands of Kazakh tenge)

15. Commitments and contingencies (continued)

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

The Bank's business activity is carried out in the Republic of Kazakhstan. Kazakhstani tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of five calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2013, Management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

As at 31 December the Bank's commitments and contingencies comprised the following:

	2013	*2012*
Credit related commitments		
Undrawn loan commitments	**749,848**	1,301,544
Guarantees issued	**1,257,477**	862,795
	2,007,325	2,164,339
Operating lease commitments		
Not later than 1 year	**36,001**	30,228
Commitments and contingencies (before deducting collateral)	**2,043,326**	2,194,567
Less: cash held as security against guarantees (note 11)	**(778,598)**	(69)
Commitments and contingencies	**1,264,728**	2,194,498

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including breach of contracts by borrowers, worsening of financial performance, etc.

16. Net fee and commission income

Net fee and commission income comprises:

	2013	*2012*
Guarantees	**42,203**	61,311
Cash operations	**19,574**	41,518
Currency conversion operations	**13,413**	13,442
Transfer operations	**9,243**	6,959
Other	**6,813**	1,085
Customer accounts maintenance	**1,203**	6,321
Fee and commission income	**92,449**	130,636
Transfer operations	**(2,322)**	(2,116)
Cash operations	**(1,459)**	(479)
Securities operations	**(473)**	(667)
Fee and commission expense	**(4,254)**	(3,262)
Net fee and commission income	**88,195**	127,374

(In thousands of Kazakh tenge)

17. Initial recognition of gain on loans to customers, adjusted for losses on changes in future cash flows

In the ordinary course of business, the Bank extends loans to its employees at below market rate and to other customers at above market rate. These loans are initially recorded at their fair value determined as a present value of discounted future cash flows from the instrument. The discount rate used is a market interest rate for instruments with similar credit characteristics and risks. When these loans are not funded by the Shareholders, the Bank recognises the difference between the fair value of the loans and their notional amount in income statement as a gain or loss on initial recognition. During 2013, the Bank recorded gains of KZT 83,159 thousand on such loans (2012: KZT 91,520 thousand).

18. Net gains from foreign currencies

	2013	*2012*
Gain less losses from translation	**28,020**	822
Gain less losses from dealing	**14,110**	12,896
Net gains from foreign currencies	**42,130**	13,718

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2013	*2012*
Salaries and bonuses	**(167,224)**	(127,990)
Social security costs	**(15,384)**	(12,580)
Other employment taxes	**(2,191)**	(499)
Personnel expenses	**(184,799)**	(141,069)
Rent	**(35,109)**	(35,524)
Contribution to Kazakhstan Deposit Insurance Fund JSC	**(22,274)**	(28,918)
Administrative expenses	**(19,468)**	(13,171)
Depreciation and amortization	**(17,467)**	(9,606)
Professional services	**(9,878)**	(9,878)
Security expenses	**(8,195)**	(8,255)
Representative expenses	**(7,540)**	(7,494)
Business trip expenses	**(6,793)**	(3,577)
Communication expenses	**(5,705)**	(6,270)
Advertising and marketing costs	**(3,270)**	(2,587)
Transportation expenses	**(2,623)**	(2,483)
Cash collection expenses	**(1,318)**	(984)
Taxes, other than income tax	**(730)**	(587)
Other	**(10,566)**	(9,873)
Other operating expenses	**(150,936)**	(139,207)

20. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

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

(In thousands of Kazakh tenge)

20. Risk management (continued)

Introduction (continued)

Board of Directors

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

Management Board

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

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee ("the ALMC") has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental liquidity risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

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

Internal audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Assets and Liabilities Management Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of credit limits, liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank monitors its' exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

(In thousands of Kazakh tenge)

20. Risk management (continued)

Introduction (continued)

Excessive risk concentration

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

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

Credit risk

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

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

Credit – related commitments risks

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

The maximum exposure to credit risk for the components of the statement of financial position before the effect of mitigation through the use of master netting and collateral agreements is best represented by their carrying amounts.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position of the Bank:

	Notes	***Neither past due nor impaired 2013***	***Past due but not impaired 2013***	***Individually impaired 2013***	***Total 2013***
Cash and cash equivalents except cash on hand	5	**4,341,095**	**–**	**–**	**4,341,095**
Reverse repurchase agreements	6	**504,498**	**–**	**–**	**504,498**
Loans to customers	7	**6,079,597**	**273,197**	**4,316,097**	**10,668,891**
Corporate lending		**5,462,618**	**273,197**	**4,265,549**	**10,001,364**
Individual entrepreneurs		**526,007**	**–**	**33,582**	**559,589**
Residential mortgages		**40,874**	**–**	**–**	**40,874**
Consumer lending		**37,500**	**–**	**–**	**37,500**
Small business lending		**12,598**	**–**	**16,966**	**29,564**
Financial lease receivables	8	**63,766**	**–**	**–**	**63,766**
Total		**10,988,956**	**273,197**	**4,316,097**	**15,578,250**

(In thousands of Kazakh tenge)

20. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

	Notes	Neither past due nor impaired 2012	Past due but not impaired 2012	Individually impaired 2012	Total 2012
Cash and cash equivalents except cash on hand	5	6,561,778	–	–	6,561,778
Reverse repurchase agreements	6	3,966,443	–	–	3,966,443
Amounts due from credit institutions	7	18,720	–	–	18,720
Loans to customers		5,767,660	–	3,313,183	9,080,843
Corporate lending		5,374,263	–	3,207,326	8,581,589
Individual entrepreneurs		331,173	–	85,764	416,937
Small business lending		27,491	–	16,966	44,457
Consumer lending		24,442	–	164	24,606
Residential mortgages		10,291	–	2,963	13,254
Financial lease receivables	8	68,612	–	–	68,612
Total		16,383,213	–	3,313,183	19,696,396

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. Bank's current credit rating methodology treats all borrowers who are neither past due nor impaired as Standard.

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

	Less than 30 days 2013	31 to 60 days 2013	61 to 90 days 2013	More than 90 days 2013	Total 2013
Loans to customers	**19,937**	**–**	**–**	**253,260**	**273,197**
Total	19,937	–	–	253,260	273,197

See Note 7 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank determines the allowances appropriate for each loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

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

(In thousands of Kazakh tenge)

20. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

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

	2013				*2012*			
	Kazak-hstan	***OECD***	***CIS and other foreign banks***	***Total***	***Kazak-hstan***	***OECD***	***CIS and other foreign banks***	***Total***
Assets								
Cash and cash equivalents	**4,323,711**	**3**	**17,381**	**4,341,095**	6,675,108	–	–	6,675,108
Amounts due from credit institutions	**–**	**–**	**–**	**–**	–	8,850	9,870	18,720
Loans to customers	**9,540,652**	**–**	**–**	**9,540,652**	8,670,339	–	–	8,670,339
Reverse repurchase agreements	**504,498**	**–**	**–**	**504,498**	3,966,443	–	–	3,966,443
Financial lease receivable	**63,766**	**–**	**–**	**63,766**	68,612	–	–	68,612
Other assets	**21,091**	**–**	**13,236**	**34,327**	10,172	–	18,904	29,076
	14,453,718	**3**	**30,617**	**14,484,338**	19,390,674	8,850	28,774	19,428,298
Liabilities								
Amounts due to customers	**3,402,710**	**–**	**423**	**3,403,133**	8,701,371	–	475	8,701,846
Other liabilities	**55,790**	**35**	**5**	**55,830**	29,138	153	5	29,296
	3,458,500	**35**	**428**	**3,458,963**	8,730,509	153	480	8,731,142
Net assets	**10,995,218**	**(32)**	**30,189**	**11,025,375**	10,660,165	8,697	28,294	10,697,156

Liquidity risk and funding management

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

The Bank maintains a cash deposit (obligatory reserve) with the National Bank, the amount of which depends on the level of customer funds attracted.

The Treasury Department is responsible for management of the current open position of the Bank. The Treasury performs the monitoring of the Bank's balance sheet liquidity and any changes thereof. The Bank's liquidity analysis is performed by the Treasury on monthly basis, and all members of the Assets and Liabilities Management Committee ("the ALMC") are informed appropriately.

The Bank uses internal methodologies to analyze the Bank's liquidity.

The ALMC performs weekly monitoring of liquidity risk by future expected cash flows – gap liquidity analysis. When the liquidity indicators worsen, the ALMC identifies the reasons and determines the strategy to mitigate the risk. The Risk Management Department performs regularly monitoring of compliance with the liquidity requirements determined by the Liquidity Management Policy, such as immediate, current, short-term, common and expected liquidity ratios.

Management of the Bank, mainly the Board of Directors and Management Board of the Bank, receives the information on the Bank's current liquidity at least on monthly basis and, when the current or expected liquidity positions worsen, on immediate basis.

(In thousands of Kazakh tenge)

20. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	**2,779,110**	**–**	**641,029**	**–**	**3,420,139**
Other financial liabilities	**17,883**	**–**	**–**	**–**	**17,883**
Total undiscounted financial liabilities	**2,796,993**	**–**	**641,029**	**–**	**3,438,022**

Financial liabilities As at 31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	4,968,567	–	3,756,975	–	8,725,542
Other financial liabilities	17,526	2,132	134	–	19,792
Total undiscounted financial liabilities	4,986,093	2,132	3,757,109	–	8,745,334

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	**3,584**	**8,026**	**545,867**	**700,000**	**1,257,477**
Undrawn loan commitments	**749,848**	**–**	**–**	**–**	**749,848**
2013 (note 15)	**753,432**	**8,026**	**545,867**	**700,000**	**2,007,325**
Guarantees issued	53,890	91,388	17,517	700,000	862,795
Undrawn loan commitments	1,301,544	–	–	–	1,301,544
2012 (note 15)	1,355,434	91,388	17,517	700,000	2,164,339

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

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank's exposure to interest rate risk is not significant as the Bank borrows and places its funds with fixed rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the National Bank regulations. The Management Board has set limits on positions by currency based on the National Bank regulations. Positions are monitored on a daily basis.

(In thousands of Kazakh tenge)

20. Risk management (continued)

Market risk (continued)

Currency risk (continued)

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

Currency	*Increase in currency rate in % 2013*	*Effect on profit before tax 2013*	*Change in currency rate in % 2012*	*Effect on profit before tax 2012*
USD	**30.0**	**365,643**	1.57	77,412
EUR	**30.0**	**1,832**	10.77	32,976
RUB	**20.0**	**2,560**	10.74	294,899

Currency	*Decrease in currency rate in % 2013*	*Effect on profit before tax 2013*	*Change in currency rate in % 2012*	*Effect on profit before tax 2012*
USD	**(30.0)**	**(365,643)**	(1.57)	(77,412)
EUR	**(30.0)**	**(1,832)**	(10.77)	(32,976)
RUB	**(20.0)**	**(2,560)**	(10.74)	(294,899)

Operational risk

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

21 Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31-Dec-2013	**–**	**4,341,095**	**–**	**4,341,095**
Reverse repurchase agreements	31-Dec-2013	**–**	**538,704**	**–**	**538,704**
Loans to customers	31-Dec-2013	**–**	**–**	**9,662,176**	**9,662,176**
Liabilities for which fair values are disclosed					
Amounts due to customers	31-Dec-2013	**–**	**–**	**3,403,144**	**3,403,144**
Other financial liabilities	31-Dec-2013	**–**	**–**	**17,883**	**17,883**

(In thousands of Kazakh tenge)

21. Fair value measurements (continued)

Fair value hierarchy (continued)

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2012

At 31 December 2012	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Reverse repurchase agreements:	–	3,970,672	–	3,970,672
	–	3,970,672	–	3,970,672

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

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

	Carrying value 2013	*Fair value 2013*	*Unrecognised gain/(loss) 2013*	*Carrying value 2012*	*Fair value 2012*	*Unrecognised gain/(loss) 2012*
Financial assets						
Cash and cash equivalents	**4,341,095**	**4,341,095**	**–**	6,675,108	6,675,108	–
Amounts due from credit institutions	**–**	**–**	**–**	18,720	18,720	–
Loans to customers	**9,540,652**	**9,662,176**	**121,524**	8,670,339	8,765,095	94,756
Reverse repurchase agreements	**504,498**	**538,704**	**34,206**	3,966,443	3,970,672	4,229
Financial liabilities						
Amounts due to customers	**3,403,144**	**3,403,144**	**–**	8,701,846	8,701,846	–
Other financial liabilities	**17,883**	**17,883**	**–**	19,792	19,792	–
Total unrecognised change in fair value			**155,730**			98,985

Valuation techniques and assumptions

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

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(In thousands of Kazakh tenge)

22. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 20 *Risk Management* for the Bank's contractual undiscounted repayment obligations.

	2013			*2012*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**4,341,095**	**–**	**4,341,095**	6,675,108	–	6,675,108
Amounts due from credit institutions	**–**	**–**	**–**	18,720	–	18,720
Reverse repurchase agreements	**504,498**	**–**	**504,498**	3,966,443	–	3,966,443
Loans to customers	**3,009,102**	**6,531,550**	**9,540,652**	3,299,515	5,370,824	8,670,339
Finacial lease receivables	**–**	**63,766**	**63,766**	–	68,612	68,612
Property and equipment	**–**	**45,977**	**45,977**	–	16,852	16,852
Intangible assets	**–**	**28,856**	**28,856**	–	33,562	33,562
Other assets	**34,327**	**–**	**34,327**	29,076	–	29,076
Total	**7,889,022**	**6,670,149**	**14,559,171**	13,988,862	5,489,850	19,478,712
Amounts due to customers	**1,983,517**	**1,419,627**	**3,403,144**	4,944,871	3,756,975	8,701,846
Deferred income tax liabilities	**–**	**19,518**	**19,518**	–	138,586	138,586
Other liabilities	**55,830**	**–**	**55,830**	29,296	–	29,296
Total	**2,039,347**	**1,439,145**	**3,478,492**	4,974,167	3,895,561	8,869,728
Net	**5,849,675**	**5,231,004**	**11,080,679**	9,014,695	1,594,289	10,608,984

23. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.The outstanding balances of related party transactions are as follows:

	2013				*2012*			
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Loans outstanding at 1 January, gross	**–**	**285,280**	**11,194**	**21,460**	–	–	11,535	14,699
Loans issued during the year	**–**	**170,000**	**29,480**	**19,000**	–	550,187	5,400	15,350
Loan repayments during the year	**–**	**(415,280)**	**(7,467)**	**(7,294)**	–	(264,907)	(5,741)	(8,589)
Other movements	**–**	**(40,000)**	–	–	–	–	–	–
Loans outstanding at 31 December, gross	**–**	**–**	**33,207**	**33,166**	–	285,280	11,194	21,460
Less: allowance for impairment at 31 December	**–**	**–**	**–**	**–**	–	(43,965)	–	–
Loans outstanding at 31 December, net	**–**	**–**	**33,207**	**33,166**	–	241,315	11,194	21,460
Deposits at 1 January	**3,755,775**	**–**	**1,200**	**–**	–	–	–	–
Deposits received during the year	**–**	**–**	**–**	**–**	13,220,384	–	1,200	–
Deposits withdrawn during the year	**(3,114,269)**	**–**	**(1,200)**	**–**	(9,464,609)	–	–	–
Deposits outstanding at 31 December	**641,506**	**–**	**–**	**–**	3,755,775	–	1,200	–
Current accounts at 31 December	**325,244**	**761,952**	**1,882**	**657,233**	–	97,481	–	1,272

(In thousands of Kazakh tenge)

23. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December							
	2013				***2012***			
	Share-holders	***Entities under common control***	***Key manage-ment personnel***	***Other related parties***	***Share-holders***	***Entities under common control***	***Key manage-ment personnel***	***Other related parties***
Interest income on loans	**–**	**23,007**	**2,003**	**4,029**	–	10,263	1,610	3,129
Fee and commission income	**1,065**	**6,568**	**23**	**8,180**	–	–	–	9,790
Interest expense on amounts due to customers	**7,128**	**–**	**94**	**60,721**	94,776	–	8	–
Other operating expenses	**–**	**1,216**	**–**	**1,460**	–	–	–	4,885

Compensation of 5 key management personnel was comprised of the following:

	2013	***2012***
Salaries and other short-term benefits	**47,667**	38,769
Social security costs	**4,765**	3,091
Total key management personnel compensation	**52,432**	41,860

24. Capital adequacy

Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the competent authority in supervising the Bank.

During 2013 and 2012, the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

FMSC capital adequacy ratio

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

FMSC requires banks to maintain a tier 1 capital adequacy ratio k1-1 and k1-2 of not less than 5% from all assets according to FMSC and a tier 2 capital adequacy ratio (k-2) of not less than 10% from risk-weighted assets, commitments and contingencies and operational risks.

Capital adequacy ratios calculations

- Capital adequacy ratio k1-1 is calculated as tier 1 capital to total assets under FMSC rules;
- Capital adequacy ratio k1-2 is calculated as tier 1 capital to the sum of risk-weighted assets and contingent liabilities, potential claims and liabilities and operational risk;
- Capital adequacy ratio k2 is calculated as total regulatory capital to the sum of risk-weighted assets and contingent liabilities, potential claims and liabilities and operational risk.

(In thousands of Kazakh tenge)

24. Capital adequacy (continued)

As at 31 December 2013 and 2012 assets, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As at 31 December 2013 and 2012, the Bank's capital adequacy ratio, calculated in accordance with the requirements of the FMSC were as follows:

	2013	*2012*
Tier 1 capital	**10,790,545**	10,015,442
Tier 2 capital	**290,134**	174,200
Total capital	**11,080,679**	10,189,642
Risk weighted assets; commitments and contingencies	**11,066,391**	9,702,620
Operational risk	**293,494**	312,662
Capital adequacy ratio (k1-1)	**74%**	52%
Capital adequacy ratio (k1-2)	**89%**	100%
Capital adequacy ratio (k2)	**91%**	100%

25. Event after balance sheet date

On 11 February 2014, the exchange rate of the Kazakh Tenge to the US Dollar and other major currencies was devalued by approximately 20%.