ANNUAL REPORT OF “Delta Bank”, JSC

for 2013

ALMATY, 2014

DeltaBank

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CORPORATE GOVERNANCE

MANAGEMENT STATEMENT

Dear shareholders, clients and partners!

"Delta Bank", JSC has been founded and carried on its operating activities on the territory of the Republic of Kazakhstan since 1993.

For 20 years of work, due to the joint efforts of our shareholders, clients, partners and employees, we have achieved high indicators in the market of financial services.

For "Delta Bank", JSC, 2013 has become another important stage of strengthening its position in the financial market, in the course of which the potential of further development of the Bank has been fully disclosed.

During a year, the Bank assets increased by 35% and reached 190,3 billion tenge, which induced the increase of the relevant share among second-tier banks of the Republic of Kazakhstan by 21%.

In 2013, the Bank loan growth exceeded the average level for second-tier banks of the Republic of Kazakhstan more than twofold (the Bank - 33%, second-tier banks - 14%), which resulted in increasing the Bank loan portfolio to the amount of 162 billion tenge. Moreover, we have not just maintained but improved the quality of the loan portfolio, thus reducing the level of past-due debt to 0,81%, which is among the best indicators of the bank sector (at an average, 31,37% for second-tier banks).

The business growth financing is based on the Bank attracted liabilities. In 2013, this indicator equaled to 168 billion tenge, having increased by 37%. One of the important sources of funding the liabilities is client deposits, which increased by 18% to the amount of 126 billion tenge, due to our depositors confidence. To effect the refilling and diversifying the funding base according to the kinds of sources and terms, in May 2013, the Bank registered the second tranche under the first bond program for the amount of 40 billion tenge for period of 10 years and placed the first tranche of the first bond program by 10 billion tenge.

In 2013, the Bank stock increased for 3,5 billion tenge, or by 19%, to the amount of 22,3 billion tenge, mainly due to the growth of net income. In order to implement the approved strategy, at the end of 2013 the Board of Directors passed a resolution on increasing the authorized capital to the amount of 5 billion tenge. On February 28, 2014, the additional issue of shares was successfully allocated among the Bank shareholders. The implementation of this resolution provides a reliable basis for further development of the Bank according to the approved strategy.

In 2013, we doubled the Bank net income compared with the previous year, to the amount of 3,6 billion tenge.

Along with the business build-up, we paid great attention to the increasing of its profitability and efficiency. The assets qualitative management allowed to ensure a high level of financial and assets return: ROE – 16,2% (at an average, 12,6% for second-tier banks), ROA – 1,9% (at an average, 1,7% for second-tier banks). In order to increase the business efficiency, we are constantly working on optimizing the level of maintenance costs, which resulted in reducing the indicator by 17% in 2013.

Following the approved strategy of development, in 2013 the Bank focused its efforts on modernizing its own information infrastructure. In line with this, a transfer was made to the new ILS (Integrated Library Systems) "Colvir", besides, a Call-center for client service and a unified Data-processing center were created. These innovations allow the Bank to transfer to a new level of client service, considerably improve the efficiency of business-processes and reduce banking risks.

Realizing the need to harmonize the knowledge level of the employees with new standards of information technologies, we have developed a system of training for the Bank employees, including internal and external educating programs.

Thus, all the work done in 2013 was aimed at creating a reliable basis for further development of the Bank. We are sure that we have chosen the right way and we are ready to make every effort in order to preserve and enrich the earlier achievements.

Chairman of the Management Board
JSC «Delta Bank»
Nurbol Samzayev

INFORMATION ABOUT THE BANK/ History of "Delta Bank", JSC

"Delta Bank", JSC was created on July 09, 1993. The Bank branch network started to develop in 1994, when the first Bank branch was opened in Zhanaozen, and later the Bank branches were opened in Almaty, Atyrau, Aktobe, Uralsk, Aktau, Astana, Karaganda, Taraz, Pavlodar, Petropalovsk, and the Bank representative office - in Kokshetau.

In 1997, the Bank signed the agreement with the Society for Worldwide Interbank Financial Telecommunications - SWIFT (Belgium), which enabled the Bank to enter the international market. In the same year, the Bank branches were opened in Almaty and Atyrau.

In 1998, the Bank ordinary shares of A-category were included into the trade lists of "Kazakhstan Stock Exchange", JSC, therefore, the Bank attractiveness increased. Simultaneously, the work on the branch network expansion continued and resulted in opening a branch in Aktobe.

In 1999, on the foundation date of the Financial Institutions' Association of Kazakhstan, the Bank became its full-fledged member. Continuing the policy of regional expansion, a branch in Uralsk was established in the same year.

In 2000, the Bank was added to the system of deposits collective insurance of "Kazakhstan Insurance Fund".

The acquisition of VISA International Associated Member status became a new stage in diversifying the Bank activities, which enabled the Bank to develop the bank card market.

To contribute to further development of the Bank, 7-year junior bonds were issued in 2005, which improved the capital adequacy ratio and diversified the funding base.

In 2006, two branches were opened - in Aktau and Astana.

The modern stage of "Delta Bank", JSC development started after the Bank re-branding and moving to Almaty in 2007. In the same year, the Bank branches were opened in Karaganda and Taraz.

In 2008, the International rating agency "Moody`s Investors Service" awarded "Delta Bank", JSC with a rating of "B3" (long-term deposit ratings) and Non-Prime (short-term deposit ratings), E+ - financial strength rating ("BFSR").

In 2010, the Bank branches were opened in Pavlodar and Petropalovsk.

Along with strengthening the Bank position in the market of second-tier banks and developing its financial strength, in June 2011, the credit rating service Standard & Poor's raised the credit rating of "Delta Bank", JSC: the long-term credit rating was at the level "B", the short-term credit rating - at the level "B". The rating forecast was "Stable". Simultaneously, the Bank was given the rating "kzBB+" on a national scale.

To maintain the adequate ratio of capital to assets, in 2011, the shareholders of the Bank increased the authorized capital for the amount of 3,4 billion tenge. The capital increasing for the amount of 1 billion tenge in 2012 became a next stage of development. Therefore, at the end of 2013, the amount of the authorized capital was 15,5 billion tenge.

In 2013, with establishing the representative office in Kokshetau, there starts an execution of the project of opening the next Bank branch.

In recent years, "Delta Bank", JSC cooperated successfully with Kazakhstan and foreign banks. The partnership relations were established with foreign banks in Germany, Turkey, Russia, Switzerland, Italy and Saudi Arabia.

At present, "Delta Bank", JSC is a modern Bank, represented by branches and representative offices in 12 cities of Kazakhstan, providing its clients with competitive financial services and products, which contribute to the business development, and obtaining the best possible result. The Bank activities contribute to the development of the country economy as a whole, as well as to the welfare of its employees. The Bank is a unified structure, which is able to take the leading position in the financial market and become one of the most effective and profitable banks of Kazakhstan.

INFORMATION ABOUT THE BANK/ Production structure of the Bank

The Bank organizational structure is established with due account for the optimal combination of the system, structure and process approach.

The main units taking part in the operating activities are represented by Business-lines, which include:

1) corporate client and small and medium-sized business service;

2) retail client service;

3) work in the financial and interbank markets;

The Bank organizational structure is sub-divided into the following functional centers: front-office, middle-office, back-office and Bank activities management and support service.

Front-office is a functional center of the Bank, where the employees work directly with clients. Front-office priorities are: putting through deals with clients, bringing in a new business, provision of banking services. Front-office units include:

1) customer operational service units;
2) customer credit service units;
3) treasury operations unit;
4) card business unit;
5) financial institutions unit.

Middle-office is a functional center of the Bank, administering banking activities.

Back-office if a functional center of the Bank, carrying out the Bank operations accounting.

The priorities of the Bank activities management and support services are: determination and calculation of risks related to banking operations, budgeting, analysis of the Bank and its branches activities, legal practice on the Bank activities, information and administrative support.

The functions and order of interaction between front-office, middle-office and back-office and the Bank activities support services in the course of banking operations are specified by the Bank internal regulations.

INFORMATION ABOUT THE BANK/ Major events of the accounting year

During the reporting period, the Bank assets exceeded 1 billion US dollars, and at the end of 2013, they amounted to 190 billion tenge.

In May 2013, the Bank registered the second bond issue for 40 billion tenge, within the first bond program. As of January 1, 2014, the bond liabilities amounted to 28 billion tenge.

In compliance with the National Bank's requirement, in the fourth quarter of 2013, the Bank worked on abolition of the account 7130, which resulted in obtaining an additional income from bad loans sales. However, a part of bad loans was restored to balance, without losing the quality of the loan portfolio.

In October 2013, the Bank realized the project, one of the most successful projects among second-tier banks of the Republic of Kazakhstan, on one-time transfer to the new ILS "Colvir",

complying with modern standards of banking technologies. The preparation to one-time transfer had been carried out by the Bank throughout the branch network within seven months of 2013. Moreover, in the current period the Bank launched a Call-center, supplied with modern computer, service and network equipment, complying with all standard work parameters of the corporate Call-center. Simultaneously, the Data Processing Center was organized in the building of the Bank head office, in compliance with the international standards, which increased the level of fail-safety of the equipment of all information systems and reduced operational risks.

To implement the strategic objectives of the Bank expansion over the territory of Kazakhstan, in May 2013, a representative office was opened in Kokshetau, with further reorganization into the Bank branch.

The measures taken during the reporting period have created a reliable platform for a long-term perspective of the Bank development, improving the quality of client service, reducing the level of all risks, and as a result, safeguarding interests of the Bank clients and investors.

OPERATING ACTIVITIES/ Macroeconomic indicators of Kazakhstan for 2013

	2010	2011	2012	2013
GDP, billion KZT	21 816	27 572	30 347	34 140
GDP, billion USD	148.1	188.1	203.5	224.4
GDP growth	*7.30%*	*7.50%*	*5.00%*	*6.00%*
Reserves of the National Bank of the Republic of Kazakhstan, million USD	28 275	29 328	28 269	24 715
National Fund's assets, million USD	30 980	43 625	57 927	70 792
Inflation	7.80%	7.40%	6.00%	4.80%
Unemployment	5.80%	5.40%	5.30%	5.20%

The GDP of Kazakhstan in real terms amounted to 34 140 billion tenge and grew by 6% in 2013. A similar level of economic development was targeted by the government of the Republic of Kazakhstan.

The production of industry (goods, services) amounted to 18 179 billion tenge and increased by 2,3% compared with the previous year. Of these, 10 976 billion tenge fell at the mining industry, 5 882 billion tenge - manufacturing industry, 1 150 billion tenge - electric supply, gas and steam supply and air conditioning. The gross output of agricultural production amounted to 2 438

billion tenge, exceeding the previous year's indicator by 10,8%, and the bulk of it fell at the crop and livestock production.

By the end of 2013, the fixed investment volume was 6 053 billion tenge and increased by 6,5% compared with the results of 2012. A great part of fixed investment fell at privately owned legal entities (64,9%), as well as business entities of other states, operating in the territory of the Republic of Kazakhstan (17,3%). The investment share of state-owned legal entities was 17,8%. The fixed investment increase compared with 2012 was registered in 12 regions of the republic. The largest investment increase was observed in Zhambylskaya and Kyzylordinskaya regions (1,6 and 1,4 times, respectively).

The volume of construction works increased by 3% and amounted to 2 429 billion tenge, and the major volume of works (81%) fell at private property.

The volume of transport and communication services increased by 7,6 % and 14%, and amounted to 3 781 bln and 643 billion tenge, respectively.

At year-end 2013, the inflation rate was 4,8%: food pricing increased by 3,3%, non-food pricing – by 3,3%, paid services – by 8%. The specified rate was below the rate planned by the government of the Republic of Kazakhstan, which was forecast in the range of 6–8%.

The foreign trade turnover of the Republic of Kazakhstan was 131 384,3 million USD, and compared with 2012, it decreased by 1,1%, including export – 82 511,8 million USD (4,6% decrease), import – 48 872,5 million USD (5,4% increase).

The mutual trade of the Republic of Kazakhstan with the countries of the Customs Union amounted to 24 230,9 million USD, or 1,4% more than in 2012, including export – 5 863,6 million USD (5,9% decrease), import – 18 367,3 million USD (4,0% increase).

In 2013, export to the Russian Federation amounted to 5 806,5 million USD (5,4% less than in 2012), import – 17 685,6 million USD (4,3% increase).

In 2013, export to the Republic of Belarus amounted to 57,1 million USD (37,7% less than in 2012), import – 681,7 million USD(2,6% decrease).

The retail sales (excluding mess turnover) for 2013 amounted to 5,035 billion tenge, showing an increase by 12,8% compared with 2012.

From the beginning of the current year, the turnover obtained from the sales of goods by privately owned legal entities amounted to 4 818 billion tenge (95,7% of the total retail sales), by legal entities of foreign ownership – 216,1 billion tenge (4,3%).

The share of food products in the total retail sales was 35,7%, of non-food products – 64,3%. The food sales increased by 9,4%, non-food sales – by 14,7%, compared with 2012.

From the beginning of the current year, the wholesale of the republic amounted to 14 104,7 billion tenge, or by 19,2% more than for relevant period of 2012.

By the end of 2013, the country population was 17 160,8 thousand people. Compared with the previous year, the population of Kazakhstan increased for 251 thousand people, or by 1,5%.

By the end of 2013, the average level of the cost of living per capita, calculated on the basis of the minimum rate of consumption of basic foodstuffs, was 17 789 tenge. It is 6% more than by the end of 2012.

At year-end 2013, the unemployment rate was 5,2% of the economically active population.

By the end of 2013, the average nominal monthly wages was 108 640 tenge, i.e. 7,5% more than in the previous year.

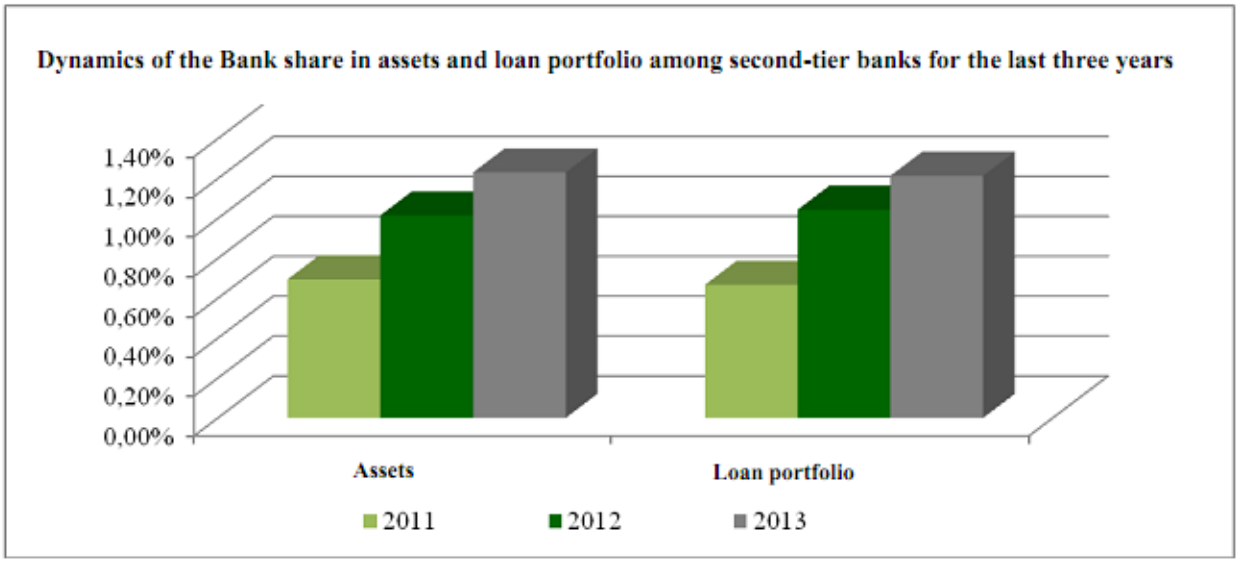
During the reporting period, the National Fund's assets increased by 22% to the amount of 71 billion USD, while the total reserves of the National Bank of the Republic of Kazakhstan and the National Fund's assets increased for 9 million USD, and by the end of the reporting period amounted to 96 billion USD.

As of January 1, 2014, the gross external debt of the country was 149 billion tenge, 7.5% or 11,2 billion USD of which fell at the banking sector. For 2013, it decreased by 17% or 2,4 billion tenge.

OPERATING ACTIVITIES/ Market share of "Delta Bank", JSC

As of January 1, 2014, the banking sector of Kazakhstan is represented by 38 second-tier banks, with their total assets increased for 1 581,8 billion tenge or by 11,4% during 2013, and amounting to 15 461,7 billion tenge.

In 2013, the increase of the stock of second-tier banks was 3,6% or 72,3 billion tenge, and its total volume amounted to 2 077,6 billion tenge. In 2013, the loan portfolio of second-tier banks increased for 1 690,3 billion tenge or by 14,5%, and as of January 1, 2014, it amounted to 13 348,2 billion tenge.



As of January 1, 2014, the Bank held the 16th position in the banking sector by total assets. For the previous year, the Bank assets increased by 35% and reached 190,3 billion tenge, resulting in the increase of the relevant Bank share among second-tier banks of the Republic of Kazakhstan for 21% to the rate of 1,2 %. Due to the increase of lending volumes, the Bank portfolio increased by 33% and reached 162 billion tenge. The relevant share in the market of Kazakhstan increased by 16% and at present it amounts to 1,2% among all second-tier banks of the Republic of Kazakhstan.

Due to the clients confidence, the Bank deposit portfolio has also increased, and at present it amounts to 126 billion tenge. Its share among second-tier banks of the Republic of Kazakhstan is 1,3%.

The Bank stock increased by 19% to the amount of 22,3 million tenge, and its share among second-tier banks of the Republic of Kazakhstan increased by 15% to the rate of 1,1%.

The Bank strengths:

1) Stable structure of equity capital and shareholders support;
2) Adequate capital base;
3) High-quality loan portfolio;
4) One of the lowest levels of bad debt;
5) Acceptable share of liquid assets;
6) Regulation and optimization of business-processes;

7) Available rating (Standard & Poor's: B/stable).

Economic indicators to be improved:

1) Increase of the Bank share in major market segments of economy;
2) Concentration decrease with regard to certain economic segments and clients;
3) Increase of a non-interest income share;
4) Regional expansion of the Bank branch network;
5) High Bank awareness.

OPERATING ACTIVITIES/ Bank products

The Bank is a financial organization providing a full range of banking services in compliance with the license, issued by the authorized body. The main Bank products are: accommodating clients with loans, deposit taking, settlement and cash services, payment cards, opening and maintenance of correspondent bank accounts, interbank lending operations and others. The main consumers of the Bank services are legal entities - representatives of small and medium-sized business of the Republic of Kazakhstan. The Banks strives to expand and diversify its client base by means of creating new products. Thus, in 2013, there appeared a new deposit product "Delta-Plus", intended for individuals, with a fixed interest rate for a term of 2 years.

The Bank tariff policy is focused on timely response to the changing market conditions, which allows to increase the Bank competitiveness and ensures the availability of individual tariffs for the purpose of attracting clients of top-priority market segments.

Client service

The Bank currently offers a wide range of banking services to its clients and is working constantly on increasing the level of client service. In 2013, the Bank turned to a new kind of transfer operations service "Cashier-universal", implying all-inclusive service by means of a "single window" method. This function allows to reduce the time of service and creates comfortable conditions for clients.

In order to attract new clients, the Bank conducts marketing events. Thus, in 2013, it conducted the campaigns, which provided clients (legal entities and individual entrepreneurs) with a free opportunity to open current accounts, as well as free issue of bank guarantees for participation in a tender.

Lending activities

The Bank activities in the field of lending and equated products focus on the increase of efficiency of financial resources application, with due regard to the development of high-priority economy sectors. A great attention is paid to the expansion and diversification of the client base.

The Bank offers various kinds of loan products:

- "Delta Auto";
- "Delta Credit";
- Product "Neotlozhka";
- "Business-Alga";
- State financing programs of "Damu Entrepreneurship Fund", JSC, with the opportunity to take part in the program "Business Road Map 2020".

As a part of realization of the state programs of "Damu Entrepreneurship Fund", JSC, the Bank offers loans according to the following programs:

- financing of women's entrepreneurship;
- project financing for small and medium-sized business entities of Zhanaozen;
- project financing for small and medium-sized business entities in towns of the Republic of Kazakhstan;
- financing of the high-priority regional projects "Damu regions III".

Deposit activities

The Bank offers a variety of products ensuring the deposit allocation of funds for individuals and legal entities. There exist the following deposit programs for our clients:

for legal entities:

- Deposit "Universal";
- Deposit "Delta-Capitalist";
- Deposit "Delta-Business";
- Deposit "Treasury";

- Deposit "Subsurface User";
- Deposit for employers.

for individuals:

- Deposit "Delta";
- Deposit "Delta Premium";
- Deposit "Delta Plus".

For the purposes of competitiveness and the deposit base development, the Bank sets deposit rates of remuneration for individuals and legal entities with due account for market situation. While determining the rates of remuneration for individuals, the Bank follows the recommendations of "Kazakhstan Deposit Guarantee Fund", JSC.

Payment card business

In view of the need to diversify its activities, particularly in retail segment, the Bank is working actively on the card business development. At present, the product line is represented by the following payment cards:

A "Card with a lending limit" - a client is offered a payment card with a lending limit for consumer purposes;

A "Card with a lending limit for the employees of organizations" - providing a lending limit on cards of the employees of organizations - participants of salary projects of "Delta Bank", JSC.

At present, the competition in the market of financial services allows clients to raise high demands to the service level. The basis of the Bank business is quickness, qualified service and wide range of products with various terms, and in compliance with it the Bank makes special efforts to meet the client needs.

OPERATING ACTIVITIES/ Strategy of business activities

In compliance with the objectives of the selected strategy of development, the Bank sets the target of increasing its market positions in the field of lending and deposit market as a main business area.

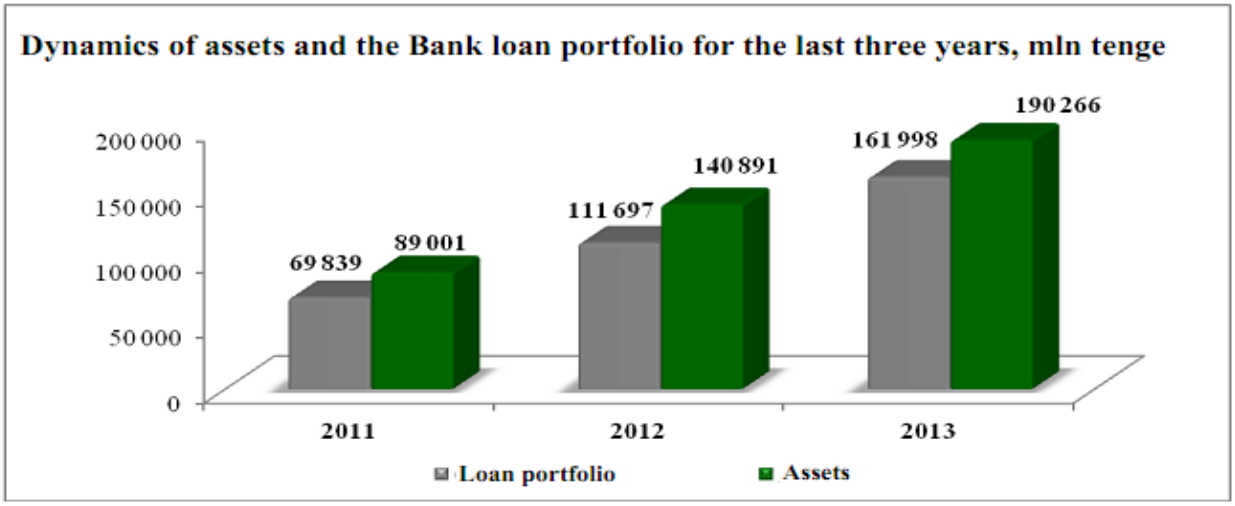
To achieve the specified objectives, the Bank sets the following targets:

- to stabilize and strengthen its positions in major market segments of banking products and at the same time to develop the system of related services;

- to expand the Bank branch network in all commercially viable regions;
- to develop an integrated approach to client service, to expand non-interest product sales by means of the development of the system of related services and optimization of existing tariffs for the services provided in order to ensure flexible pricing policy and to attract clients;
- to develop the existing client service, to create new profitable banking products and kinds of service on the basis of studying the competitiveness of the products and services provided and client needs;
- to establish and strengthen partnership relations with the central and local authorities, state companies and enterprises in order to create favorable conditions for the Bank business development in regions;
- to continue the diversification of the Bank loan portfolio in economy sectors;
- to continue the development and modernization of the unified information and interbank telecommunications system in order to increase the rates of interaction of the structural units and improve the quality of client service.

FINANCIAL AND ECONOMIC INDICATORS/ Analysis of target-performance results

The aggressive marketing policy on the part of competing banks has somewhat decreased the Bank effective balance sheet ratios compared with the expected ratios, nevertheless, the Bank hit the target of net income at the level of 100%. Moreover, during the reporting period, the target regarding ROA and ROE ratio was exceeded and reached the level of 132% and 236%, respectively.



FINANCIAL AND ECONOMIC INDICATORS/ Analysis of financial results for 2013

thous. tenge

Name of the item	01.01.2014	01.01.2013	01.01.2012	Change, % 2013/2012	Change, % 2013/2011
Interest yields	22 461 625	13 949 823	8 161 395	61%	175%
Interest costs	9 857 217	4 634 937	3 035 391	113%	225%
Net interest yield before creation of provisions under asset impairment	**12 604 408**	**9 314 886**	**5 126 004**	**35%**	**146%**
Net non-interest yield	1 307 600	1 293 832	863 681	1%	51%
Operating profit/loss	**13 912 008**	**10 608 718**	**5 989 685**	**31%**	**132%**
Operating costs	2 394 415	1 914 315	1 947 393	25%	23%
Creation of provisions under impairment of assets with accrued interests	7 073 419	6 552 575	3 071 214	8%	130%
Operating profit/loss before taxing	**4 444 174**	**2 141 828**	**971 078**	**107%**	**358%**
Income tax expense/refund	842 942	361 517	177 750	133%	374%
Profit/loss for a year	**3 601 232**	**1 780 311**	**793 328**	**102%**	**354%**

During the last three years the Bank doubled its annual **net income**, and by the end of 2013 obtained the financial result in the amount of 3,6 billion tenge. The Bank main income in the amount of 12,6 billion tenge was obtained owing to the **net interest yield**. This indicator increased by 35% compared with 2012, and by 146% compared with 2011.

The net non-interest yield, obtained in 2013, amounts to 1,3 billion tenge and increased by 51% compared with 2011, and by 1% compared with 2012.

The operating expenses during the reporting period amount to 2,4 billion tenge and increased by 23% compared with 2011, and by 25% compared with 2012.

FINANCIAL AND ECONOMIC INDICATORS/ Financial analysis for 2013

Ratio	01.01.2014	01.01.2013	01.01.2012
ROA	1.89%	1.26%	0.89%
ROE	16.18%	9.53%	4.99%
Cost to income	17%	18%	33%

In general, during the last two years, the Bank increased its income, and at the same time the return on assets ROA increased from 0,89% in 2011 to 1,89% in 2013. During the last two years, ROE tripled, and as of 01.01.2014, it amounted 16,18%.

This result was obtained due to increasing the lending gain at the same level of administrative costs.

thous. tenge

Operating costs	01.01.2014	01.01.2013	01.01.2012	Change, % 2013/2012	Change, % 2012/2011
Employee benefits	1 147 350	960 195	769 807	19%	25%
Lease	417 254	409 919	502 116	2%	-18%
Depreciation and amortization	178 499	125 432	140 464	42%	-11%
Taxes, excluding income tax	109 231	74 861	99 138	46%	-24%
Advertizing and marketing	103 253	54 121	78 751	91%	-31%
Insurance	59 092	41 382	60 273	43%	-31%
Professional services	55 473	38 396	51 240	44%	-25%
Safety and alarm signaling	51 614	32 035	46 203	61%	-31%
Repair and maintenance	41 489	17 362	42 636	139%	-59%
Communication and information services	40 869	16 283	36 681	151%	-56%
Transport expenses	22 773	15 504	15 439	47%	0%
Member's subscription	22 602	14 180	13 386	59%	6%
Meals and entertainment expenses	21 900	12 240	13 380	79%	-9%
Travel expenses	11 180	10 589	12 529	6%	-15%
Collection costs	6 777	7 489	7 522	-10%	0%
Other	105 059	84 327	57 828	25%	46%
TOTAL	**2 394 415**	**1 914 315**	**1 947 393**	**25%**	**-2%**

Along with its activities of maximizing the income, the Bank pursues a policy of optimizing the operating costs. For the last two years, the cost to income ratio decreased twice from 33% in 2011 to 17% in 2013, reflecting the efficiency of work on reducing the Bank maintenance expenses.

FINANCIAL AND ECONOMIC INDICATORS/ Risk analysis

The Bank takes into account a number of risks in its activities, the major of them being:

Credit risk is a risk of expenses/losses on the reason of the client's violation of the initial contractual terms regarding the performance of its liabilities in case of loan, leasing, factoring, forfeiting operations, as well as issuing bank guarantees and other operations.

The credit risk management of the Bank implies, first of all, unconditional compliance with the established order of accommodating with loans and effecting transactions, as well as a fundamental and in-depth financial analysis of the borrower or counterparty to the transaction, fair estimate of collateral value, organization of a limit system for shares in the portfolio according to their amount, country, industry, borrower, branch, etc. The Bank realizes a constant financial monitoring of the borrowers, and creates the necessary reserves (provisions) for covering possible losses. The existing credit risk management system is intended to provide the Bank with a set of instruments for the credit risk objective assessment and to ensure the implementation of the Bank balanced strategy as to the amount, structure and quality of the loan portfolio.

During the last three years, the bad loan share (with past-due debt over 90 calendar days) varied in the range of 1-3 % of the bank loan portfolio. The Bank adheres to the conservative approach of creating the reserves. For the last three years, the reserve volume in the loan portfolio ratio increased from 5% to 11%. Along with it, the Bank works on diversifying the loan portfolio, which determines its optimal structure.

Liquidity risk is a risk related to possible non-fulfillment or untimely fulfillment of the Bank obligations, as well as violation by the Bank of the prudential standards, established by the National Bank of the Republic of Kazakhstan according to the liquidity indicators. This risk is managed by means of assets and liabilities identification and analysis according to the terms of their retirement, analysis of change of assets and principal liabilities for a certain period, control over the implementation of the prudential standards of the National Bank of the Republic of Kazakhstan, analysis of income and expenses related to obtaining (payment) of remuneration.

In order to manage the liquidity risk, the Bank shall:

- maintain the sufficient level of highly liquid assets (reserves) for managing the current liquidity by means of maintenance of the required balance of money on the correspondent accounts and their purchase for the portfolio of government securities;

- introduce the limits restricting gaps in the structure of assets and liabilities according to their terms and currencies;

- weekly analyze the structure of assets and liabilities according to compliance of their terms of retirement (GAP-analysis);

- on a regular basis make a stress-test with various scenarios (the funding base outflow/violation of the schedule of payment of large loans, etc), allowing to determine the strength level of the Bank liquidity;

- monitor the application of liquidity ratios, established by the regulator, maintain a sufficient financial safety margin;

Exchange risk is a risk of expenses (losses) related to the changes in foreign currency exchange rates in the course of the Bank activities. The risk management is realized by means of identification - analysis of the net foreign exchange position in any foreign currency, for which reason the Bank on a daily basis realizes monitoring and forecast of the net foreign exchange position and controls the compliance with the limits of the foreign exchange position, as well as calculates the exchange risk amount according to the procedure, established by the Bank.

Along with it, the Bank adheres to the conservative policy and holds the net foreign exchange position in each currency and aggregate net position at the minimum level, which will not endanger the Bank capital.

Interest-rate risk is a risk of expenses (losses) due to adverse changes in rates of return, which includes the risk of expenses by reason of: non-compliance of terms of return and retirement of allocated assets and attracted Bank liabilities; application of various kinds of rates (fixed or floating) of assets, on one hand, and liabilities, on the other hand; application of various methods of accrual and correction of remuneration received and paid on a number of instruments.

The interest-rate risk is managed in the Bank by means of analysis of the interest spread, for which reason the monitoring of market interest rates in the interbank market, exchanging market and deposit market is realized. In case of any interest-rate risk, the Bank can take the following measures:

- changes in base interest rates for products;

- changes in the structure and duration of the securities portfolio;

- borrowing in the financial market;

-fixed-term operations with financial instruments;

- other measures allowing to change the share of risk instruments in the structure of assets and liabilities.

Price risk is a risk of expenses (losses) due to changes in the value of the financial instruments portfolio, occurring in case of changes in the market value of financial instruments.

Country (transfer) risk is a risk of expenses (losses) due to insolvency or unwillingness of a foreign state or resident of a foreign state to be liable for their debts to the Bank for reasons, unrelated to financial risks.

Operational risk is a risk of losses due to inadequacy or errors in the internal processes, committed by the employees, functioning of the information systems and technologies, as well as due to external events.

To minimize operational risks, the Bank applies the following mechanisms and procedures: regulation of business-processes and procedures; separation of powers; internal control over the compliance with the established order of operations and transactions, limit discipline; a set of measures aimed at ensuring information security, business continuity; improvement of audit procedures and quality control of operating the automatized systems and hardware package; property and assets insurance; advance training of the employees at all organizational levels.

Compliance risk is a risk of expenses (losses) due to violation of the legal requirements of the Republic of Kazakhstan by the Bank or non-compliance of the Bank activities with its internal documents, and in its relations with non-residents – with the law of other states. The Bank legal department reviews all documents and transactions for compliance with the applicable laws of the Republic of Kazakhstan. The risk management process is completely subordinate to the applicable laws of the Republic of Kazakhstan. The Bank strictly complies with regulatory requirements regarding the management of risks, characteristic of banking activities.

FINANCIAL AND ECONOMIC INDICATORS/ Risk management

The Bank carries out a flexible policy of banking risks management, allowing to timely identify, assess, control and minimize the effects of risks taken by the Bank, and to mitigate their impact on financial results.

The Bank operates the system of setting limits and risk control for large counterparties, regional and industry limits, structural limits, restricting market risks related to the main kinds of operations, unified interest and tariff policy.

The basic management risk principles of the Bank:

- timely evaluation, control and tracking of all kinds of risks, which the Bank takes or may take;
- effective system of internal control;
- maintenance of the Bank financial strength and profitability at the lowest level of risks taken.

SOCIAL RESPONSIBILITY/ Human resources management

Long-term cooperation with the personnel and their continuous development is a first-order condition of the Bank reliable operation. In view of the personnel being the Bank core value, primarily determining the success of its activities, it is necessary to create optimal conditions for their development.

Human resources management is realized in the Bank in compliance with the provisions of the Human Resources Management Policy of "Delta Bank", JSC, approved by the Board of Directors of the Bank (hereinafter - the "Policy"). The Policy is based on the Bank mission and is intended to ensure the achievement of the Bank strategic objectives by means of consecutive implementation of principles and conceptual approaches to human resources management, outlined in the Policy.

The approved strategic orientations in the field of human resources management constitute five interrelated areas:

1) engaging specialists with necessary qualifications and personal qualities in the work of the Bank and ensuring their adaptation;
2) human resources training and development;
3) improving high-performance work at all levels;
4) creating an effective system of total remuneration;
5) dynamic and continuous development of the Bank.

Key areas of human resources management are based on the principles of the employer's liability to the employees, unconditional fulfillment of its obligations to provide social guarantees and to preserve life and health of the employees.

In all the areas of the Bank human resources management there were established unified corporate standards, approved by relevant internal regulatory documents.

The Bank personnel listing of 31.12.2013 includes 406 people, 166 of them working in the head office, 238 - in the Bank branches and 2 persons - in the representative offices.

The compensation system of the Bank is aimed at maintenance of loyalty and motivation of the employees due to ensuring the competitive level of wages and social support. The common approach is to create a system of total remuneration depending on achieving the agreed objectives and targets by the Bank in whole, as well as by individual employees, and the remuneration is divided into financial and non-financial.

In 2013, 7 employees of the Bank were granted state awards of the Republic of Kazakhstan for their long-term excellent work in the banking sphere of Kazakhstan. 10 employees of the Bank branches were granted awards of various regional departments, over 40 employees were granted corporate diplomas and prizes for their personal contribution to the Bank effective activities, high level of professionalism and diligent work.

During the reporting period, in compliance with the Bank Development Strategy, there developed a system of corporate education in order to strengthen the interconnection of professional development programs and business tasks, providing the employees with the opportunity of corporate and external training.

In order to transfer to the updated model of corporate training by the end of 2013, the Bank launched a project on the training portal development in order to introduce distance education system for the purpose of maintenance of the permanent system of continuous professional development of the employees.

In 2013, the scale of internal training of the Bank employees increased, the key aspects of it being deepening of professional knowledge of front-office employees regarding the existing banking products, services and technologies, studying of the latest changes in the Bank product range and internal regulatory documents regulating the Bank activities, as well as service quality standards. Nearly all the employees of the Bank branches received training in operational and cash servicing of the Bank clients.

In December 2013, a workshop - a meeting with the heads of the Bank branches - was held on the basis of the Head office. The program included discussion of the targets of the Bank branches for 2014, discussion of interaction between the branches and the Head office, solving business

issues, as well as the training "Management Wizard". In the process of communication with the Board of the Bank, the directors of the branches were announced strategic tasks for a number of years, which should be paid a special attention. In this reporting period, the Bank celebrated its twentieth anniversary, and a cycle of training seminars for existing and potential clients of the Bank was timed to coincide with this date. With participation of the Head office units, clients of the Bank branches in Aktau, Aktobe, Atyrau, Zhanaozen, Karaganda, Pavlodar, Uralsk were presented such topics as "Changes in currency legislation of the Republic of Kazakhstan" and "State lending programs". The issues of currency operations within the Customs Union were of great interest to the clients.

The Bank continues to be committed to the established standards of social responsibility to the employees. According to the resolution of the Bank work collective taken in November 2013, a number of the employees of the Bank were elected from the personnel of the Head office and the Bank branches as representatives of the Bank personnel in order to implement the principles of social partnership, established by labor legislature of the Republic of Kazakhstan in labor area, at the Bank level. The elected representatives of the Bank personnel have all the necessary powers to represent and defend social and labor rights and interests of the employees of the Bank.

Providing a safe environment and occupational safety of the employees is a fundamental principle of the Bank activities. The Bank activities in this area include the personnel training in the standards of occupational safety and safe behavior, induction briefing at acceptance, regular annual induction briefings for all the employees of the Bank, seismological training, firefighting training.

SOCIAL RESPONSIBILITY/ Environmental policy

In the process of its activities, the Bank has developed security measures for waste management. The Bank complies with environmental and sanitation and epidemiological requirements, performs the full range of activities required for waste disposal, annually signs service contracts for waste removal and disposal.

SOCIAL RESPONSIBILITY/ Charity projects

Being aware of its social responsibility, the Bank takes part in implementation of sponsor and charity support programs. In 2013, "Delta Bank", JSC took part in the republican campaign of disabled entrepreneur support in compliance with the program of "Damu Entrepreneurship Fund", JSC, "Damu-Kemek". The equipment and household appliances, which will help the

disabled entrepreneurs to implement their own business-projects or to develop the existing projects, were purchased for the funds of "Delta Bank", JSC.

It has become a good tradition of the Bank to congratulate annually with May 9 the clients of "Delta Bank", JSC, being the participants of the Great Patriotic War, participants of the labor front, homefront workers, veterans of labor, children of war.

CORPORATE GOVERNANCE/ Principles of corporate governance

In the process of establishment, operation and improvement of its system of corporate governance, the Bank adheres to the principle of unconditional compliance with the legal requirements of the Republic of Kazakhstan and transparent Bank activities. This principle of corporate governance is implemented by means of creating and maintenance of the balanced, interconnected and harmonized system of corporate governance.

To ensure proper implementation of the Bank corporate governance, by the resolution of the General meeting of shareholders of "Delta Bank", JSC of September 20, 2010, the Corporate Governance Code of "Delta Bank", JSC (hereinafter - the "Code") was approved, and later amended and added in 2012 and 2013. The present Code specifies the basic standards and principles applied in the process of the Bank corporate governance, including the specific relations of the Board of Directors with the Board of the Bank, as well as with the Bank shareholders and officials.

The Code has been developed in compliance with the law of the Republic of Kazakhstan "On Joint Stock Companies", recommendations of the authorized body with due account for the existing international practice of corporate governance.

The Bank corporate governance is realized in compliance with the following fundamental principles:

1) the principle of defending the rights and interests of shareholders;
2) the principle of the Bank effective governance by the Board of Directors and the Board of the Bank;
3) the principle of transparent and objective disclosure of information about the Bank activities;
4) the principle of legality and ethics;
5) the principle of effective dividend policy;

6) the principle of effective personnel policy;

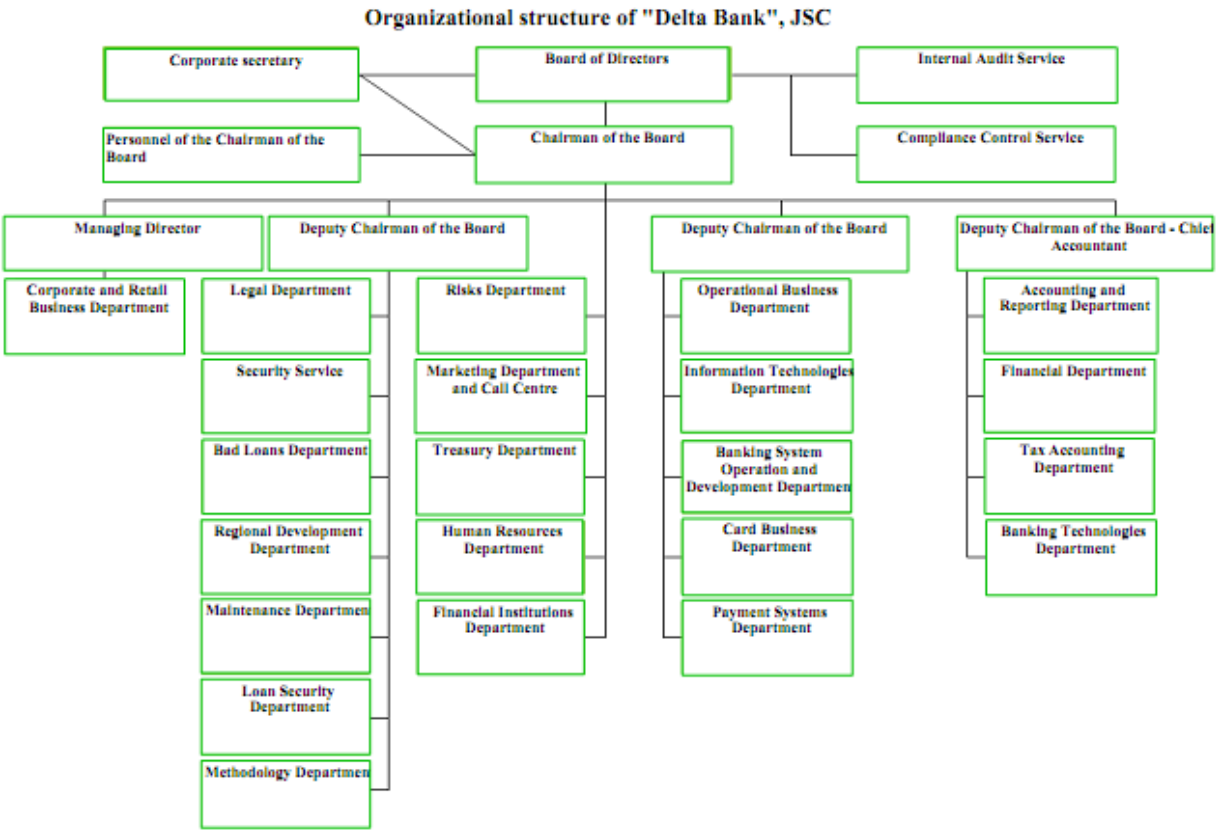
7) the principle of environment protection;

8) the policy of corporate conflicts management.

CORPORATE GOVERNANCE/ Information about the equity capital

The Bank ordinary shares are placed in the official list of Kazakhstan Stock Exchange, in the second category. As of 01.01.2014, the number of the Bank authorized securities equals to 40 000 000 ordinary shares, 10 000 000 of them are allocated, including 8 290 055 being free floats. The number of ordinary shares, repurchased by the Bank, is 41 405 shares.

CORPORATE GOVERNANCE/ The Bank organizational structure for 01.01.2014



Bank Branches
in Almaty
in Astana
in Aktau
in Aktobe
in Atyrau
in Zhanaozen
in Karaganda
in Pavlodar
in Petropalovsk

in Taraz
in Uralsk
Representative office in Ust'-Kamenogorsk
Representative office in Kokshetau

CORPORATE GOVERNANCE/ Members of the Board of Directors

Surname, name, patronymic (if available), year of birth of the Chairman and Members of the Board of Directors of the company	Offices held by each Member of the Board of Directors for the last three years and currently in chronological order, including part-time work, and date of their entry into office	Participation of the members of the Board of Directors in the authorized capital (shares), with participation share indicated	Participation of the members of the Board of Directors in the authorized capital of subsidiaries and related entities, with participation share indicated
Shalgimbayeva Galina Nikolayevna, born in 1961	**Chairman of the Board of Directors** - from 2006 to date- President of "GALA Invest Consulting", LLP (consulting, legal services); - from November 2009 to date - Director General of "GALATTON", LLP (Organization of leisure activities, construction, consulting services in the real estate market, recruitment); - from August 2008 to April 2011 - "VCK", JSC, Independent Director (banking activities); - since 03.10.2011 - Member of the Board of Directors of "Delta Bank", JSC; - from 04.10.2011 to date - Chairman of the Board of Directors of "Delta Bank", JSC (banking activities).	No	No
Samzayev Nurbol Artykbayevich, born in 1974	**Member of the Board of Directors** - 01.06.2011 - 07.10.2011 – Member of the Board, Deputy Chairman of the Board of "ASYL-INVEST", JSC (financial services). - from 10.10.2011 to date – Chairman of the Board of "Delta Bank", JSC. - since 16.01.2012 – Member of the Board of Directors of "Delta Bank", JSC (banking activities).	No	No
Beykutova Gulnur Meyrambekovna, born in1967	**Member of the Board of Directors - Independent Director** - from January 2012 to date – Postgraduate of the National Bank of the Republic of Kazakhstan, Teacher (teaching activities); - from 16.01.2012 to date - Member of the Board of Directors - Independent Director of "Delta Bank", JSC (banking activities).	No	No

CORPORATE GOVERNANCE/ Executive body

Surname, name, patronymic (if available), year of birth of the Chairman and Members of the Board of the Bank	Offices held by each Member of the Board for the last three years and currently in chronological order, including part-time work, and date of their entry into office	Participation share in the paid-in authorized capital of the Bank	Participation share in the paid-in authorized capital of other organizations
Samzayev Nurbol Artykbayevich, born in 1974	**Chairman of the Board** - 01.06.2011 - 07.10.2011 – Member of the Board, Deputy Chairman of the Board of "ASYL-INVEST", JSC (financial services). - from 10.10.2011 to date – Chairman of the Board of "Delta Bank", JSC. - since 16.01.2012 – Member of the Board of Directors of "Delta Bank", JSC (banking activities).	No	No
Mamytaliyev Baglan Dzhaymurzynovich, born in 1976	**Deputy Chairman of the Board** - from June 2010 to October 2011 - Deputy Chairman of the Board, Member of the Board of "Bank "Astana-Finance", JSC. - from 27.10.2011 to date - Deputy Chairman of the Board, Member of the Board of "Delta Bank", JSC.	No	No
Aytimov Akylbek Kusainovich, born in 1965	**Deputy Chairman of the Board** - from 10.01.2011 to 25.12.2011 - Managing Director, Member of the Board of "Delta Bank", JSC; - from 26.12.2011 to date - "Delta Bank", JSC.	No	No
Kaynarbekova Galia Kanatovna, born in 1966	**Deputy Chairman of the Board - Chief Accountant** - from December 2007 г. to December 2011. - - Chief Accountant - Managing Director of the Accounting and Reporting Department - Executive Director - Chief Accountant of the "Bank CenterCredit", JSC (banking activities).; - from 26.12.2011 to date - Deputy Chairman of the Board - Chief Accountant - Member of the Board of "Delta Bank", JSC.	No	No

Surname, name, patronymic (if available), year of birth of the Chairman and Members of the Board of the Bank	Offices held by each Member of the Board for the last three years and currently in chronological order, including part-time work, and date of their entry into office	Participation share in the paid-in authorized capital of the Bank	Participation share in the paid-in authorized capital of other organizations
Kanatpayeva Kenzhegul Mynzhasarovna, born in 1978	**Managing Director** - from 01.12.2010 to 13.02.2012 - Deputy Managing Director - Head of the Corporate Business Department – Head of the second Corporate Finance Office of the "Bank CenterCredit", JSC (banking activities); - from 14.02.2012 to 11.05.2012 - Manager of the Corporate Business Office of AGF JSC "Bank CenterCredit" -; - from 01.06.2012 to date - Managing Director - Member of the Board of "Delta Bank", JSC.	No	No

By the resolution of the Board of Directors, the early termination of office of Deputy Chairman of the Board Mamytaliyev Baglan Dzhaymurzynovich, on his own initiative, is approved from March 07, 2014.

CORPORATE GOVERNANCE/ Committees of the Board of Directors

In order to consider the most important questions and prepare recommendations for the Board of Directors of the Bank, there were established Committees of the Board of Directors on the following issues: human resources, remuneration and social issues, internal audit, strategic planning.

The Human Resources, Remuneration and Social Issues Committee of "Delta Bank", JSC performs the following functions:

1) regarding human resources:

a) develops recommendations on establishing qualification requirements to applicants for the office of Corporate Secretary, employees of the Internal Audit Service, Compliance-Controller and other employees, appointed by the Board of Directors of the Bank;

b) develops recommendations on human resources policy, aimed at forming a qualified team of the Bank employees, reducing human resource risks;

2) regarding remuneration:

a) develops recommendations on internal policy of labor payment, accrual of money remunerations, as well as other kinds of material incentives for the Bank officials, including the Chairman and members of the Board of Directors of the Bank, as well as the Chairman and members of the Board of the Bank;

b) develops proposals for the Board of Directors of the Bank related to remuneration of the members of the Board of Directors of the Bank, which should be submitted for consideration by the General Meeting of Shareholders;

3) regarding social issues:

a) develops recommendations on the policy of social assistance to the Bank employees;

b) develops recommendations on determining the main areas of the Bank charity assistance, criteria of its provision and planning expenses for charity assistance;

4) on the instructions of the Board of Directors of the Bank, fulfills other duties related to the Committee competence.

The Internal Audit Committee of "Delta Bank", JSC performs the following functions:

1) regarding financial statements:

a) considers the financial statement prepared by the external auditor, as well as feasibility and acceptability of the financial statement principles used, essential estimated figures in the financial statement, essential financial statement adjustment;

b) considers any essential disagreements between the external auditor and the Board related to the Bank financial statement;

1) regarding internal control and risk management:

a) analyzes the reports of the internal and external auditors on the state of the internal control and risk management systems;

b) analyzes the effectiveness of means of the Bank internal control and risk management, and submits proposals on these issues, timely considers the internal control assessment made by the management, audit service and external auditors;

c) monitors the implementation of recommendations of internal and external Bank auditors related to the internal control and risk management systems;

d) in conjunction with the Board, considers essential risks and internal control problems and relevant plans of the Bank regarding risk management, regularly discusses the effectiveness of the internal control system;

e) approves a priori the Bank policy and procedures related to the internal control and risk management systems;

f) analyzes the results and quality of activities, developed by the Bank, aimed at improving the internal control and risk management systems;

g) regularly conducts the events, which ensure efficient execution of recommendations and observations of auditors and supervisors as to the defects of the internal control system by the Board;

h) creates a system of tracking the defects of internal control and measures taken to rectify them;

i) bears responsibility for implementing the policy of compliance-risk management, ensures the effective solution of the compliance-control service issues by the Board of the Bank;

j) annually considers a priori the report on compliance-risk monitoring and evaluates the effectiveness of compliance-risk management;

1) regarding external audit:

a) studies the issues of appointment and change of the Bank external auditor and prepares recommendations in this regard;

b) considers the results of annual and interim audit, including the information of the Board regarding the audit results;

1) regarding internal audit:

a) supervises the activities of the Internal Audit Service;

b) submits proposals to the Board of Directors concerning the quantitative membership and terms of office of the Internal Audit Service, appointment of its head and employees, as well as early termination of their powers and work order of the Internal Audit Service;

c) approves a priori the Provision on the Internal Audit Service, procedures of internal audit and other documents, regulating the activities of the Internal Audit Service, as well as

amendments and additions to them, ensures independence of the Internal Audit Service from the Board;

d) approves a priori the annual audit plan;

e) approves a priori regular reports of the Internal Audit Service;

f) considers the issue of existing restrictions, which prevent the Internal Audit Service from effective performance of the established targets, and promotes the removal of these restrictions;

g) at least once in six months listens to the report of the Head of the Internal Audit Service;

h) realizes the preliminary evaluation of the Internal Audit Service activities;

i) initiates the conducting of independent audits (evaluation) of the issues in question by the Internal Audit Service, as and when required.

1) regarding compliance with the law:

a) evaluates effectiveness of the Bank internal structures, aimed at ensuring compliance with the law;

b) receives and studies the reports of the authorized body, internal and external auditors, members of the Board related to compliance with the law;

1) regarding reporting on the activities :

a) regularly, but at least once a year, reports to the Board of Directors on its activities;

b) prepares information about the results of the Committee work, which is to be included into the report of the Board of Directors and which is disclosed in the report to the General Meeting of Shareholders of the Bank;

1) other duties:

a) develops, as and when required, recommendations for the Board of Directors on conducting special audits;

b) analyzes and summarizes fraud and evaluates adequacy of fraud preventive measures taken by the Board of the Bank;

c) on the instructions of the Board of Directors, fulfills other duties related to the Committee competence.

The Strategic Planning Committee of "Delta Bank", JSC performs the following functions:

1) defines the preliminary objectives, targets and patterns of the Bank development for the planned period;
2) defines the target indicator for the required currency amount of the Bank balance for the term of the strategic plan by years;
3) approves the system of indicators of the Bank competitiveness;
4) sets the values of the yield ratios ROAA and ROAE for the planned period, as well as other indicators of effective activities;
5) approves the procedure of strategic planning, regulating the content and order of work of the Bank units in the process of strategic planning;
6) considers the Budgeted balance sheet for the planned period by means of the analysis of economic and banking trends, existing budget history and internal limits of the aggregated balance sheet structure of the Bank;
7) monitors compliance of the major target economic indicators of the Bank strategic plan to the regulations, approved by the authorized body, including the capital adequacy analysis according to the target active operations;
8) analyzes and monitors the level of the achieved strategic plan indicators compared with the plan/fact, reasons of deviations from the strategic plan indicators;
9) considers the proposals of the Board of the Bank regarding the terms and content adjustment of the Bank strategic plan;
10) submits to the Board of the Bank conclusions and recommendations on the results of the analysis of the Bank strategic plan performance;
11) determines the requirements related to introducing amendments and additions to the Bank documents on strategic planning and development.

CORPORATE GOVERNANCE/ Internal Audit Service

The Internal Audit Service of the Bank (hereinafter - the IAS) is an independent structural unit of the Bank, realizing the objective assessment and consulting activities for the purposes of improving the Bank activities and ensuring the internal audit organization and conducting.

The main purpose of the IAS is to assess adequacy and effectiveness of the internal control and risk management systems in all aspects of the Bank activities, to ensure timely and reliable information on the status of the assigned functions and targets performed by the Bank structural units, as well as to provide efficient recommendations on improving the Bank work. While carrying out its activities, it follows the law of the Republic of Kazakhstan, the Charter, resolutions of the Bank authorities, this Provision and other internal documents of the Bank. Besides, the IAS activities are also based on international standards of internal audit, developed by the Institute of internal auditors.

CORPORATE GOVERNANCE/ Information about dividends

Indicator	2013	2012	2011
Earnings per share (tenge)	362	179	114
Book value of a share	2 192	1 874	1 709

During the last three years, all income earned from the Bank activities was directed to the maintenance of an adequate level of capital, namely of the reserve capital and retained income of the previous years.

The Annual General Meeting of Shareholders (Minutes № 45 of 12.04.2012) decided to direct a part of the amount of the retained net income of the Bank before distribution of dividends on ordinary shares to the reserve capital of the Bank, and to use the remaining retained net income of the Bank for 2011. It was also decided not to accrue or pay dividends on ordinary shares of the Bank for 2011.

The Annual General Meeting of Shareholders (Minutes № 46 of 14.05.2013) decided to direct a part of the amount of the retained net income of the Bank before distribution of dividends on ordinary shares to the reserve capital of the Bank, to use the remaining retained net income of the Bank for 2012, and to leave the remaining part of the net income in the "Retained net income for the previous years". It was also decided not to accrue or pay dividends on ordinary shares of the Bank for 2012.

The Annual General Meeting of Shareholders (Minutes № 48 of 14.04.2014) decided:

- not to pay dividends for 2013, all the income for 2013 in the amount of 3 601 232 thous. tenge, which is accounted for in the profit and loss statement, to leave in the "Retained net income for the previous years".

CORPORATE GOVERNANCE/ Information policy

The information about the Bank activities and its financial state, including the information about current activities, events significantly affecting the interests of shareholders, as well as the information for potential investors is posted on the official Internet-resource of the Financial statement depository www.dfo.kz, "Kazakhstan Stock Exchange", JSC www.kase.kz and on its own corporate Internet-resource www.deltabank.kz.

CORPORATE GOVERNANCE/ Information about remuneration

The information about the amount of remuneration and bonuses, provided to the members of the Board of Directors for the last year.

Total amount of remuneration for 2013	Total amount of bonuses received for 2013	Amount accumulated by the Bank to provide the Board of Directors with remuneration on pensions
35 504 520,04	-	-

The information about the amount of remuneration and bonuses, provided to the members of the Executive body for the last year.

Total amount of remuneration for 2013	Total amount of bonuses received for 2013	Amount accumulated by the Bank to provide the members of the Executive body with remuneration on pensions
123 796 850,37	-	-

CORPORATE GOVERNANCE/ Compliance with the Corporate Code

On May 14, 2013 the Annual General Meeting of Shareholders was held. At the meeting, the annual financial statement of the Bank for 2012, the order of distribution of the Bank net income for 2012 and the amount of dividends per an ordinary share of the Bank were approved. Besides, a new revision of the Charter of the Bank was approved, and the issue of shareholders references to the Bank activities and its officials were considered, as well as the results of their consideration for 2012. There were determined the terms and amount of remuneration for each member of the Board of Directors - Independent Director of the Bank.

On November 5, 2013, the Extraordinary General Meeting of Shareholders was held. At the meeting, the Share value determination technique was approved to be applied at redemption of shares by "Delta Bank", JSC, as well as amendments and additions to the Corporate Code of "Delta Bank", JSC.

The Board of Directors considered monthly the Bank governance reporting, including the issues of operating the risk management and internal control systems. The resolutions were taken on major transactions and interested party transactions, with further disclosure of this information according to the established order. Monthly, the information about the transactions with people having special relations with the Bank was considered. On 30.12.2013, a resolution was taken on allocation of shares of the Bank.

PRIMARY TARGETS FOR THE NEXT YEAR

In compliance with the objectives of the selected strategy of development, the Bank sets targets of increasing its market positions in the field of lending and attracting client deposits.

Working on diversification of its activities, the Bank is focused on providing services to the following target groups of clients:

- small and medium-sized entities, focused on business development;
- individuals seeking to increase their welfare and life quality.

The following primary targets in the field of the Bank activities development are accepted for 2014:

- strengthening the Bank positions in the markets of major banking products with simultaneous development of the system of related services;
- presence of the Bank branches in all commercially viable regions;
- improving the work of the Bank branches on attracting clients in economy sectors, concentrating the maximum potential of commercial viability;
- development of an integrated approach in client service by means of improving the quality of service, namely creating comfortable environment, reducing the time of service, optimizing the existing commission fees;
- searching new competitive commercially viable products and forms of client service on the basis of studying consumers demand and market of competing banks;
- establishment and strengthening of partnership relations with the central and local authorities, state companies and enterprises in order to create favorable conditions for the Bank business development in regions, and strengthen its positions in the field of providing services to the state organizations;

- reducing concentration on certain economy sectors in the Bank loan portfolio by means of increasing the share of enterprises of the following economy sectors:
  - trade;
  - transport and communication;
  - manufacturing;
  - industry;
  - other services.
- further development and modernization of corporate communication network, telecommunications and communication media in order to increase the quality of accounting and data processing;
- further work on establishing the system of the personnel motivation and training, increasing the quality of client service and volume of sales;
- increasing the level of information safety and technical protection.

CONTACT INFORMATION

The Register of the Bank securities is maintained and kept by "The Integrated Securities Registrar", JSC.

The Registrar's address: Republic of Kazakhstan, 050000, Almaty, Abylay-khana str., 141; tel: +7 (727) 272-47-60.

The audit of the Bank financial statements is performed by the limited liability partnership "KPMG Audit".

The auditor's address: 050051, Almaty, Dostyk av., 180, Business-center "Koktem", tel.: +7 (727) 2 980 898, fax: +7 (727) 2 980 708.

Contact information for investors and shareholders:

Treasury Department tel.: +7 (727) 2 448 542, fax: +7 (727) 2 448 541.

Director of Treasury Department Omurzakov D.N. omurzakov.d@deltabank.kz

Specialist in shareholders' equity Dashayeva R.N. dashayeva.r@deltabank.kz

DeltaBank

JSC Delta Bank

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013

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«КПМГ Аудит» жауапкершілігі шектеулі серіктестік
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KPMG Audit LLC
050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Board of Directors and Management Board of JSC Delta Bank

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

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

Ravshan Irmatov
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No МФ-0000053 of 6 January 2012

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Alla Nigay
General Director of KPMG Audit LLC
acting on the basis of the Charter

17 February 2014

JSC Delta Bank
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013

	Note	2013 KZT'000	2012 KZT'000
Interest income	4	22,461,625	13,949,823
Interest expense	4	(9,857,217)	(4,634,937)
Net interest income		**12,604,408**	**9,314,886**
Fee and commission income	5	1,228,723	1,187,884
Fee and commission expense	6	(57,952)	(42,312)
Net fee and commission income		**1,170,771**	**1,145,572**
Net loss on financial instruments at fair value through profit or loss		(3,969)	(14,539)
Net foreign exchange gain	7	133,304	127,008
Net realised loss on available-for-sale financial assets		-	(6,093)
Dividends received		242	29,932
Other income, net		7,252	11,952
Operating income		**13,912,008**	**10,608,718**
Impairment losses	8	(7,073,419)	(6,552,575)
General administrative expenses	9	(2,394,415)	(1,914,315)
Profit before taxes		**4,444,174**	**2,141,828**
Income tax expense	10	(842,942)	(361,517)
Profit for the year		**3,601,232**	**1,780,311**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		(37,795)	(19,761)
- Net change in fair value transferred to profit or loss		-	6,093
Other comprehensive income		**(37,795)**	**(13,668)**
Total comprehensive income for the year		**3,563,437**	**1,766,643**
Earnings per share	25		
Basic and diluted earnings per share, in KZT		362	179

The financial statements as set out on pages 5 to 61 were approved by Management on 17 February 2014 and were signed on its behalf by:

Samzayev Nurbol Artykbayevich
Chairman of the Board

Kainarbekova Galiya Kanatovna
Deputy Chairperson - Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of the financial statements.

JSC Delta Bank
Statement of Financial Position as at 31 December 2013

	Note	2013 KZT'000	2012 KZT'000
ASSETS			
Cash and cash equivalents	11	16,174,819	8,630,370
Placements with banks and other financial institutions	12	-	10,001,865
Financial instruments at fair value through profit or loss	13	177,328	176,667
Loans to customers	14	143,615,539	101,789,456
Available-for-sale financial assets	15	26,188,114	17,448,387
Held-to-maturity investments	16	2,204,854	2,180,065
Property, equipment and intangible assets	17	1,038,958	344,099
Deferred tax asset	10	292,064	-
Other assets	18	574,119	319,913
Total assets		**190,265,795**	**140,890,822**
LIABILITIES			
Due to banks and other financial institutions	19	11,411,318	10,889,846
Current accounts and deposits from customers	20	127,295,542	107,965,427
Debt securities issued	21	28,859,122	3,111,969
Deferred tax liability	10	-	48,840
Other liabilities	22	447,311	185,671
Total liabilities		**168,013,293**	**122,201,753**
EQUITY	23		
Share capital		15,460,976	15,460,980
Reserve capital		2,369,823	963,377
Revaluation surplus for property, equipment and intangible assets		371	1,639
Revaluation reserve for available-for-sale financial assets		46,001	83,796
Retained earnings		4,375,331	2,179,277
Total equity		**22,252,502**	**18,689,069**
Total liabilities and equity		**190,265,795**	**140,890,822**
Book value per share, in KZT	24	2,192	1,874
Commitments and Contingencies	28, 30		

The statement of financial position is to be read in conjunction with the notes to, and forming part of the financial statements.

JSC Delta Bank
Statement of Cash Flows for the year ended 31 December 2013

	2013 KZT'000	2012 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	21,885,926	13,905,259
Interest payments	(9,255,654)	(4,645,031)
Fee and commission receipts	1,225,316	1,149,195
Fee and commission payments	(57,952)	(43,715)
Net payments from financial instruments at fair value through profit or loss	(3,969)	(14,539)
Net receipts from foreign exchange	210,231	107,417
Other receipts, net	7,494	41,884
General administrative payments	(2,210,702)	(1,791,447)
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	10,000,002	(9,700,002)
Financial instruments at fair value through profit or loss	(661)	10,228
Loans to customers	(48,693,456)	(41,761,333)
Other assets	(289,565)	8,599
Increase/(decrease) in operating liabilities		
Due to banks and other financial institutions	513,420	9,811,072
Current accounts and deposits from customers	19,189,144	37,856,001
Other liabilities	256,426	51,560
Cash (used in)/from operating activities before taxes paid	**(7,224,000)**	**4,985,148**
Income tax paid	(1,153,685)	(319,088)
Cash flows (used in)/from operating activities	**(8,377,685)**	**4,666,060**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(15,381,072)	(14,699,578)
Disposal and redemption of available-for-sale financial assets	6,827,216	5,871,522
Redemption of held-to-maturity investments	-	246,955
Acquisition of property, equipment and intangible assets	(885,810)	(198,362)
Disposal of property, equipment and intangible assets	12,452	20,137
Cash flows used in investing activities	**(9,427,214)**	**(8,759,326)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of subordinated debt securities issued	-	(1,320,146)
Proceeds from debt securities issued	25,294,613	3,000,000
Proceeds from shares issued	-	1,028,097
Repurchase of share capital	(4)	(1,289)
Cash flows from financing activities	**25,294,609**	**2,706,662**
Net increase/(decrease) in cash and cash equivalents	**7,489,710**	**(1,386,604)**
Effect of changes in exchange rates on cash and cash equivalents	54,739	19,591
Cash and cash equivalents as at the beginning of the year	8,630,370	9,997,383
Cash and cash equivalents as at the end of the year (Note 11)	**16,174,819**	**8,630,370**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of the financial statements.

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JSC Delta Bank
Statement of Changes in Equity for the year ended 31 December 2013

KZT'000	Share capital	Reserve capital	Revaluation surplus for property, equipment and intangible assets	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total
Balance as at 1 January 2012	14,434,172	312,848	83,073	97,464	968,061	15,895,618
Total comprehensive income						
Profit for the year	-	-	-	-	1,780,311	1,780,311
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets	-	-	-	(19,761)	-	(19,761)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	6,093	-	6,093
Items that will not be reclassified to profit or loss:						
Transfer of revaluation reserve to retained earnings on usage of revalued property, equipment and intangible assets	-	-	(81,434)	-	81,434	-
Total other comprehensive income	-	-	**(81,434)**	**(13,668)**	**81,434**	**(13,668)**
Total comprehensive income for the year	-	-	**(81,434)**	**(13,668)**	**1,861,745**	**1,766,643**
Transactions with owners, recorded directly in equity						
Shares issued	1,028,097	-	-	-	-	1,028,097
Treasury shares acquired	(1,289)	-	-	-	-	(1,289)
Transfer to reserve capital	-	650,529	-	-	(650,529)	-
Total transactions with owners	**1,026,808**	**650,529**	-	-	**(650,529)**	**1,026,808**
Balance as at 31 December 2012	**15,460,980**	**963,377**	**1,639**	**83,796**	**2,179,277**	**18,689,069**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of the financial statements.

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JSC Delta Bank
Statement of Changes in Equity for the year ended 31 December 2013

KZT'000	Share capital	Reserve capital	Revaluation surplus for property, equipment and intangible assets	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total
Balance as at 1 January 2013	15,460,980	963,377	1,639	83,796	2,179,277	18,689,069
Total comprehensive income						
Profit for the year	-	-	-	-	3,601,232	3,601,232
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets	-	-	-	(37,795)	-	(37,795)
Items that will not be reclassified to profit or loss:						
Transfer of revaluation reserve to retained earnings on usage of revalued property, equipment and intangible assets	-	-	(1,268)	-	1,268	-
Total other comprehensive income	-	-	**(1,268)**	**(37,795)**	**1,268**	**(37,795)**
Total comprehensive income for the year	-	-	**(1,268)**	**(37,795)**	**3,602,500**	**3,563,437**
Transactions with owners, recorded directly in equity						
Treasury shares acquired	(4)	-	-	-	-	(4)
Transfer to reserve capital (Note 23(c))	-	1,406,446	-	-	(1,406,446)	-
Total transactions with owners	**(4)**	**1,406,446**	-	-	**(1,406,446)**	**(4)**
Balance at 31 December 2013	**15,460,976**	**2,369,823**	**371**	**46,001**	**4,375,331**	**22,252,502**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of the financial statements.

1 Background

(a) Organisation and operations

JSC Delta Bank (the "Bank") is a joint stock company, which was incorporated in the Republic of Kazakhstan in 1993.

The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK"). The Bank operates under banking licence #213, dated 24 October 2007.

The principal activities of the Bank are commercial/banking activity, lending and issuing guarantees, cash and settlements operations with securities and foreign exchange.

The Bank is the member of the Kazakhstan Deposit Insurance Fund (the "KDIF").

The Bank's registered office is: 73A, Tole bi street, Almaty, Republic of Kazakhstan.

As at 31 December 2013 and 2012, the Bank had 11 branches operating in the Republic of Kazakhstan.

Bonds and common shares issued by the Bank are listed on Kazakhstan Stock Exchange.

(b) Shareholders

As at 31 December 2013 and 2012, the following shareholders owned 5% or more of the issued voting shares of the Bank:

Shareholder	31 December 2013 %	31 December 2012 %
Samzayev Artykbay	16.8	16.8
Sarkulova Kulaysh	9.9	9.9
Saktaganova Galiya	9.8	9.8
Tulebayeva Alma	9.6	9.6
Zholdybayeva Zhanar	9.3	9.3
Tulepbekov Zhasulan	9.2	9.2
Balmagambetova Almagul	8.7	8.7
Kravchenko Aigul	8.1	8.1
Akhmetzhanova Gulimzhan	6.1	6.1
Akinzhanova Ainur	6.1	6.1
	93.6	93.6
Shareholders owning less than 5%	6.4	6.4
	100.0	100.0

(c) Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and land, buildings and vehicles are at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan Tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in Note 14 "Loans to customers".

(e) Changes in accounting policies and presentation

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 13 *Fair Value Measurements* (see (i))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) (see (ii))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (iii))

The nature and the effect of the changes are explained below.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the prices at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. (see Note 32).

As a result, the Bank adopted a new definition of fair value, as set out in Note 3 (c) (v). The change had no significant impact on the measurements of assets and liabilities. The Bank also included new disclosures in the financial statements that are required under IFRS 13.

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

(ii) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Bank modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information is also re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities or comprehensive income.

(iii) Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Bank included new disclosures in the financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures (Note 26 (e)).

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

3 Significant accounting policies, continued

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and placements with banks with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition, continued

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within due to banks and other financial institutions. The difference between the sale and repurchase price represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions within placements with banks and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Securitisation

For securitised financial assets, the Bank considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity.

When the Bank, in substance, controls the entity to which financial assets are transferred, the entity is included in these financial statements and the transferred assets are recognised in the statement of financial position.

When the Bank transfers financial assets to another entity, but retains substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the statement of financial position.

When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the statement of financial position.

If the Bank neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognised if the Bank has not retained control over the assets.

(x) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3 Significant accounting policies, continued

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land, buildings and vehicles, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Land, buildings and vehicles are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land, buildings and vehicles being revalued. A revaluation increase on land, buildings and vehicles is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on land, buildings and vehicles is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	10 years;
Computer equipment	3 years;
Vehicles	7 years;
Other	4 to 7 years.

Leasehold improvements are amortised over the shorter of the life of the related leased asset or lease contract. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation.

(e) Intangible assets

Acquired intangible assets are subject to revaluation on a regular basis.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are five years.

(f) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3 Significant accounting policies, continued

(f) Impairment, continued

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of cash equivalents, placements with banks, loans and other receivables ("loans and receivables"). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

3 Significant accounting policies, continued

(f) Impairment, continued

(ii) Financial assets carried at cost, continued

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

3 Significant accounting policies, continued

(h) Credit related commitments, continued

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(i) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Kazakh legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3 Significant accounting policies, continued

(j) Taxation, continued

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(l) Segment reporting

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Operating Segments*. The Bank's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Bank's revenues and profit is derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Bank, the Chairman of the Management Board, only receives and reviews the information on the Bank as a whole.

(m) Comparative information

Prior period reclassification

Comparative information is reclassified to conform to changes in presentation in the current year.

During the preparation of the Bank's financial statements for the year ended 31 December 2013, management made certain reclassifications affecting the corresponding figures to conform to the presentation of financial statements for the year ended 31 December 2013.

3 Significant accounting policies, continued

(m) Comparative information, continued

In the statement of financial position as at 31 December 2012 mandatory reserve with the NBRK of KZT 2,511,165 thousand was reclassified from placements with banks and other financial institutions to cash and cash equivalents. Management believes that this presentation is more appropriate presentation in accordance with IFRS. The effect of reclassifications on the corresponding figures can be summarised as follows:

KZT'000	As reclassified	Effect of reclassifications	As previously reported
Statement of financial position as at 31 December 2012			
Cash and cash equivalents	8,630,370	2,511,165	6,119,205
Due to banks and other financial institutions	10,001,865	(2,511,165)	12,513,030
Statement of cash flows for the year ended 31 December 2012			
Mandatory reserve with the NBRK	-	737,306	(737,306)
Cash flows (used in)/from operating activities	4,666,060	737,306	3,928,754
Cash and cash equivalents as at the beginning of the year	9,997,383	1,773,859	8,223,524
Cash and cash equivalents as at the end of the year	8,630,370	2,511,165	6,119,205

The above reclassifications do not impact the Bank's results or equity.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2013 KZT'000	2012 KZT'000
Interest income		
Loans to customers	21,304,034	13,495,528
Available-for-sale financial assets	982,745	299,887
Held-to-maturity investments	116,874	122,200
Placements with banks and other financial institutions	46,922	21,477
Financial instruments at fair value through profit or loss	11,050	10,731
	22,461,625	**13,949,823**
Interest expense		
Current accounts and deposits from customers	(8,420,364)	(4,286,759)
Debt securities issued	(1,193,582)	(180,742)
Amounts payable under repurchase agreements	(130,189)	(7,813)
Due to banks and other financial institutions	(113,082)	(56,413)
Subordinated debt securities issued	-	(103,210)
	(9,857,217)	**(4,634,937)**
	12,604,408	**9,314,886**

Included within various line items under interest income for the year ended 31 December 2013 is a total of KZT 4,722,593 thousand (2012: KZT 1,565,464 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2013 KZT'000	2012 KZT'000
Guarantee and letter of credit issuance	927,146	864,616
Transfer operations	123,768	124,066
Cash operations	117,419	139,785
Foreign currency exchange	30,086	22,793
Credit card and account maintenance	16,188	18,907
Other	14,116	17,717
	1,228,723	**1,187,884**

6 Fee and commission expense

	2013 KZT'000	2012 KZT'000
Brokerage	17,214	6,980
Transfer operations	12,969	12,135
Card services	12,378	12,468
Agency	183	434
Other	15,208	10,295
	57,952	**42,312**

7 Net foreign exchange gain

	2013 KZT'000	2012 KZT'000
Dealing, net	210,231	133,326
Translation differences, net	(76,927)	(6,318)
	133,304	**127,008**

8 Impairment losses

	2013 KZT'000	2012 KZT'000
Loans to customers	7,064,729	6,547,152
Other assets	8,690	5,423
	7,073,419	**6,552,575**

9 General administrative expenses

	2013 KZT'000	2012 KZT'000
Salary and other compensations to employees	1,046,182	875,714
Payroll related taxes	101,168	84,481
Total employee costs	**1,147,350**	**960,195**
Occupancy	417,254	409,919
Depreciation and amortisation	178,499	125,432
Advertising and marketing	109,231	32,035
Taxes other than on income	103,253	74,861
Insurance	59,092	38,396
Security	55,473	54,121
Communications and information services	51,614	41,382
Repairs and maintenance	41,489	12,240
Professional services	40,869	17,362
Travel expenses	22,773	15,504
Transportation	22,602	16,283
Membership fee	21,900	10,589
Representative expenses	11,180	14,180
Cash collection expenses	6,777	7,489
Other	105,059	84,327
	2,394,415	**1,914,315**

10 Income tax expense

	2013 KZT'000	2012 KZT'000
Current year	1,183,846	309,768
Overprovided in prior years	-	(27,833)
	1,183,846	281,935
Origination and reversal of temporary differences	(340,904)	79,582
Total income tax expense	842,942	361,517

The Bank's applicable tax rate for current and deferred tax is 20% (2012: 20%).

Reconciliation of effective tax rate:

	2013 KZT'000	%	2012 KZT'000	%
Profit before taxes	4,444,174	100.0	2,141,828	100.0
Income tax at the applicable tax rate	888,835	20.0	428,366	20.0
Overprovided in prior years	-	-	27,833	1.3
Non-taxable income from securities	(222,182)	(5.0)	(86,564)	(4.0)
Taxable income not required under IFRS due to derecognition of loans	213,215	4.8	-	-
Non-taxable income, other	(36,926)	(0.8)	(8,118)	(0.4)
	842,942	19.0	361,517	16.9

Deferred tax assets and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as at 31 December 2013 and 2012. These deferred tax assets and liabilities have been recognised in these financial statements.

These deductible temporary differences do not expire under current tax legislation.

Movement in temporary differences during the years ended 31 December 2013 and 2012 are presented as follows:

2013 KZT'000	Balance 1 January 2013	Recognised in profit or loss	Balance 31 December 2013
Loans to customers	(63,706)	63,706	-
Property, equipment and intangible assets	5,935	13,129	19,064
Other liabilities	8,931	264	9,195
Interest payable	-	263,805	263,805
	(48,840)	340,904	292,064

2012 KZT'000	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Loans to customers	49,883	(113,589)	(63,706)
Property, equipment and intangible assets	2,801	3,134	5,935
Other liabilities	685	8,246	8,931
Securities	(22,627)	22,627	-
	30,742	(79,582)	(48,840)

11 Cash and cash equivalents

	2013 KZT'000	2012 KZT'000
Cash on hand	697,506	381,371
Nostro account with the NBRK	7,551,582	6,593,937
Nostro account with other banks		
- rated A	4,653,209	1,321,207
- rated from BBB+ to BBB-	204,861	184,482
- rated from BB+ to BB-	204,937	31,910
- rated below B+	2,862,724	5,560
- not rated	-	111,903
Total cash and cash equivalents	**16,174,819**	**8,630,370**

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale. None of cash and cash equivalents are impaired or past due.

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. These requirements are complied with by keeping certain minimum balance of cash on hand and on a current account with the NBRK. As at 31 December 2013, the minimum reserve is KZT 3,081,054 thousand (2012: KZT 2,511,165 thousand).

Concentration of cash and cash equivalents

As at 31 December 2013 the Bank had 2 banks (31 December 2012: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 is KZT 12,204,791 thousand (31 December 2012: KZT 6,593,937 thousand).

12 Placements with banks and other financial institutions

As at 31 December 2013, the Bank has no placements with banks and other financial institutions (31 December 2012: placements with banks rated from B to BB+ in amount KZT 10,001,865 thousand).

None of the placements with banks are impaired or past due.

13 Financial instruments at fair value through profit or loss

	2013 KZT'000	2012 KZT'000
Held by the Bank		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	154,938	157,519
Equity instruments		
JSC Kazakhtelecom	22,390	19,148
	177,328	**176,667**

None of the financial instruments at fair value through profit or loss are past due or impaired.

14 Loans to customers

	2013 KZT'000	2012 KZT'000
Loans to corporate customers	**161,391,731**	**111,225,131**
Loans to retail customers		
Consumer loans	427,850	286,946
Other retail loans	944,736	621,950
Total loans to retail customers	**1,372,586**	**908,896**
Gross loans to customers	**162,764,317**	**112,134,027**
Impairment allowance	(19,148,778)	(10,344,571)
Net loans to customers	**143,615,539**	**101,789,456**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	10,232,030	112,541	10,344,571
Net charge/(recovery)	7,168,710	(103,981)	7,064,729
Recoveries	1,174,253	562,688	1,736,941
Effect of foreign currency translation	2,963	(426)	2,537
Balance at the end of the year	**18,577,956**	**570,822**	**19,148,778**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	3,554,122	146,702	3,700,824
Net charge/(recovery)	6,602,269	(55,117)	6,547,152
Write-offs	-	(83,628)	(83,628)
Recoveries	75,010	104,579	179,589
Effect of foreign currency translation	629	5	634
Balance at the end of the year	**10,232,030**	**112,541**	**10,344,571**

14 Loans to customers, continued

(a) Credit quality of the loans to corporate customers

The following table provides information on the credit quality of the loans to corporate customers portfolio as at 31 December 2013:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans to corporate customers				
Loans without individual signs of impairment	121,147,975	(5,861,305)	115,286,670	4.8
Impaired loans individually assessed	40,243,756	(12,716,651)	27,527,105	31.6
Total loans to corporate customers	**161,391,731**	**(18,577,956)**	**142,813,775**	**11.5**

The following table provides information on the credit quality of the loans to corporate customers portfolio as at 31 December 2012:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans to corporate customers				
Loans without individual signs of impairment	85,436,129	(2,411,226)	83,024,903	2.8
Impaired loans individually assessed	25,789,002	(7,820,804)	17,968,198	30.3
Total loans to corporate customers	**111,225,131**	**(10,232,030)**	**100,993,101**	**9.2**

The Bank estimated loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management made the following key assumptions:

- the collective impairment allowance is based on historic loss rates estimated for each sub-portfolio disaggregated based on the similar credit risk
- a discount of between 20% and 40% to the annually appraised value if the property pledged is sold
- a delay of 6 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment allowance on loans to corporate customers as at 31 December 2013 would be KZT 1,428,138 thousand higher/lower (2012: KZT 1,009,931 thousand).

14 Loans to customers, continued

(a) Credit quality of the loans to corporate customers, continued

Analysis of collateral

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2013 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date
Loans without individual signs of impairment		
Commodity - grain	54,744,012	54,744,012
Deposits	49,442,265	49,442,265
Pledged contract receivables	10,535,268	10,535,268
Real estate	511,961	511,961
Motor vehicles	53,164	53,164
Total loans without individual signs of impairment	**115,286,670**	**115,286,670**
Impaired loans individually assessed		
Commodity - grain	23,990,039	23,990,039
Pledged contract receivables	1,872,709	1,872,709
Real estate	1,664,357	1,664,357
Total impaired loans individually assessed	**27,527,105**	**27,527,105**
Total loans to corporate customers	**142,813,775**	**142,813,775**

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2012 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date
Loans without individual signs of impairment		
Deposits	48,401,556	48,401,556
Commodity - grain	33,491,581	33,491,581
Real estate	1,127,972	1,127,972
Motor vehicles	3,794	3,794
Total loans without individual signs of impairment	**83,024,903**	**83,024,903**
Impaired loans individually assessed		
Commodity – grain	5,840,763	5,840,763
Pledged contract receivables	5,344,042	5,344,042
Motor vehicles	3,038,504	3,038,504
Real estate	1,360,688	1,360,688
Other collateral	2,384,201	2,384,201
Total impaired loans individually assessed	**17,968,198**	**17,968,198**
Total loans to corporate customers	**100,993,101**	**100,993,101**

During the year ended 31 December 2013, the Bank has not obtained assets by taking possession of collateral for loans to corporate customers. During the year ended 31 December 2012, the Bank obtained assets with the carrying amount of KZT 96,668 thousand by taking possession of collateral for loans to corporate customers. During 2013 the Bank sold those assets.

14 Loans to customers, continued

(b) Credit quality of loans to retail customers

The following table provides information on the credit quality of loans to retail customers as at 31 December 2013:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans, %
Consumer loans				
- Not past due	268,503	(2,417)	266,086	0.9
- Overdue less than 30 days	1,106	(16)	1,090	1.4
- Overdue 30-89 days	1,135	(92)	1,043	8.1
- Overdue 90-179 days	1,996	(807)	1,189	40.4
- Overdue 180-360 days	2,607	(2,607)	-	100.0
- Overdue more than 360 days	152,503	(152,503)	-	100.0
Total consumer loans	**427,850**	**(158,442)**	**269,408**	**37.0**
Other loans				
- Not past due	522,723	(1,830)	520,893	0.4
- Overdue less than 30 days	10,918	(227)	10,691	2.1
- Overdue 30-89 days	989	(217)	772	21.9
- Overdue more than 360 days	410,106	(410,106)	-	100.0
Total other loans to retail customers	**944,736**	**(412,380)**	**532,356**	**43.7**
Total loans retail customers	**1,372,586**	**(570,822)**	**801,764**	**41.6**

The following table provides information on the credit quality of loans to retail customers as at 31 December 2012:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Consumer loans				
- Not past due	173,953	(3,393)	170,560	2.0
- Overdue less than 30 days	41,222	(1,160)	40,062	2.8
- Overdue 30-89 days	19,393	(3,399)	15,994	17.5
- Overdue 90-179 days	1,055	(356)	699	33.7
- Overdue 180-360 days	48,658	(48,658)	-	100.0
- Overdue more than 360 days	2,665	(2,665)	-	100.0
Total consumer loans	**286,946**	**(59,631)**	**227,315**	**20.8**
Other loans				
- Not past due	555,498	(7,276)	548,222	1.3
- Overdue less than 30 days	21,296	(1,508)	19,788	7.1
- Overdue 30-89 days	2,559	(1,529)	1,030	59.7
- Overdue 90-179 days	12,089	(12,089)	-	100.0
- Overdue 180-360 days	20,704	(20,704)	-	100.0
- Overdue more than 360 days	9,804	(9,804)	-	100.0
Total other loans to retail customers	**621,950**	**(52,910)**	**569,040**	**8.5**
Total loans to retail customers	**908,896**	**(112,541)**	**796,355**	**12.4**

The Bank estimates loan impairment based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include: loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

14 Loans to customers, continued

(b) Credit quality of the loans to retail customers, continued

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment on loans to individuals as of 31 December 2013 would be KZT 24,053 thousand lower/higher (31 December 2012: KZT 23,891 thousand).

Analysis of collateral

Consumer loans are mostly secured by the real estate. Other loans include mortgage loans, auto loans and credit card overdrafts. Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts are mostly not secured.

(c) Industry and geographical analysis of the loan portfolio

Loans to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	2013 KZT'000	2012 KZT'000
Agriculture	65,894,530	50,422,536
Wholesale trade	43,780,231	22,959,040
Finance lease	10,735,075	10,916,575
Construction	14,844,971	10,667,109
Services	14,316,152	6,735,813
Petroleum products trade	5,493,849	6,066,829
Transport and warehousing services	4,040,986	3,173,838
Loans to retail customers	1,372,586	908,896
Manufacturing	1,529,937	283,391
Real estate	756,000	-
	162,764,317	**112,134,027**
Impairment allowance	(19,148,778)	(10,344,571)
	143,615,539	**101,789,456**

(d) Significant credit exposures

As at 31 December 2013 the Bank had 39 borrowers (31 December 2012: 27), whose loan balances exceeded 10% of equity. The gross value of these loans as at 31 December 2013 was KZT 150,922,757 thousand (31 December 2012: KZT 104,507,311 thousand).

(e) Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 26, which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 Available-for-sale financial assets

	2013 KZT'000	2012 KZT'000
Held by the Bank		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	16,523,039	7,351,315
Notes of the National bank of the Republic of Kazakhstan	-	2,094,870
	16,523,039	**9,446,185**
Equity instruments		
JSC Kazakhstan Stock Exchange	2,200	2,200
	2,200	2,200
	16,525,239	**9,448,385**
Pledged under repurchase agreements		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	9,662,875	8,000,002
Total pledged under repurchase agreements	**9,662,875**	**8,000,002**
	26,188,114	**17,448,387**

Investments without a determinable fair value

Available-for-sale investments stated at cost comprise non-quoted ordinary equity shares of JSC Kazakhstan Stock Exchange of KZT 2,200 thousand, the fair value of which cannot be reliably determined. There is no market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

16 Held-to-maturity investments

	2013 KZT'000	2012 KZT'000
Held by the Bank		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,204,854	180,064
	2,204,854	**180,064**
Pledged under repurchase agreements		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	2,000,001
	-	2,000,001
	2,204,854	**2,180,065**

17 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer equipment	Leasehold improve-ments	Vehicles	Other	Computer software	Total
Cost/revalued amount							
Balance at 1 January 2013	60,724	221,911	59,203	65,312	252,929	116,029	776,108
Additions	53,598	144,703	37,788	91,927	125,060	432,734	885,810
Disposals	(69)	(42,761)	(95)	(6,528)	(33,325)	(9,368)	(92,146)
Reclassification to other assets	-	(16,520)	-	-	(20,938)	-	(37,458)
Transfers	256	(43)	(256)	-	43	-	-
Balance at 31 December 2013	**114,509**	**307,290**	**96,640**	**150,711**	**323,769**	**539,395**	**1,532,314**
Depreciation and amortisation							
Balance at 1 January 2013	9,738	143,623	23,303	10,402	156,451	88,492	432,009
Depreciation and amortisation	8,332	66,208	11,765	14,468	40,204	37,522	178,499
Disposals	(33)	(41,720)	(95)	(3,210)	(28,962)	(9,365)	(83,385)
Reclassification to other assets	-	(16,520)	-	-	(17,247)	-	(33,767)
Transfers	-	(43)	-	-	43	-	-
Balance at 31 December 2013	**18,037**	**151,548**	**34,973**	**21,660**	**150,489**	**116,649**	**493,356**
Carrying value							
At 31 December 2013	**96,472**	**155,742**	**61,667**	**129,051**	**173,280**	**422,746**	**1,038,958**
Cost/revalued amount							
Balance at 1 January 2012	233,427	148,098	33,762	54,798	251,460	98,673	820,218
Additions	5,898	80,410	25,825	33,060	23,977	29,192	198,362
Disposals	(11,535)	(6,597)	(384)	(22,546)	(22,508)	(11,836)	(75,406)
Reclassification to other assets	(167,066)	-	-	-	-	-	(167,066)
Balance at 31 December 2012	**60,724**	**221,911**	**59,203**	**65,312**	**252,929**	**116,029**	**776,108**
Depreciation and amortisation							
Balance at 1 January 2012	19,747	131,242	13,976	7,051	140,177	49,653	361,846
Depreciation and amortisation	14,515	18,956	9,711	8,367	33,099	40,784	125,432
Disposals	(5,372)	(6,575)	(384)	(5,016)	(16,825)	(1,945)	(36,117)
Reclassification to other assets	(19,152)	-	-	-	-	-	(19,152)
Balance at 31 December 2012	**9,738**	**143,623**	**23,303**	**10,402**	**156,451**	**88,492**	**432,009**
Carrying value							
At 31 December 2012	**50,986**	**78,288**	**35,900**	**54,910**	**96,478**	**27,537**	**344,099**

There are no capitalised borrowing costs related to the acquisition of property and equipment during 2013 (2012: nil).

Revalued assets

The fair values of the Bank's land, buildings, and vehicles are categorised into Level 2 of the fair value hierarchy.

In management's view, based on the results of appraisals performed by management as at 31 December 2013, 2012 and 2011, no significant changes in values occurred in 2011, 2012 and 2013.

The last independent appraisal of land, buildings, and vehicles was performed by American Appraisal LLC in 2010. The basis used for the appraisal was the market approach. The market approach was based upon an analysis of the results of comparable sales of similar land, buildings, and vehicles. As the fair value of land, buildings, and vehicles approximated carrying values as at 31 December 2010, the Bank did not reflect the results of this revaluation.

Moreover, management has assessed the changes in real estate prices between 31 December 2010 and 31 December 2013 and concluded that no significant changes in real estate prices occurred.

17 Property and equipment and intangible assets, continued

Revalued assets, continued

As the Bank acquired other property, equipment and intangible assets from third parties in 2013 at fair values, no revaluation was performed as at 31 December 2013 for these assets as well.

The carrying value of land, buildings and vehicles as at 31 December 2013 approximate their fair value.

18 Other assets

	2013 KZT'000	2012 KZT'000
Accounts receivable from sale of portfolio of doubtful loans	380,634	-
Accounts receivable recovered from off-balance	277,101	-
Commission accrued	47,893	44,401
Settlements for professional services	37,050	17,317
Other accounts receivable	3,132	7,588
Impairment allowance	(279,365)	(1,531)
Total other financial assets	**466,445**	**67,775**
Non-current assets held-for-sale	40,234	146,089
Prepayments	28,353	54,832
Current tax asset	17,082	47,243
Materials and supplies	22,005	3,974
Total other non-financial assets	**107,674**	**252,138**
Total other assets	**574,119**	**319,913**

Accounts receivable for sale of portfolio of doubtful loans represent the amount due for transfer of claims under doubtful loans without recourse in accordance with the cession agreement concluded in November 2013.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2013 and 2012 are as follows:

	2013 KZT'000	2012 KZT'000
Balance at the beginning of the year	1,531	-
Net charge	8,690	5,423
Recovery/(write-offs)	269,144	(3,892)
Balance at the end of the year	**279,365**	**1,531**

As at 31 December 2013, included in other assets are receivables earlier received from off balance of KZT 277,101 thousand (2012: nil) 100% allowance was created for them.

19 Due to banks and other financial institutions

	2013 KZT'000	2012 KZT'000
Amounts payable under repurchase agreements	8,802,879	10,001,756
Long-term loans received from financial organisations	1,257,257	888,076
Term deposits	1,351,182	14
	11,411,318	**10,889,846**

20 Current accounts and deposits from customers

	2013 KZT'000	2012 KZT'000
Current accounts and demand deposits		
- Corporate	13,419,260	18,426,924
- Retail	912,810	903,388
Term deposits		
- Corporate	106,487,566	79,872,507
- Retail	6,475,906	8,762,608
	127,295,542	**107,965,427**

As at 31 December 2013, the Bank maintained customer deposit balances of KZT 52,422,124 thousand (2012: KZT 44,893,562 thousand) that serve as collateral for loans granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2013, the Bank had 7 customers (2012: 12 customers), whose balances exceeded 10% of equity. These balances as of 31 December 2013 were KZT 92,501,008 thousand (2012: KZT 80,061,250 thousand).

21 Debt securities issued

	2013 KZT'000	2012 KZT'000
Nominal	29,042,000	3,000,000
Discount	(741,300)	(16,281)
Accrued interest	558,422	128,250
	28,859,122	**3,111,969**

The summary of bond issues at 31 December 2013 and 2012 is presented below:

				Carrying amount	
	Maturity	Coupon rate	Effective rate	2013 KZT'000	2012 KZT'000
KZT denominated bonds of the first issue *	18.01.2017	9.5%	9.5% - 10.0%	10,213,366	3,111,969
KZT denominated bonds of the second issue *	27.05.2023	7.5%	8.0%	18,645,756	-
				28,859,122	**3,111,969**

* Quoted on KASE

During the year ended 31 December 2013, the Bank finished placement of debt securities under its first debenture issue by placing bonds with the nominal value of KZT 6,889,000 thousand, which bear a fixed coupon rate of 9.5% p.a. and mature in January 2017. Additionally, the Bank placed bonds under its second debenture issue with the nominal value of KZT 19,153,000 thousand, which bear a fixed coupon rate of 7.5% p.a. and mature in May 2023.

22 Other liabilities

	2013 KZT'000	2012 KZT'000
Commission accrued	2,108	5,076
Other	39,806	15,493
Total other financial liabilities	**41,914**	**20,569**
Taxes payable other than income tax	224,633	117,494
Vacation reserve	50,429	34,536
Other	130,335	13,072
Total other non-financial liabilities	**405,397**	**165,102**
Total other liabilities	**447,311**	**185,671**

23 Equity

(a) Issued capital

Movement in share capital during the year ended 31 December 2013 and 2012 was as follows:

	2013 KZT'000	2013 Number of shares	2012 KZT'000	2012 Number of shares
Share capital at the beginning of the year	15,460,980	9,958,597	14,434,172	9,274,137
Issued at KZT 1,500 per share	-	-	1,028,097	685,398
Acquisition of treasury shares	(4)	(2)	(1,289)	(938)
Share capital at the end of the year	**15,460,976**	**9,958,595**	**15,460,980**	**9,958,597**

As at 31 December 2013, the authorised, issued and outstanding share capital comprises:

	Authorised shares	Unplaced shares	Treasury shares	Total share capital
Ordinary shares	40,000,000	(30,000,000)	(41,405)	9,958,595

As at 31 December 2012, the authorised, issued and outstanding share capital comprises:

	Authorised shares	Unplaced shares	Treasury shares	Total share capital
Ordinary shares	40,000,000	(30,000,000)	(41,403)	9,958,597

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

On 30 December 2013, the Board of Directors authorised placement of 3,333,000 ordinary shares at price of KZT 1,500 per one share by realisation of prevailing right to purchase shares by existing shareholders, subscription on unorganised market or trades on stock exchange in order prescribed by legislation of the Republic of Kazakhstan and by Charter of the Bank.

(b) Dividends

In accordance with Kazakhstan legislation the Bank's distributable reserves are limited to the balance of retained earnings as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward.

23 Equity, continued

(c) Retained earnings

Starting January 2013 the requirements issued by the Committee for the Control and Supervision of the Financial Market and Financial Organisations of the NBRK for banks to disclose separately a portion of their retained earnings representing the difference between impairment allowances assessed under IFRS and statutory rules have been cancelled.

In May 2013, according to the statutory requirements the general meeting of shareholders decided to distribute the retained earnings for 2012 in the amount of KZT 1,406,446 thousand to the reserve capital (2011: retained earnings in the amount of KZT 650,529 thousand were transferred to the reserve capital). Beginning the second half of 2013 requirements to distribute the earnings to the reserve capital ceased to be effective.

24 Book value per share

Under the listing rules of the Kazakh Stock Exchange the Bank is required to present book value per share in its statement of financial position. The calculation of book value per share as at 31 December 2013 is based on number of outstanding common shares of 9,958,595 (31 December 2012: 9,958,597) and net assets of KZT 21,829,756 thousand (31 December 2012: KZT 18,661,532 thousand) calculated as follows:

	2013 KZT'000	2012 KZT'000
Total assets	190,265,795	140,890,822
Intangible assets	(422,746)	(27,537)
Total liabilities	(168,013,293)	(122,201,753)
Net assets	**21,829,756**	**18,661,532**

The following table shows the book value per share calculations as at 31 December 2013 and 2012:

	2013 KZT'000	2012 KZT'000
Net assets	21,829,756	18,661,532
Outstanding number of participating shares at the year end	9,958,595	9,958,597
Book value per share, KZT	**2,192**	**1,874**

25 Earnings per share

The calculation of basic earnings per share as at 31 December 2013 is based on the net profit attributable to ordinary shareholders of KZT 3,601,232 thousand (2012: KZT 1,780,311 thousand), and a weighted average number of ordinary shares outstanding of 9,958,597 (2012: 9,943,831) calculated as follows:

	2013	2012
Issued ordinary shares at the beginning of the year	9,958,597	9,274,137
Effect of shares issued/repurchased during the year	-	669,694
Weighted average number of ordinary shares	**9,958,597**	**9,943,831**

The following table shows the profit for the year and share data used in the basic and diluted earnings per share calculations:

	2013 KZT'000	2012 KZT'000
Net profit attributable to ordinary shareholders	3,601,232	1,780,311
Weighted average number of ordinary shares for basic and diluted earnings per share	9,958,597	9,943,831
Basic and diluted earnings per share, in KZT	**362**	**179**

There are no potentially dilutive shares for the year ended 31 December 2013 (2012: nil).

26 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Valuation Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Bank Management Board.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of various committees.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identify the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Valuation Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). Market risk limits are approved by ALCO based on recommendations of the Risk Valuation Department.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk by monitoring interest rate gaps is supplemented by monitoring the sensitivity of the Bank's net interest margin to various standard and non-standard interest rate scenarios.

26 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest bearing financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2013						
ASSETS						
Cash and cash equivalents	2,853,815	-	-	-	-	2,853,815
Financial instruments at fair value through profit or loss	154,938	-	-	-	-	154,938
Loans to customers	34,431,368	51,003,079	16,461,538	41,146,753	572,801	143,615,539
Available-for-sale financial assets	631,303	-	1,014,731	15,889,303	8,650,577	26,185,914
Held-to-maturity investments	2,204,854	-	-	-	-	2,204,854
	40,276,278	**51,003,079**	**17,476,269**	**57,036,056**	**9,223,378**	**175,015,060**
LIABILITIES						
Due to banks and other financial institutions	9,690,306	66,014	86,384	1,262,697	305,917	11,411,318
Current accounts and deposits from customers	22,975,805	16,540,914	35,127,084	44,170,439	-	118,814,242
Debt securities issued	337,944	220,478	-	9,596,317	18,704,383	28,859,122
	33,004,055	**16,827,406**	**35,213,468**	**55,029,453**	**19,010,300**	**159,084,682**
	7,272,223	**34,175,673**	**(17,737,199)**	**2,006,603**	**(9,786,922)**	**15,930,378**

26 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2012						
ASSETS						
Placements with banks and other financial institutions	10,001,865	-	-	-	-	10,001,865
Financial instruments at fair value through profit or loss	157,519	-	-	-	-	157,519
Loans to customers	34,458,765	10,874,788	29,590,230	26,439,326	426,347	101,789,456
Available-for-sale financial assets	2,703,099	2,725,502	1,471,570	10,546,016	-	17,446,187
Held-to-maturity investments	-	-	-	2,180,065	-	2,180,065
	47,321,248	**13,600,290**	**31,061,800**	**39,165,407**	**426,347**	**131,575,092**
LIABILITIES						
Due to banks and other financial institutions	10,001,756	-	14	401,642	486,434	10,889,846
Current accounts and deposits from customers	26,537,460	8,497,964	36,560,633	31,044,215	1,474	102,641,746
Debt securities issued	128,250	-	-	-	2,983,719	3,111,969
	36,667,466	**8,497,964**	**36,560,647**	**31,445,857**	**3,471,627**	**116,643,561**
	10,653,782	**5,102,326**	**(5,498,847)**	**7,719,550**	**(3,045,280)**	**14,931,531**

26 Risk management, continued

(b) Market risk, continued

(i) *Interest rate risk, continued*

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012.

	2013 Average effective interest rate, %			2012 Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	3.7	-	3.8	-	-	-
Placements with banks and other financial institutions	-	-	-	1.7	-	-
Financial instruments at fair value through profit or loss	7.1	-	-	8.1	-	-
Loans to customers	16.0	11.3	-	14.2	15.0	-
Available-for-sale financial assets	5.2	-	-	4.4	-	-
Held-to-maturity investments	5.6	-	-	5.6	-	-
Interest bearing liabilities						
Due to banks and other financial institutions						
- Term deposits	8.3	-	3.3	7.6	-	-
- Amounts payable under repurchase agreements	4.1	-	-	1.6	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	3.3	2.7	-	3.8	-	-
- Term deposits	7.9	5.1	6.5	7.5	7.2	6.9
Debt securities issued	8.9	-	-	9.5	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel increase	173,630	173,630	68,204	68,204
100 bp parallel decrease	(173,630)	(173,630)	(68,204)	(68,204)

26 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel increase	(373)	(872,878)	(1,631)	(343,972)
100 bp parallel decrease	375	918,727	1,666	362,557

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

	USD KZT'000	Euro KZT'000	Others KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	5,062,005	996,090	72,495	6,130,590
Loans to customers	7,749,301	-	-	7,749,301
Other financial assets	355	114	47	516
Total assets	**12,811,661**	**996,204**	**72,542**	**13,880,407**
LIABILITIES				
Due to banks and other financial institutions	-	850,913	-	850,913
Current accounts and deposits from customers	12,594,080	147,370	14,287	12,755,737
Other financial liabilities	12,728	-	1,318	14,046
Total liabilities	**12,606,808**	**998,283**	**15,605**	**13,620,696**
Net position	**204,853**	**(2,079)**	**56,937**	**259,711**

26 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	USD KZT'000	Euro KZT'000	Others KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	2,669,219	224,535	87,231	2,980,985
Loans to customers	3,130	-	-	3,130
Other financial assets	5,670	478	33	6,181
Total assets	**2,678,019**	**225,013**	**87,264**	**2,990,296**
LIABILITIES				
Current accounts and deposits from customers	2,663,210	292,434	33,369	2,989,013
Other financial liabilities	4,088	1,230	941	6,259
Total liabilities	**2,667,298**	**293,664**	**34,310**	**2,995,272**
Net position	**10,721**	**(68,651)**	**52,954**	**(4,976)**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2013 KZT'000	2012 KZT'000
10% appreciation of USD against KZT	16,388	858
10% appreciation of EUR against KZT	(166)	(5,492)
10% appreciation of Others against KZT	4,555	4,236

A strengthening of the KZT against the above currencies at 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

26 Risk management, continued

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if the customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The Bank's credit policy establishes:

- procedures for review and approval of loan/credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate and Retail Business Department, which is responsible for the Bank's corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Valuation Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Credit Department and the Risk Valuation Department. Individual transactions are also reviewed by the Bank's Legal, Tax and Accounting Department and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

26 Risk management, continued

(c) Credit risk, continued

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Valuation Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2013 KZT'000	2012 KZT'000
ASSETS		
Cash equivalents	15,477,313	8,248,999
Placements with banks and other financial institutions	-	10,001,865
Financial instruments at fair value through profit or loss	154,938	157,519
Loans to customers	143,615,539	101,789,456
Available-for-sale financial assets	26,185,914	17,446,187
Held-to-maturity investments	2,204,854	2,180,065
Other financial assets	466,445	67,775
Total maximum exposure	**188,105,003**	**139,891,866**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 14.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 28.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

26 Risk management, continued

(d) Liquidity risk, continued

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

26 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial assets and liabilities as at 31 December 2013 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative financial assets							
Cash and cash equivalents	15,323,470	856,208	-	-	-	16,179,678	16,174,819
Financial instruments at fair value through profit or loss	5,840	152,191	-	-	22,390	180,421	177,328
Loans to customers	14,760,967	26,488,955	59,426,863	27,859,157	59,849,057	188,384,999	143,615,539
Available-for-sale financial assets	541,672	424,810	338,031	1,690,712	29,793,457	32,788,682	26,188,114
Held-to-maturity investments	79,053	2,155,911	-	675,981	-	2,910,945	2,204,854
Other financial assets	466,445	-	-	-	-	466,445	466,445
Total financial assets	**31,177,447**	**30,078,075**	**59,764,894**	**30,225,850**	**89,664,904**	**240,911,170**	**188,827,099**
Non-derivative financial liabilities							
Due to banks and other financial institutions	8,833,083	890,498	82,110	129,907	1,780,882	11,716,480	11,411,318
Current accounts and deposits from customers	23,942,784	6,861,396	18,391,681	37,838,237	49,874,885	136,908,983	127,295,542
Debt securities issued	469,728	-	718,238	1,187,965	43,600,675	45,976,606	28,859,122
Other financial liabilities	41,914	-	-	-	-	41,914	41,914
Total financial liabilities	**33,287,509**	**7,751,894**	**19,192,029**	**39,156,109**	**95,256,442**	**194,643,983**	**167,607,896**
Net liquidity gap on recognised financial assets and liabilities	**(2,110,062)**	**22,326,181**	**40,572,865**	**(8,930,259)**	**(5,591,538)**	**46,267,187**	**21,219,203**
Credit related commitments	**23,456,925**	-	-	-	-	**23,456,925**	**23,456,925**

26 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial assets and liabilities as at 31 December 2012 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative financial assets							
Cash and cash equivalents	8,630,370	-	-	-	-	8,630,370	8,630,370
Placements with banks and other financial institutions	10,001,865	-	-	-	-	10,001,865	10,001,865
Financial instruments at fair value through profit or loss	5,364	1,102	1,668	3,391	173,574	185,099	176,667
Loans to customers	19,405,670	17,982,382	12,819,339	33,364,694	34,867,448	118,439,533	101,789,456
Available-for-sale financial assets	1,312,958	1,598,980	2,722,449	1,451,068	12,014,383	19,099,838	17,448,387
Held-to-maturity investments	76,641	-	-	-	2,111,002	2,187,643	2,180,065
Other financial assets	67,775	-	-	-	-	67,775	67,775
Total financial assets	**39,500,643**	**19,582,464**	**15,543,456**	**34,819,153**	**49,166,407**	**158,612,123**	**140,294,585**
Non-derivative financial liabilities							
Due to banks and other financial institutions	10,001,756	-	-	14	1,137,608	11,139,378	10,889,846
Current accounts and deposits from customers	19,744,166	11,535,383	9,221,132	39,202,664	36,442,364	116,145,709	107,965,427
Debt securities issued	142,500	-	-	142,500	3,997,500	4,282,500	3,111,969
Other financial liabilities	-	-	-	20,569	-	20,569	20,569
Total financial liabilities	**29,888,422**	**11,535,383**	**9,221,132**	**39,365,747**	**41,577,472**	**131,588,156**	**121,987,811**
Net liquidity gap on recognised financial assets and liabilities	**9,612,221**	**8,047,081**	**6,322,324**	**(4,546,594)**	**7,588,935**	**27,023,967**	**18,306,774**
Credit related commitments	**24,240,107**	-	-	-	-	**24,240,107**	**24,240,107**

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

26 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2013:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	15,322,237	852,582	-	-	-	-	-	16,174,819
Financial instruments at fair value through profit or loss	4,816	150,122	-	-	-	22,390	-	177,328
Loans to customers	12,676,693	21,524,906	67,464,617	41,146,753	302,083	-	500,487	143,615,539
Available-for-sale financial assets	430,030	201,273	1,014,731	15,889,303	8,650,577	2,200	-	26,188,114
Held-to-maturity investments	69,063	2,135,791	-	-	-	-	-	2,204,854
Property, equipment and intangible assets	-	-	-	-	-	1,038,958	-	1,038,958
Deferred tax asset	-	-	-	292,064	-	-	-	292,064
Other assets	466,445	-	-	-	-	107,674	-	574,119
Total assets	**28,969,284**	**24,864,674**	**68,479,348**	**57,328,120**	**8,952,660**	**1,171,222**	**500,487**	**190,265,795**
Non-derivative liabilities								
Due to banks and other financial institutions	8,802,879	906,408	133,418	1,262,696	305,903	14	-	11,411,318
Current accounts and deposits from customers	23,281,248	5,565,823	51,805,898	46,642,491	82	-	-	127,295,542
Debt securities issued	-	337,944	220,478	9,596,317	18,704,383	-	-	28,859,122
Other liabilities	41,914	-	-	-	-	405,397	-	447,311
Total liabilities	**32,126,041**	**6,810,175**	**52,159,794**	**57,501,504**	**19,010,368**	**405,411**	**-**	**168,013,293**
Net position	**(3,156,757)**	**18,054,499**	**16,319,554**	**(173,384)**	**(10,057,708)**	**765,811**	**500,487**	**22,252,502**
Cumulative net position	**(3,156,757)**	**14,897,742**	**31,217,296**	**31,043,912**	**20,986,204**	**21,752,015**	**22,252,502**	

26 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	8,630,370	-	-	-	-	-	-	8,630,370
Placements with banks and other financial institutions	10,001,865	-	-	-	-	-	-	10,001,865
Financial instruments at fair value through profit or loss	4,816	-	-	152,703	-	19,148	-	176,667
Loans to customers	9,676,688	24,714,114	40,461,491	26,396,497	325,926	-	214,740	101,789,456
Available-for-sale financial assets	1,097,939	1,605,160	4,197,072	10,546,016	-	2,200	-	17,448,387
Held-to-maturity investments	-	-	-	2,180,065	-	-	-	2,180,065
Property, equipment and intangible assets	-	-	-	-	-	344,099	-	344,099
Other assets	67,775	-	-	-	-	252,138	-	319,913
Total assets	**29,479,453**	**26,319,274**	**44,658,563**	**39,275,281**	**325,926**	**617,585**	**214,740**	**140,890,822**
Non-derivative liabilities								
Due to banks and other financial institutions	10,001,756	-	14	401,643	486,433	-	-	10,889,846
Current accounts and deposits from customers	19,750,669	11,462,008	45,670,841	31,080,435	1,474	-	-	107,965,427
Debt securities issued	128,250	-	-	2,983,719	-	-	-	3,111,969
Deferred tax liability	-	-	-	-	48,840	-	-	48,840
Other liabilities	20,569	-	-	-	-	165,102	-	185,671
Total liabilities	**29,901,244**	**11,462,008**	**45,670,855**	**34,465,797**	**536,747**	**165,102**	**-**	**122,201,753**
Net position	**(421,791)**	**14,857,266**	**(1,012,292)**	**4,809,484**	**(210,821)**	**452,483**	**214,740**	**18,689,069**
Cumulative net position	**(421,791)**	**14,435,475**	**13,423,183**	**18,232,667**	**18,021,846**	**18,474,329**	**18,689,069**	

26 Risk management, continued

(e) Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar financial instruments include sale and repurchase agreements and reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosured in the table below unless they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of cash and government marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the tables below are measured in the statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

The amounts in the table below represent financial assets subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013 and 2012:

				Related amounts not offset in the statement of financial position		
KZT'000	**Gross amounts of recognised financial asset/ liability**	**Gross amount of recognised financial liability/ asset offset in the statement of financial position**	**Net amount of financial assets presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
31 December 2013						
Available-for-sale financial assets	9,662,875	-	9,662,875	(8,802,879)	-	859,996
Amounts payable under repurchase agreements	(8,802,879)	-	(8,802,879)	8,802,879	-	-
	859,996	**-**	**859,996**	**-**	**-**	**859,996**
31 December 2012						
Amounts receivable under reverse repurchase agreements	10,001,865	-	10,001,865	(10,001,865)	-	-
Available-for-sale financial assets	8,000,002	-	8,000,002	(8,000,002)	-	-
Held-to-maturity investments	2,000,001	-	2,000,001	(2,000,001)	-	-
Total financial assets	**20,001,868**	**-**	**20,001,868**	**(20,001,868)**	**-**	**-**
Amounts payable under repurchase agreements	(10,001,756)	-	(10,001,756)	10,000,003	-	(1,753)
	10,000,112	**-**	**10,000,112**	**(10,001,865)**	**-**	**(1,753)**

26 Risk management, continued

(e) Offsetting financial assets and financial liabilities, continued

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the statement of financial position", as set out below, to the line items presented in the statement of financial position as at 31 December 2013.

KZT'000

Types of financial assets/liabilities	Net amounts	Line item in the statement of financial position	Carrying amount in the statement of financial position	Financial asset/ liability not in the scope of offsetting disclosure	Note
Available-for-sale financial assets	9,662,875	Available-for-sale financial assets	26,188,114	16,525,239	15
Amounts payable under repurchase agreements	(8,802,879)	Due to banks and other financial institutions	(11,411,318)	(2,608,439)	19

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the statement of financial position", as set out above, to the line items presented in the statement of financial position as at 31 December 2012.

KZT'000

Types of financial assets/liabilities	Net amounts	Line item in the statement of financial position	Carrying amount in the statement of financial position	Financial asset/ liability not in the scope of offsetting disclosure	Note
Available-for-sale financial assets	8,000,002	Available-for-sale financial assets	17,448,387	9,448,385	15
Held-to-maturity investments	2,000,001		2,180,065	180,064	16
Amounts payable under repurchase agreements	(10,001,756)	Due to banks and other financial institutions	(10,889,846)	(888,090)	19

27 Capital management

The Committee for the Control and Supervision of the Financial Market and Financial Organisations of the NBRK (the "CFMS") sets and monitors capital requirements for the Bank. There are no other external capital requirements imposed on the Bank.

The Bank defines as capital the following items defined by statutory regulation as capital for banks:

- Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, qualifying perpetual debt less intangible assets and current year losses;
- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's income, revaluation reserves, qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of risk-weighted assets.

Tier 3 capital is required for the purposes of calculation of total capital and includes subordinated liabilities not included into tier 2 capital.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the CFMS banks have to maintain:

- a ratio of tier 1 capital less investments to total assets less investments (k1.1);
- a ratio of tier 1 capital less investments to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1.2);
- a ratio of total capital to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k2).

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

As at 31 December 2013 the minimum level of ratios as applicable to the Bank are k1.1 of 6%, k1.2 of 6% and k2 of 12% (31 December 2012: k1.1 of 6%, k1.2 of 6% and k2 of 12%). The Bank complies with the statutory capital ratios as at 31 December 2013 and 2012.

27 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the CFMS, as at 31 December:

	2013 KZT'000	2012 KZT'000
Tier 1 capital		
Share capital	15,460,976	15,460,980
Retained statutory earnings of prior years	259,941	85,804
Reserves formed from statutory retained earnings of prior years	2,369,823	963,377
Total tier 1 capital	**18,090,740**	**16,510,161**
Tier 2 capital		
Net statutory income for the year	4,115,390	1,579,315
Deferred tax liability accrued in the current year	-	48,840
Revaluation surplus for property, equipment and intangible assets and revaluation reserve for available-for-sale asset	46,372	85,435
Total tier 2 capital	**4,161,762**	**1,713,590**
Total capital	**22,252,502**	**18,223,751**
Total qualifying statutory assets	**190,265,795**	**140,376,664**
Risk-weighted statutory assets, contingent liabilities, operational and market risk		
Risk weighted statutory assets	104,461,089	59,375,399
Risk weighted statutory contingent liabilities	22,878,974	23,740,467
Operational risk	8,054,218	2,374,509
Market risk	5,419,585	2,593,758
Total statutory risk weighted assets, contingent liabilities, operational and market risk	**140,813,866**	**88,084,133**
k1.1 ratio	**9.5%**	**11.8%**
k1.2 ratio	**12.8%**	**18.7%**
k2 ratio	**15.8%**	**20.7%**

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

28 Credit related commitments

At any time the Bank has outstanding credit related commitments to extend credit. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

28 Credit related commitments, continued

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2013 KZT'000	2012 KZT'000
Contracted amount		
Guarantees	23,358,365	23,900,273
Loan and credit line commitments	98,560	339,834
	23,456,925	**24,240,107**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loans and credit line commitments do not represent an unconditional credit related commitment by the Bank.

Of these credit related commitments, KZT 20,029,748 thousand are to ten counterparties at 31 December 2013 (2012: KZT 17,071,731 thousand are to six counterparties). This exposure represents credit risk exposure to the Bank.

29 Operating leases

The Bank leases a number of premises under cancellable operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals. During the current year KZT 417,254 thousand was recognised as an expense in profit or loss in respect of operating leases (2012: KZT 409,919 thousand).

30 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

30 Contingencies, continued

(c) Taxation contingencies, continued

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

31 Related party transactions

(a) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 9):

	2013 KZT'000	2012 KZT'000
Members of the Board of Directors	35,504	31,546
Members of the Management Board	123,797	112,965
	159,301	**144,511**

The outstanding balances and average interest rates as of 31 December 2013 and 2012 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2013 KZT'000	Average interest rate, %	2012 KZT'000	Average interest rate, %
Statement of financial position				
Loans to customers	25,653	10.5	27,796	10.5
Current accounts and deposits from customers	7,887	8.7	17,510	3.7

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2013 KZT'000	2012 KZT'000
Profit or loss		
Interest income	3,157	3,988
Interest expense	3	399

31 Related party transactions, continued

(b) Transactions with other related parties

Other related parties include entities with shareholders in common, the Bank's shareholders and the close family member of key management personnel. The outstanding balances and the related average interest rates as at 31 December 2013 and 2012 and related statement of profit or loss and other comprehensive income amounts of transactions for the year ended 31 December 2013 and 2012 with other related parties are as follows.

	2013		2012	
	Other		Other	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Statement of financial position				
Liabilities				
Current accounts and deposits from customers	95,795	-	1,614	-

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	16,174,819	-	-	16,174,819	16,174,819
Financial instruments at fair value through profit or loss	177,328	-	-	-	-	177,328	177,328
Loans to customers	-	-	143,615,539	-	-	143,615,539	139,178,807
Available-for-sale financial assets	-	-	-	26,188,114	-	26,188,114	26,188,114
Held-to-maturity investments	-	2,204,854	-	-	-	2,204,854	2,152,996
Other financial assets	-	-	-	-	466,445	466,445	466,445
	177,328	2,204,854	159,790,358	26,188,114	466,445	188,827,099	184,338,509
Due to banks and other financial institutions	-	-	-	-	11,411,318	11,411,318	11,281,017
Current accounts and deposits from customers	-	-	-	-	127,295,542	127,295,542	125,792,423
Debt securities issued	-	-	-	-	28,859,122	28,859,122	28,843,542
Other financial liabilities	-	-	-	-	41,914	41,914	41,914
	-	-	-	-	167,607,896	167,607,896	165,958,896

32 Fair value of financial instruments, continued

Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	8,630,370	-	-	8,630,370	8,630,370
Placements with banks and other financial institutions	-	-	10,001,865	-	-	10,001,865	10,001,865
Financial instruments at fair value through profit or loss	176,667	-	-	-	-	176,667	176,667
Loans to customers	-	-	101,789,456	-	-	101,789,456	101,637,584
Available-for-sale financial assets	-	-	-	17,448,387	-	17,448,387	17,448,387
Held-to-maturity investments	-	2,180,065	-	-	-	2,180,065	2,190,028
Other financial assets	-	-	-	-	67,775	67,775	67,775
	176,667	**2,180,065**	**120,421,691**	**17,448,387**	**67,775**	**140,294,585**	**140,152,676**
Due to banks and other financial institutions	-	-	-	-	10,889,846	10,889,846	10,989,663
Current accounts and deposits from customers	-	-	-	-	107,965,427	107,965,427	106,463,648
Debt securities issued	-	-	-	-	3,111,969	3,111,969	2,950,035
Other financial liabilities	-	-	-	-	20,569	20,569	20,569
	-	-	-	-	**121,987,811**	**121,987,811**	**120,423,915**

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

As disclosed in Note 15, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 2,200 thousand (2012: KZT 2,200 thousand) cannot be determined.

32 Fair value of financial instruments, continued

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank has a control framework with respect to the measurement of fair values. This framework includes a Risk Management department function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both quarterly calibration and back testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by a committee of senior Risk Management department personnel.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Risk Management department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Management Board.

32 Fair value of financial instruments, continued

Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Debt instruments	-	154,938	154,938
- Equity investments	22,390	-	22,390
Available-for-sale financial assets			
- Debt instruments	-	26,185,914	26,185,914
	22,390	26,340,852	26,363,242

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Debt instruments	-	157,519	157,519
- Equity investments	19,148	-	19,148
Available-for-sale financial assets			
- Debt instruments	-	17,446,187	17,446,187
	19,148	17,603,706	17,622,854

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	16,174,819	-	-	16,174,819	16,174,819
Loans to customers	-	111,651,702	27,527,105	139,178,807	143,615,539
Available-for-sale financial assets	-	2,200	-	2,200	2,200
Held-to-maturity investments	-	2,152,996	-	2,152,996	2,204,854
Other financial assets	-	466,445	-	466,445	466,445
Liabilities					
Due to banks and other financial institutions	-	11,281,017	-	11,281,017	11,411,318
Current accounts and deposits from customers	-	125,792,423	-	125,792,423	127,295,542
Debt securities issued	25,324,390	-	-	25,324,390	28,859,122
Other financial liabilities	-	41,914	-	41,914	41,914

32 Fair value of financial instruments, continued

Fair value hierarchy, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2012:

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	8,630,370	-	-	8,630,370	8,630,370
Placements with banks and other financial institutions	-	10,001,865	-	10,001,865	10,001,865
Financial instruments at fair value through profit or loss	-	176,667	-	176,667	176,667
Loans to customers	-	83,669,386	17,968,198	101,637,584	101,789,456
Available-for-sale financial assets	-	17,448,387	-	17,448,387	17,448,387
Held-to-maturity investments	-	2,190,028	-	2,190,028	2,180,065
Other financial assets	-	67,775	-	67,775	67,775
Liabilities					
Due to banks and other financial institutions	-	10,989,663	-	10,989,663	10,889,846
Current accounts and deposits from customers	-	106,463,648	-	106,463,648	107,965,427
Debt securities issued	2,950,035	-	-	2,950,035	3,111,969
Other financial liabilities	-	20,569	-	20,569	20,569

33 Events after the reporting period

Devaluation

On 11 February 2014, the National Bank of the Republic of Kazakhstan ("the NBRK") announced that it was devaluing the KZT. The NBRK said in its statement that the currency will now trade at KZT 185 per USD, with a range of 3 KZT on either side. The KZT closed at 184.55 per USD after the announcement, down approximately 19% from the previous day's close of KZT 155.63 per USD. As the devaluation occurred after the reporting date, these financial statements have not been adjusted for the rate change.

Management has evaluated the effects of the devaluation on the Bank and does not expect the operational impact to be significant. See note 26 (b) for details of the Bank's exposure to foreign currency risk at the reporting date. Management's current assessment is that the devaluation will not affect the Bank's ability to meet its existing contractual obligations.