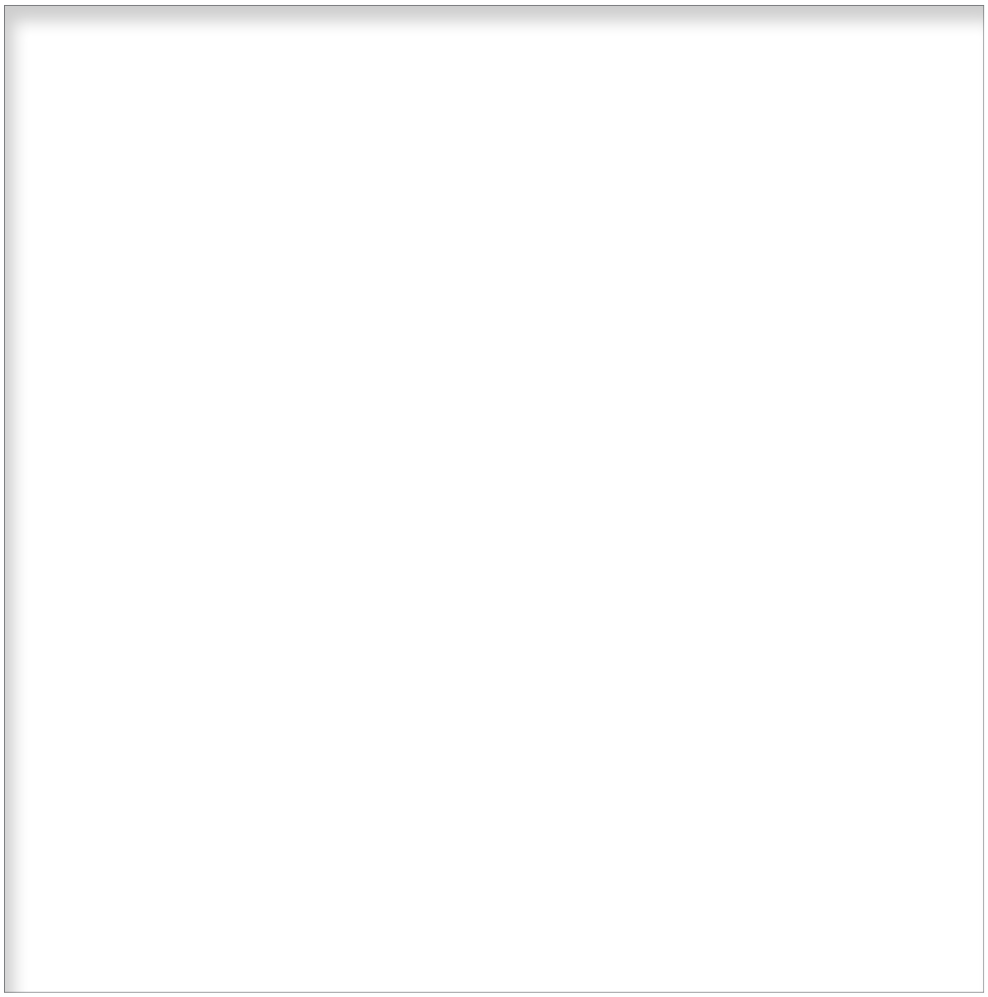
Alfa-Bank

ANNUAL REPORT
2013



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2013

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Alfa-Bank

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CHAIRMAN OF THE BOARD'S ADDRESS

Danila Smirnov
Chairman of the Management Board

Dear Ladies and Gentlemen!

We are happy to present you the annual report from Alfa-Bank for 2013. While evaluating the results of the year past, we can say with reasonable confidence that it became a successful continuation of the bank's many-year history in Kazakhstan. At every stage of our way, we have thoroughly been establishing our work with paying much attention to the needs and expectations of our customers. Our Development Strategy, our team, trust of our customers and our confidence have successfully proven their efficiency; and the financial performances of the previous year can demonstrate that.

In 2013, Alfa-Bank implemented its priority tasks in accordance with the bank's Development Strategy for the period by 2015. Despite any external economic impulses, Alfa-Bank with its high factor of safety overcame them and will continue its sustainable and gradual development in Kazakhstan demonstrating its financial reliability and providing A-class bank services.

Dynamic development of competitive advantages, efficient risk management, and team work of all bank's employees enabled us to demonstrate positive financial performances. Alfa-Bank's assets increased by 32% during 2013: from 131 billion KZT to 173 billion KZT. The bank's loan portfolio for the same period last year increased by 42%: from 87 billion KZT to 124 billion KZT. The bank's net profit increased by 40.7%.

Despite extreme competition in the bank market, Alfa-Bank demonstrated its financial effectiveness; ROE made 17% at the end of the year.

Total deposits from individuals and legal entities demonstrated 42% growth for the previous year. The bank's equity capital increased by 18% for the year. A share of overdue loans in the bank's credit portfolio as of 1 January 2014 made 1.1%.

Alfa-Bank pays special attention to its customers. Their needs and wishes determine the bank's product range; process solutions enable individual persons and organizations to use bank services whenever they are in need of them. High-quality service makes interaction with the bank both convenient and pleasant. We highly appreciate all feedback we receive from our customers. It does enable us to see our business with the eyes of those for whom thousands of our employees start their working day, of those who trust us to manage their funds, of those who consider Alfa-Bank their reliable and loyal financial partner. And every day we work in order to increase a number of such people.

Credit ratings assigned to Alfa-Bank by international rating agencies last year serve as a dramatic confirmation of the bank's reliability and stability. 3 May 2013, international rating agency Standard & Poor's assigned interna-

tional long-term and short-term credit ratings to SB Alfa-Bank JSC: B+/B; forecast "Stable" and confirmed its national rating kzBBB.

19 June 2013, international rating agency Fitch Ratings assigned long-term issuer default rating (IDR) in foreign currency at B+; forecast "Stable"; short-term IDR in foreign currency at B to SB Alfa-Bank JSC; also it assigned long-term IDR in national currency at B+; forecast "Stable". In addition, national long-term rating at BBB (kaz), forecast "Stable" was assigned.

In 2013, Alfa-Bank covered a range of new regions of Kazakhstan and opened its branch offices in Pavlodar, Karaganda, Uralsk, Aktobe, Petropavlovsk, and Almaty; new departments and representative offices of the bank started their operation in Atyrau, Kokshetau, Kostanay, and Semey. The bank is currently present almost in all regions of Kazakhstan.

A number of full-time employees of the bank increased twice for the purpose of providing high-quality bank services to individual persons and companies and with respect to extension of the branch network for the last year; it made 1,182 employees at the end of the year.

One of the elements of the bank's Strategy is investment in human capital assets. Some important steps were taken in that direction last year. The bank's team got new specialists; it started establishing a new incentive system for employees and developing a career model.

Striving for constant development is a part of Alfa-Bank's corporate culture. The same as commitment of the bank and its employees to the values that determine the strategy of its work: we strive for being leaders; we think like business people; we constantly develop; we value our customers; we work in team. Alfa-Bank's recipe of success and its competitive advantage is work of all its employees as one team.

Thanks to the team efforts and team work, Alfa-Bank was recognized in Kazakhstan and abroad in 2013. At year-end 2013, reputable British Internet publication Global Banking and Finance Review recognized Alfa-Bank "2013 Best Commercial Bank in Kazakhstan"; the bank also got the Choice of the Year in Kazakhstan prize in the category of Business Grand Prix "Choice of the Year #1": 2013 Bank of High Information Protection.

One of the bank's priority strategic tasks is improvement of bank technologies and implementation of innovations in order to improve the quality of service and convenience in custom service. Last year Alfa-Bank invested its funds in development of technological infrastructure of the bank by implementing the advanced information protection system BalaBit Shell Control Box (SCB) that has no equivalents in Kazakhstan; it also launched a new high-performance Data Processing and Storing Center.

Last year Alfa-Bank implemented a modern technology to provide security of Internet card payments 3-d Secure (Verified by Visa); and offered its customers a service of Internet Acquiring highly competitive in e-commerce market. The bank issued premium card Visa Infinite and immediate-issuance card Visa Classic Unembossed; and increased a number of POS terminals, payment terminals and ATMs. Thanks to a complex implementation of technological projects, Alfa-Bank has come closer to its goal, which is to become an innovation leader in Kazakhstan.

In 2014, Alfa-Bank celebrates its 20th anniversary in Kazakhstan. We are the first Russian bank in the republic. Our experienced gained for many years and good relations with our customers and partners inspire us to continue stable development and prosperity in Kazakhstan.

In 2014, we will continue implementing the bank's Development Strategy and working actively in all priority directions. The process solutions will be enhanced to improve convenience and speed of servicing private and corporate customers. Changes in models and forms of the bank's product and service distribution make an important objective in the crediting areas as well as further improvement of customer impression quality. Alfa-Bank intends to continue its focused work to finance small and medium-sized enterprises. We are ready to support large enterprises in Kazakhstan by financing different projects within Alfa-Bank Banking Group. Much attention will be given to development of retail and transaction business and further intensification of work in regions.

2014 is a hard year for banking business; and customers' confidence becomes greatly important in such unstable situation. Alfa-Bank has always demonstrated high rates of growth in the market ahead under uncertainty; and we have no doubt that this time it happens again.

2013 tendency of sustainable increase in a number of private and corporate customers will continue in 2014, since the customer is a major point for Alfa-Bank when forming its development strategy, its products, services, and process solutions. Our key goal – the goal of the entire Alfa-Bank Banking Group — is to make the financial world more simple and convenient; every day we work to achieve such goal. Speed and flexibility, ability of making non-routine decisions, technological advantages and the highest level of our service together with high-quality risk management enable us to increase our customers' confidence and remain a reliable financial partner in the Republic of Kazakhstan, year by year.

Alfa-Bank

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ALFA·BANK
SHORT PROFILE

Operations Director
Alina Anikina

ALFA-BANK SHORT PROFILE

Founded in 1994, SB Alfa-Bank JSC is a subsidiary bank of Russian Alfa-Bank OJSC and is a member of international Alfa-Bank Banking Group presented in Russia, Kazakhstan, Ukraine, Belarus, and Netherlands.

Alfa-Bank in Kazakhstan is a universal financial institution and it provides all types of bank services; it has impeccable business reputation being the first Russian bank in the republic.

The bank's head office is situated in Almaty; the regional banking network is present in Astana, Almaty, Aktau, Atyrau, Uralsk, Aktobe, Kostanay, Kokshetau, Petropavlovsk, Ust-Kamenogorsk, Semey, Pavlodar, Karaganda and Shymkent.

ALFA-BANK MISSION

THE RELIABLE BANK THAT PROVIDES HIGH-QUALITY FINANCIAL SOLUTIONS AS SOON AS POSSIBLE AT A REASONABLE PRICE.

Since starting its activities the bank has been focused on servicing corporate customers. With its development, the bank extended its product range and covered new target segments being gradually transformed in a universal bank. Since 2009, Alfa-Bank in Kazakhstan has set new strategic goals and became active in the market. In 2012, the bank's Development Strategy was approved for the period by 2015; it is under current successful implementation.

Thanks to its efficient Development Strategy, new management approach and Alfa-Bank Banking Group, the bank has overcome drastic changes during several years. Modernization covered all areas of the bank's activities.

Nowadays, Alfa-Bank is developing sustainably and successfully, it serves individual and legal entities almost in all regions of Kazakhstan. The bank has a wide product range and a substantial customer base.

Alfa-Bank has formed a team of professionals, updated its technologies and infrastructure, and enhanced its competitive ability in the market. The bank enjoys great confidence and is a reliable financial partner for private and corporate customers.

ALFA-BANK MISSION

The reliable bank that provides high-quality financial solutions as soon as possible at a reasonable price.

ALFA-BANK VISION

The universal bank that provides the customers in the Republic of Kazakhstan with high-quality services with an opportunity of providing financial solutions from the banks of the Group.

RELIABLE FINANCIAL PARTNER

- High level of capitalization: tier 1 capital adequacy ratios K1-1 and K1-2 - 10% each, capital adequacy ratio - 16%.
- Sound accounting liquidity: ratio of highly liquid assets to total assets is 20%.
- Small share of non-performing loans (30 days overdue and more)– 1.1%. Provision level – 64%.
- Funding base – ratio of the loans granted to deposits is 96%.

HIGH LEVEL OF CAPITALIZATION -
16%

STRONG POINTS AND ALFA-BANK INTERNATIONAL BANKING GROUP

- Efficient personnel practices.
- Expertise and Banking Group's resources.
- Universalization of the bank.
- Politically indifferent independent private bank.

At year-end 2013, Alfa-Bank was among the second ten in the second-tier bank rating in Kazakhstan by volume of its assets and by most its performances (its loan portfolio, deposits from individuals and legal entities). Alfa-Bank's market share varies from 1% to 2% by such performances. The bank's market share is expected to continue its steady increase with further development of priority areas of its business.

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BOARD OF DIRECTORS AND MANAGEMENT BOARD

BOARD OF DIRECTORS

KARIMOV ILDAR ALFREDOVICH (born in 1961)

Chairman of the Board of Directors

In September 2009 Ildar Karimov was elected to be the Chairman of the Board of Directors. Since 2001 he is a member of the Board of Directors of "AlfaInsurance" OJSC, since 2005 – he is a member of the Supervisory Board of "Alfa-Bank" PJSC (Ukraine), since 2006 to the present – Director for corporate development, planning and control, a member of the Board of Directors of "Alfa-Bank" OJSC. In 2009 he was appointed a member of the Supervisory Board of "Alfa-Bank" CJSC (Belarus), in 2009 – member of the Board of Directors of ABH Holdings S.A. (Luxembourg). In 2009-2011 – member of the Board of Directors of "Alfa-Bank" SB JSC. In 2011 he was elected to be a member of the Board of Directors of "Alfa-Capital" UK LLC.

SANTDASSANI NARESH KHASSARAM (born in 1970)

Member of the Board of Directors

In April 2013 Naresh Santdassani was elected to be a member of the Board of Directors. From November 2005 he was appointed to the position of the Head of the Retail Risk Department of "Alfa-Bank" OJSC. He had previously held the position of the Regional Scoring & Credit Systems Manager in HSBC, acting Head for consumer lending at the National Bank of Kuwait, etc.

AKHANZARIPOV NURLAN ZAMANBEKOVICH (born in 1965)

Independent Director

In January 2011 Nurlan Akhanzaripov was elected to be a member of the Board of Directors. In 2006 he was appointed to be a member of the Management Board, the Deputy Director General for economy and finance of "Intergas Central Asia" JSC. He has 30-year experience of work in oil and gas sector of Kazakhstan, from 2003 to 2005 he worked for Shell Company in the Middle East.

AKTAI ARMAN (born in 1969)

Independent Director

In July 2012 Arman Aktai was elected to be a member of the Board of Directors. In 2008-2010 – Chairman of the Board of Directors of "Alatau Zharyk Kompaniyassy" JSC. In 2008-2010 – Chairman of the Supervisory Board of "AlmatyEnergoSbyt" LLP. In 2008-2010 – alternate Director General of "KMG-Energo" JSC. In 2010-2012 - Advisor of the Director General of "GlobalAlatauGroup" LLP. Since 2012 he is holding the position of a member of the Supervisory Board of "AlmatyEnergoSbyt" LLP.

POZ ILIYA VLADIMIROVICH (born in 1977)

Member of the Board of Directors

In October 2012 Iliya Poz was elected to be a member of the Board of Directors. In 2009-2010 – Manager for crediting corporate clients – Managing Director of the Front Office for crediting corporate clients of the Block "Corporate and Investment Bank" of "Alfa-Bank" OJSC. In 2010-2012 – Corporate Business Co-manager of the Administration of the Block "Corporate and Investment Bank" of "Alfa-Bank" OJSC. From April 2012 to August 2012 – Vice-Chairman of the Management Board, Corporate Business Co-manager of "Alfa-Bank" OJSC. From August 2012 to the present – Vice-Chairman of the Management Board, Senior Operation Manager of the Corporate and Investment Bank of "Alfa-Bank" OJSC.

MANAGEMENT

SMIRNOV DANILA FYODOROVICH
(born in 1969)

Chairman of the Management Board

In February 2009 Danila Smirnov was elected to be the Chairman of the Management Board. Before appointment to the position of the Chairman of the Management Board, Danila Smirnov worked in "Alfa-Bank" OJSC as the Head of the Internal Audit Department and the Deputy Senior Financial Director. Experience of work in banking sector exceeds 20 years in total.

SHEFER ALEXANDR YAKOVLEVICH (born in 1948)

Vice–Chairman of the Management Board

In April 2009 Alexandr Shefer was elected to be a member of the Management Board, in July 2012 he was appointed to the position of the Vice-Chairman of the Management Board – Director for corporate development. In 2009-2012 – Vice-Chairman of the Management Board – Operations Director of "Alfa-Bank" SB JSC. Alexandr Shefer worked at different executive positions in the banking sector; he was the Director of the branch of Alfa-Bank in Astana City.

TROITSKIY MIKHAIL VYACHESLAVOVICH (born in 1972)

Vice–Chairman of the Management Board

In October 2010 Mikhail Troitskiy was elected to be a member of the Management Board, the Vice-Chairman of the Management Board. From May 2009 to July 2010 - Manager of operational office "Irkutsky" in Irkutsk City of the branch "Novosibirsky" of "Alfa-Bank" OJSC. Mikhail Troitskiy worked for Alfa-Bank at different positions for more than 15 years and he is in charge with business development in Kazakhstan.

RYLTSEV DENIS SERGEYEVICH
(born in 1977)

Financial Director

In February 2004 Denis Ryltsev was elected to be a member of the Management Board, from March 2013 he was appointed to the position of the Financial Director. In 2008-2013 – Managing Director, Treasurer of "Alfa-Bank" SB JSC. Denis Ryltsev is working for the bank since 1997, he has a wide experience in the area of asset management and financial analysis.

CHEKTYBAYEVA DINA EDUARDOVNA
(born in 1971)

Managing Director

In Septembere 2011 Dina Chektybayeva was elected to be a member of the Management Board, in January 2010 she was appointed to the position of the Managing Director. From July 2009 to January 2010 she held the position of the Executive Director of "HSBC Bank Kazakhstan" SB JSC. Dina Chektybayeva worked for major companies of the financial and oil-and-gas sectors for more than 20 years.

ANIKINA ALINA VLADIMIROVNA
(born in 1980)

Operations Director

In December 2012 Alina Anikina was elected to be a member of the Management Board, in July 2012 she was appointed to the position of the Operations Director. From January 2011 she is a member of the Board of Directors of "Saratovsky NPZ (Saratov Oil Refinery)" OJSC, member of the Board of Directors of "Orenburgneft" OJSC. Since 2009 she is a member of the Board of Directors of "Varegan neftegaz" OJSC, member of the Board of Directors of "RUSIA Petroleum" Company" OJSC. From January 2012 to June 2012 – Head of the Internal Audit Group of "Alfa-Bank" SB JSC. From September 2011 to January 2012 – Acting Head of the Department – Head of the Department of audit of the retail Internal Audit Office of the Block of the "Senior Managing Director of the Bank" of "Alfa-Bank" OJSC. In 2008-2011 – Acting Head of the Department, Head of the Department of audit of the retail Internal Audit Office of the Block of the "Chairman of the Management Board" of "Alfa-Bank" OJSC.

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BASIC EVENTS 2013

RATINGS

In January the international rating agency Standard&Poor's confirmed the bank national scale rating kzBBB.

In May Standard&Poor's affirmed the international long-term and short-term credit ratings B+/И to Alfa-Bank, "Stable" forecast, and confirmed national scale rating kzBBB.

In June the rating agency Fitch Ratings affirmed long-term foreign currency issuer default rating to the bank (hereinafter – IDR) at the level of B+, "Stable" forecast, short-term foreign currency IDR - B, long-term national currency IDR - B+, "Stable" forecast. National long-term rating was also affirmed at the level of BBB(kaz), "Stable" forecast.

NEW PRODUCTS AND SERVICES

From January the common tariffs for transfers in foreign currency are introduced for corporate clients within the Bank Group "Alfa-Bank".

In January Alfa-Bank launched the service "Trade Acquiring".

In April the bank launched free updated version of Internet Bank for natural persons "Alfa-Click".

From April Alfa-Bank offers its clients a new bank instant issue card Visa Classic Unembossed.

In May a new service "Internet Acquiring" was launched.

In May Alfa-Bank launched payment for services in Mobile Bank "Alfa-Mobile".

In July Alfa-Bank became a member of the international money transfer system CONTACT.

In July, in accordance with the Bank Development Strategy until 2015, consumer car lending was commenced.

INNOVATIONS

In October in Almaty City Alfa-Bank launched a new data storage and processing center (hereinafter – the DPC), which has high capacity, fall-over protection, fail-safety, and controllability. The DPC was created for the purpose of improvement of banking services and step-by-step development of retail business.

In November Alfa-Bank, together with BalaBit IT Security, realized the project for implementation of advanced, unique in Kazakhstan, information protection system BalaBitShellControlBox.

BRANCH NETWORK DEVELOPMENT

In February an official ceremony of opening of the bank branch in Pavlodar took place.

In April a new branch in Karaganda City was presented to the clients.

In November the branches in the cities of Almaty, Aktobe, Uralsk, and Petropavlovsk commenced their operations.

In December representative offices of the bank in the cities of Kokshetau and Kostanai, and an office in Atyrau City were registered.

BONDS

In August Fitch Ratings affirmed expected long-term national scale rating B+(EXP) and expected national long-term rating BBB(kaz)(EXP) to priority unsecured bonds of the bank in the amount of 4.5 billion tenge of the second series. The recovery rating RR4.

In September the Committee for control and supervision of financial market and financial organizations of the National Bank of the Republic of Kazakhstan effected the state registration of the second issue of bonds at the rate of semi-annual coupon of 7% per annum within the first bond program of Alfa-Bank.

In October the bonds of Alfa-Bank were officially listed on the Kazakhstan Stock Exchange in category “debt securities with rating”.

AWARDS

In November Alfa-Bank got one of 80 nominations according to version of the international financial Internet portal Global Banking and Finance Review and was awarded as the Best Commercial Bank Kazakhstan 2013.

In November Alfa-Bank got the prize “Choice of the Year in Kazakhstan” nominated as “Business Grand Prix “Choice of the Year No.1”: “High Information Protection Bank 2013”.

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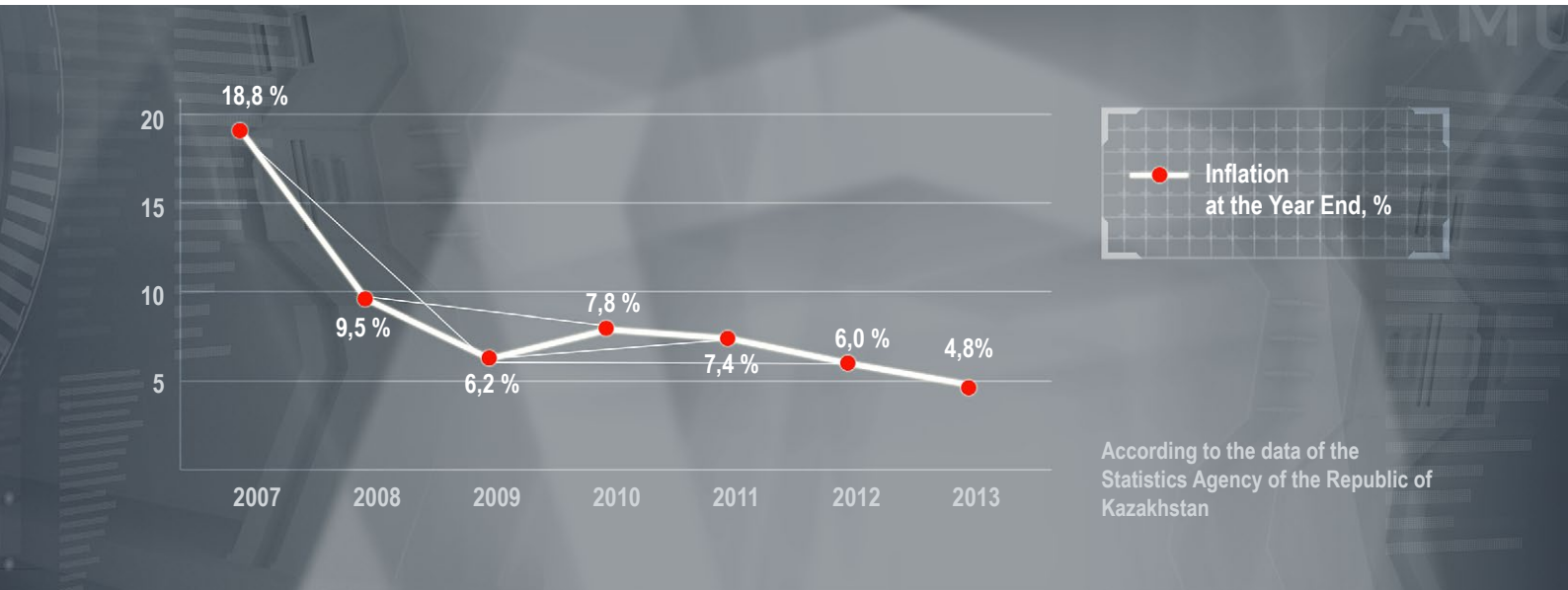
Managing Director
Dina Chektybayeva

KAZAKHSTAN'S ECONOMY AND BANKING SECTOR REVIEW

KAZAKHSTAN'S ECONOMY AND BANKING SECTOR REVIEW

In 2013 the country's economy continued to develop under the conditions of the uncertainty of the situation in the world markets due to the persisting economic recession in the euro-zone, the weak economic growth in the emerging countries and the development of the USA's economy at a much slower rate. In spite of instability of the external economic situation and conditions, the country's economy in 2013 developed consistently. So, according to the official statistics, the GDP growth in 2013 and 2012 reached 6% amounting to KZT34 140 billion and 5% amounting to KZT30 347 billion respectively.

At the end of 2013 the Investments in the fixed capital / capital assets amounted to KZT 6 052 billion, showing the 6.5% growth as compared with 2012. In 2013 the industrial output*, construction volumes*, gross output of agricultural products* increased by 2.3%, 3% and 11.6% respectively, as against 2012. At the same time, the unemployment and inflation* levels reached 5.2% and 4.8% respectively.



In 2013 the financial sector of Kazakhstan continued to recover, which resulted in aggravation of competition between the major banks of Kazakhstan and foreign-invested banks. Due to relatively low growth of the economy of Kazakhstan, the demand for new loans was limited. In connection with aggravation of competition in the corporate sector and in the segment of small and medium-sized business with the continuing economic growth, the banks have become more active in the retail lending market. The banks specializing in retail business (KaspiBank, HomeCredit) showed the highest lending and profit growth rates from the beginning of the year. The retail segment is also of interest to the major banks of Kazakhstan, such as Halyk Bank, Kazkommertsbank and Bank CenterCredit, each of which has its own individual programs for development of this segment.

According to the data of the National Bank of the Republic of Kazakhstan (hereinafter referred to as the NB RK), the aggregate assets of the second-tier banks showed 11.4% growth in 2013, amounting to KZT 15 463 billion, as against KZT13 880 billion in 2012. The growth of the Alfa-Bank's assets for 2013 exceeded the market figures and reached 26%.

KZT billion

Year	2007	2008	2009	2010	2011	2012	2013
Assets	11 584	11 889	11 557	12 031	12 818	13 880	15 463
Loan Portfolio	8 868	9 245	9 639	9 065	10 473	11 658	13 348
Liabilities	10 260	10 437	12 536	10 715	11 515	11 875	13 384

According to the data of the NB RK

ACCORDING TO THE DATA OF THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN, THE AGGREGATE ASSETS OF THE SECOND-TIER AMOUNTING BANKS TO

KZT 15 463 BILLION

The loan portfolio of the second-tier banks amounted to KZT13 348 billion, having increased from the year beginning by KZT 1 690 billion or 14.5%. As in the previous years, the increase in the loan portfolio resulted from the growth in lending to the retail segment (30.3% growth) and the small and medium-sized business segment (25.2% growth), while the corporate loans showed 6% growth.

At the end of 2013, the banks' liabilities amounted to KZT13 384 billion, having increased by 12.7% or KZT1 506 billion. At the same time, the customer deposits increased by 15.4%, while the amount of outstanding securities decreased by 18%.

In such a situation Alfa-Bank launched in 2013 the following strategic initiatives for the client base and loan portfolio growth:

- Business diversification, the increase of the share of the small and medium-sized business portfolio in the Bank's Loan Portfolio structure, the focus on priority development of retail lending, micro-lending and small business lending;
- Attraction of clients and customers having been with other banks, that have not yet cleared their portfolios from bad debts, by offering more favorable terms and conditions of service and lending;
- Optimization of the internal processes of service and lending to customers and clients, including the process of consideration of loan applications.

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FINANCIAL RESULTS ANALYSIS

FINANCIAL RESULTS ANALYSIS

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Statement of Profit and Loss	2011	2012	2013		Target
	Actual	Actual	Actual	Target	%
Interest income	5 780	9 175	12 924	11 915	8.5%
Interest expense	(2 450)	(3 582)	(5 489)	(4 439)	23.7%
Net interest income	**3 330**	**5 593**	**7 434**	**7 476**	**–0.6%**
Provisions for loans to customers	145	(1 622)	(1 226)	(2 053)	-40.3%
Net interest income less provisions	**3 474**	**3 971**	**6 208**	**5 423**	**14.5%**
Commission income and currency profit	1 975	2 757	3 581	3 478	3.0%
Currency revaluation	87	208	314	0	
Staff costs	(1 672)	(2 270)	(3 078)	(2 691)	14.4%
Administrative and other expenses	(683)	(1 151)	(1 831)	(2 239)	-18.2%
Profit before tax	**3 182**	**3 515**	**5 194**	**3 971**	**30.8%**
Corporate income tax	(456)	(523)	(986)	(779)	26.5%
Profit	**2 726**	**2 992**	**4 208**	**3 192**	**31.8%**

BY 40.7%
INCREASED THE NET PROFIT OF ALFA-BANK AS AT THE END OF 2013

The net profit of Alfa-bank as at the end of 2013 increased by 40.7% as compared with 2012 and amounted to KZT4 208 million. Overachievement of the target for 2013 with respect to the net profit reached 31.8%. The main cause of exceeding the profit targets is the growth of the interest and commission income, and reduction of the general and administrative costs and expenses.

The main factors having influenced the financial results of the year 2013:

- Use of the experience and the best practices of the Alfa Banking Group in the market of Kazakhstan;
- Business diversification, increase of the share of the retail and small business portfolio in the Bank's loan portfolio structure. Focus on the faster growth of the segments of retail lending, microlending and small business lending;
- Creation of the retail business infrastructure and efficient sale channels;
- Development of electronic business;
- Development of cross–sales;
- Increase in the promotional activities and execution of a number of urgent marketing events.

KZT million

Balance Sheet	2011 Actual	2012 Actual	2013 Actual	2013 Target	Deviation, %
Cash and cash equivalents	8 298	10 202	16 844	8 579	96.3%
Cash due from banks	6 260	2 316	1 047	775	35.0%
Securities	33 608	31 580	25 825	31 496	-18.0%
Loans to customers	50 869	87 277	123 977	129 332	-4.1%
Reserves	(2 606)	(4 250)	(4 828)	(5 838)	-17.3%
Fixed and intangible assets	905	1 530	7 382	4 794	54.0%
Other assets	1 402	2 533	2 978	1 710	74.2%
Total assets	**98 736**	**131 188**	**173 224**	**170 847**	**1.4%**
Payables to banks	78	1 579	11 392	543	1999.9%
Payables to customers/ customer deposits	66 045	91 073	129 424	134 531	-3.8%
Financial market borrowings	17 789	15 423	5 392	10 075	-46.5%
Other liabilities	1 931	2 706	2 919	1 739	67.8%
Total liabilities	**85 843**	**110 780**	**149 126**	**146 887**	**1.5%**
Capital	**12 893**	**20 408**	**24 098**	**23 960**	**0.6%**
Total liabilities and capital	**98 736**	**131 188**	**173 224**	**170 847**	**1.4%**

According to the results of 2013, Alfa-Bank met the target with respect to the size of assets. In 2013 the Bank's assets increased by 32% and 75.4% as compared with 2012 and 20111 respectively.

Alfa-Bank is ranked number 18 in the assets size among the 38 possible ones at the market of Kazakhstan.

As at the end of 2013 the loan portfolio share in the Bank's assets structure reached 68.8%.

The ratio between the reserves and loan portfolio decreased from 4.9% in 2012 to 3.9% in 2013. At the same time the share of customer deposits reached 86.8% in the assets structure, and 74.7% in the liabilities structure.

In 2013 the capital of Alfa-Bank increased by 18.1% as against 2012.

KPI	2011 Actual	2012 Actual	2013 Actual	2013 Target
ROE	20.4%	15.3%	17.0%	14.5%
CIR	44.2%	41.2%	45.0%	45.0%

The return on equity (ROE) in 2013 increased by 1.7% as against 2012 and reached 17%.

In 2013 the cost to income ratio of Alfa-Bank reached 45% (meeting the target for 2013) as against 41.2% in 2012. Increase in the operating expenses in 2013 as against 2012 is connected with a number of the following factors:

- Extension of the branch and departmental networks;
- Upgrade of the IT infrastructure due to and in connection with the retail business promotion;
- Increase in the promotional activities and execution of a number of urgent marketing events, which allowed the Bank to significantly increase its competitive advantage in the market and to attract more potential customers.

Alfa-Bank

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PROSPECTS FOR THE DEVELOPMENT OF ALFA·BANK

PROSPECTS FOR THE DEVELOPMENT OF ALFA-BANK

SB Alfa-Bank JSC is only a part of the Alfa Banking Group which includes the Banks from Russia, Belarus, Ukraine, the Netherlands and Kazakhstan. Since 1994, the Alfa Banking Group has been represented in the Republic of Kazakhstan by its subsidiary structure such as SB Alfa-Bank JSC.

The Alfa-Bank has adopted the medium-term development strategy for the period of 2013 to 2015. According to the Bank's current practice, the above strategy is updated every year subject to the changing market conditions and the tasks, goals and objectives defined by the Bank's Shareholders.

STRATEGIC TARGETS OF SB ALFA-BANK JSC

SB Alfa-Bank JSC holds itself out as a universal bank rendering high-quality services to customers and clients in the Republic of Kazakhstan with the possibility to provide financial solutions from the Banks of the Alfa Banking Group and to use the expertise and experience of the Alfa Banking Group in its work both with corporate customers and individuals.

Beginning from 2013 Alfa-Bank has become to rapidly develop the retail business, electronic banking, and small and medium-sized business segments.

The Alfa-Bank's strategic targets for the period of 2013 to 2015 are to increase the assets to KZT 300 billion and the loan portfolio to KZT 240 billion without compromising on the quality. So, the Bank has targeted an outstripping growth rate as compared with the growth of the banking sector of Kazakhstan as a whole.

It is planned to meet the targets through development and introduction of popular and much-in-demand products, provision of high-quality services and introduction of innovation technologies, especially in the retail services segment. The target groups for development include all the customers relating to retail and small business segments, as well as financially sound companies having good credit histories and potential for growth in the segment of medium-sized and large corporate business customers.

The Bank has the following strategic targets:

Business Diversification. Until 2013 the primary emphasis was placed by Alfa-Bank upon development of the corporate segment. It is planned to change the business shares by increasing the share of the retail and small and medium-sized business segments, in such a case the main development drivers in the small and medium-sized business segment will be small enterprises. It is planned to rapidly develop the retail business with the share in the loan portfolio of at least 15%.

Income Diversification. For the purpose of income diversification and reduction of the share of income from lending activities in the total income of SB Alfa-Bank JSC, within the framework of the Development Strategy the primary emphasis is placed upon creation and development of the products not connected with the lending activities. Within the scope of this target the following three priority areas can be distinguished:

TO KZT 300 BILLION

THE ALFA-BANK'S STRATEGIC TARGETS FOR THE PERIOD OF 2013 TO 2015 ARE TO INCREASE THE ASSETS

Transaction Business Development. The work with corporate clients and customers connected with offering of complex services with the use of innovative products, provision of high-quality services selected on the basis of individual needs of every client and customer, to be considered as a separate line of business.

Product Development. For the corporate segment – the provision of the package of services connected with trade financing, factoring, and cash-management. The primary emphasis is placed upon offering of electronic products for retail business, and development and offering of loan products to retail borrowers.

Expansion of Funding Sources.

Maintenance of high degree of liquidity. Due to the uncertainty of the situation in the world markets and taking into consideration the impact of the crisis on the real economy of Kazakhstan, Alfa-Bank has committed itself to the task of maintaining a high degree of liquidity – the volume of liquid assets may not be lower than 20% of the Bank's liabilities, irrespective of the development rates.

Preservation /maintenance of the assets quality. In spite of a considerable growth of its loan portfolio, SB Alfa-Bank JSC places special emphasis on the quality, for which reason it uses a conservative approach to assessment of the risks connected with the lending policy implemented both in the corporate and retail segments.

Extension of the regional network and enhancement of its efficiency. By 2015, Alfa-Bank will have a regional presence through its branches in all the regional centers of the Republic of Kazakhstan. It is planned to increase the share of regional clients and customers in the Bank's assets and liabilities, and to increase the income from business development in the regions due to optimization of business processes in the branches.

Improving automation of the core business processes. The Bank is elaborating a separate strategy of information technologies development for the purpose of improving the business processes quality.

Implementation of the Strategy of Development for the period of 2013 to 2015 will require active efforts in all the areas of Bank's activities, the modernization of the existing processes and models of each business segment and the supporting units. The Alfa-Bank's Shareholders through the Board of Directors pay special attention to development and relevance of the Strategy, and take an active part in implementation and application thereof.

SB Alfa-Bank JSC sees itself in the future as a competitive, financially sound and independent financial institution with excellent services and a high service rate, offering innovative solutions.

Alfa-Bank

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DIRECTIONS OF ACTIVITIES OF ALFA-BANK

Chairman of the Management Board
Danila Smirnov

DIRECTIONS OF ACTIVITIES OF ALFA-BANK

Activity of Alfa-Bank is aimed at servicing individuals and corporate clients, small and medium-scale business entities (hereinafter - MSE). The Bank provides clients with a full range of services, not only standard products, but also individual solutions. In 2013 the Bank had overlarge task to actualize technical and information base, to automatize processes. After having solved those tasks Alfa-Bank succeeded increasing several times the retail and consumer lending portfolio, enlarging the base of corporate clients and MSE, increasing deposit portfolio, and achieving targeted results.

Dynamics of growth of basic directions

Thousand USD

	2012	2013
Credits	577 872	809 651
Deposits	282 368	479 090
Security deposits	57 305	76 731
On-demand account	264 214	284 266
Guarantees and letters of credit	117 858	172 929

BANKING SERVICES

CORPORATE BUSINESS SMALL, MEDIUM-SCALE, AND MASS BUSINESS

- Lending
- Deposit programs
- Cash settlement services
- Payment cards for business
- Salary projects
- Internet Bank-Client
- Internet acquiring
- Trade financing
- Guarantees and letters of credit
- Factoring
- Leasing
- Overdraft

RETAIL BUSINESS

- Retail lending
- Consumer lending
- Car lending
- Credit cards
- Payment cards
- Account servicing
- Deposits
- Safe boxes
- Internet Bank “Alfa-Click”
- Mobile banking “Alfa-Mobile”
- SMS notification “Alfa-Check”

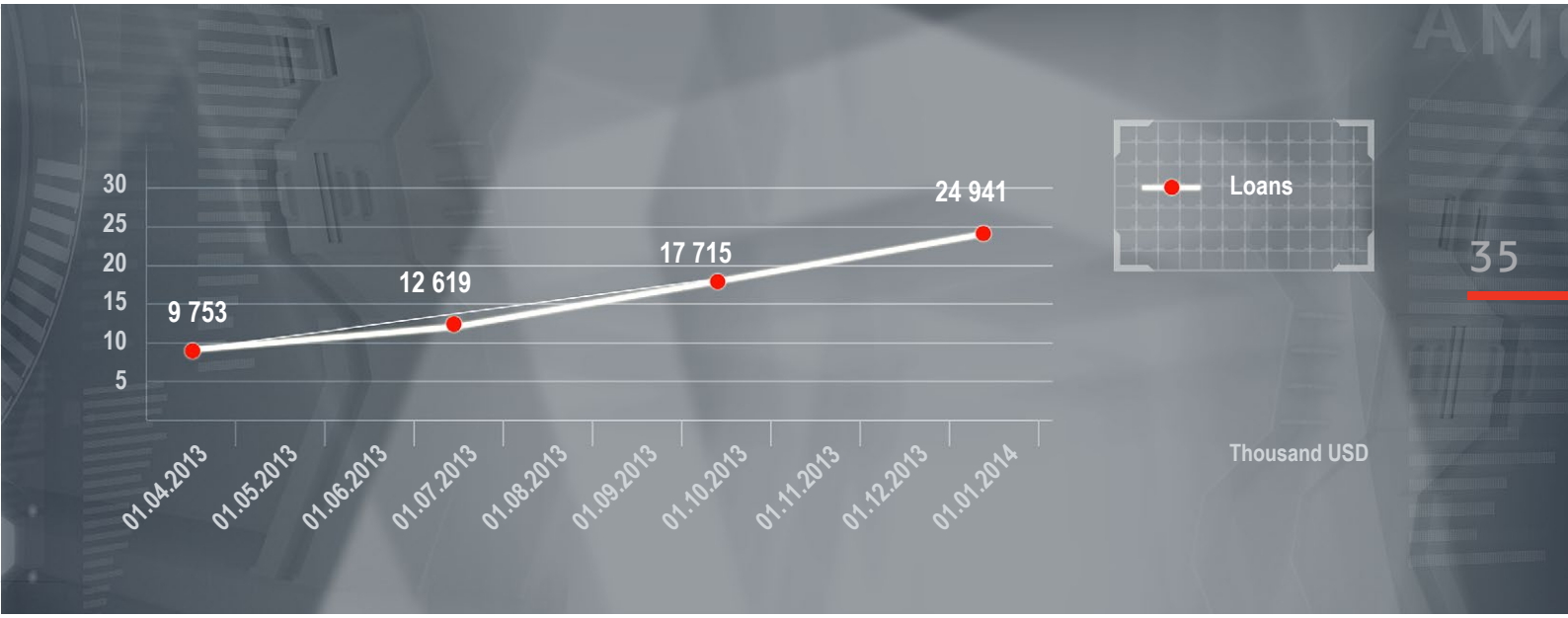
RETAIL BUSINESS

Credits are granted to natural persons in Alfa-Bank by issuing loans secured with pledged assets and unsecured loans.

Thousand USD

	2012	2013
Credits	8 399	24 941
Deposits	76 802	125 185
On-demand accounts	19 867	18 287

Dynamics of retail loan portfolio



During 2013 the Promotional Events were arranged for the purposes of attraction of clients to retail lending, such as:

- "Credit Sale" from 1 March till 31 May 2013;
- Motivational Promotional Event "Best Result" for employees of the Bank subject to the following conditions: from 1 May 2013 till 31 July 2013. The winner of the Promotional Event – the employee, who gained the most % of the sales targets in the Promotional Event and obtained IPad as a prize;
- work with clients made applications at the Internet sites (NaitiKredit, AllBanks, K+, ProDengi.kz) was arranged, and clients were attracted by means of applications made through QIWI terminals;
- Promotional Event "The rates are reduced for the whole autumn" during the period from 1 September to 30 November 2013 for retail lending.

In April 2013 an additional channel for attracting clients to the Bank – "Agency Network" – began to function, in November 2013 the reselling program started up.

In 2013 Alfa-Bank launched the revolving lending scheme based on payment cards of the International Payment System Visa. The unique proposal subject to a 60-day grace lending period is meant for satisfying needs of any client – from instantly issued credit cards as part of support of express lending products to exclusive cards of premium segment - VisaInfinite – with additional privileges from Alfa-Bank and partners.

Credit cards are issued for 2 years and allow, throughout the validity period, holders thereof using borrowed funds of Alfa-Bank on a revolving basis of the Republic of Kazakhstan and abroad without any restrictions as for types of card transactions – withdrawal of cash, cashless payment for goods and services, Internet transactions.

New services and products represented in 2013:

1) In 2013 pre-issued non-personalized card Visa Classic Unembossed – all-purpose instantly issued card – was launched.

2) A new product – accumulative account "Income Safe Box" – was launched. It may be opened in addition to any existing bank card of a client of Alfa-Bank or a new card, which is issued to a client together with product "Income Safe Box".

3) Product "Protected Alfa-Card". "Protected Alfa-Card" VIP insurance program for bank cards of Alfa-Bank protecting clients against primary financial risks connected with use of cards, such as theft of cards/purse, forgery, protection of purchases made using a card.

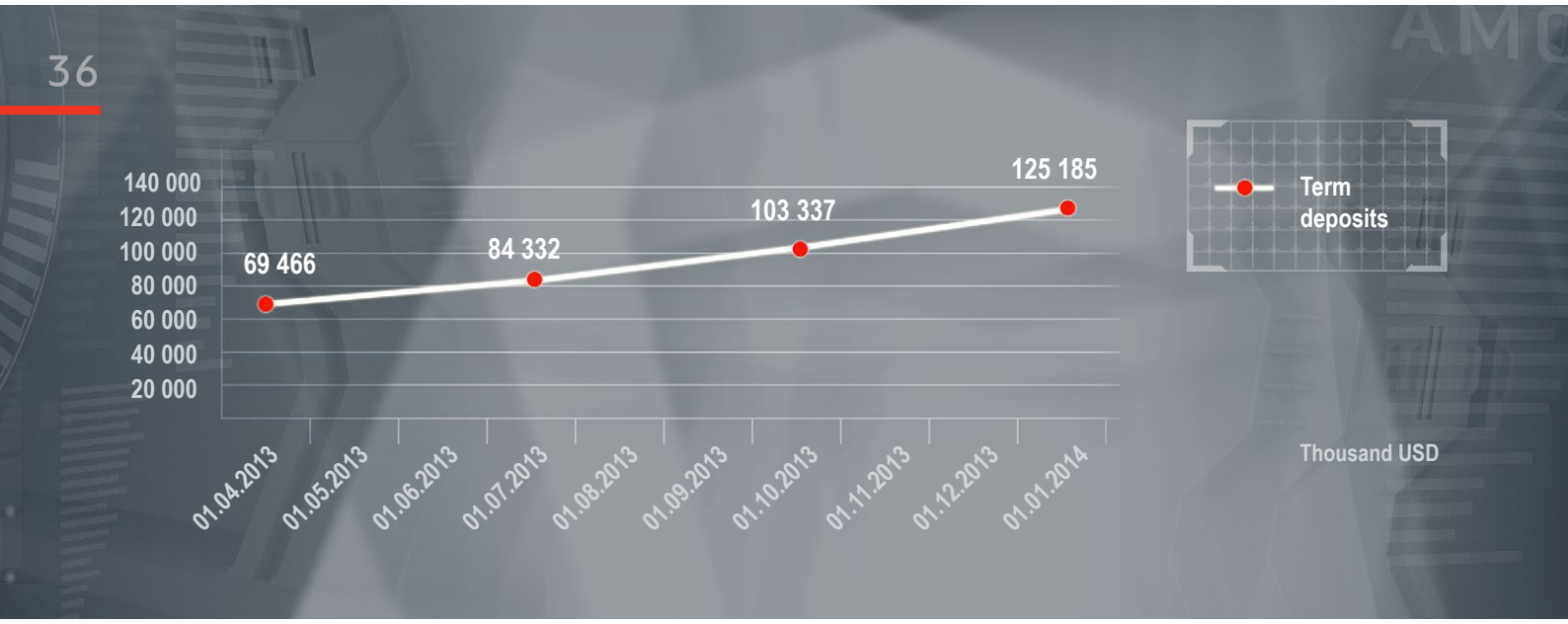
4) In 2013 an exclusive credit card of premium segment "Visa Infinite" with the limit to the sum of 1 500 000 tenge was launched.

5) Automatization of issue of credits/credit cards - BPMonline CRM "Credit Conveyor". In September 2013 the pilot project of acceptance of credit applications for unsecured credits/credit cards at the Head Office of "Alfa-Bank" SB JSC of Almaty City through automated system BPMonline CRM "Credit Conveyor" was launched. At the current moment all unsecured credits of the Retail Business at the Head Office are registered by means of the system BPMonline CRM "Credit Conveyor".

The system provides a full cycle of document circulation for processing a credit application, automated receipt of data from the Credit Bureau and the State Pension Payment Center, as well as adoption of automatic decision on issue of a credit using scoring system.

In 2014 it is planned to launch the system in the branch network of the bank throughout Kazakhstan.

Dynamics of retail deposit portfolio from 01.04.2013 to 01.01.2014.



In 2013 Alfa-Bank continued to develop Online services. Updated version of Internet Bank "Alfa-Click" launched at the end of 2012 have fill up over the current year with different services and at the end of 2013 it became possible, by means of the system:

- to pay for mobile communication services, television, telephony, public services and other;
- to make intra-bank and interbank transfers;
- to replenish and partially withdraw cash from deposits "Alfa-Progress" a TB "Income Safe Box";
- to make cashless purchase/sale/conversion of foreign currencies;
- to renew services of Mobile bank "Alfa-Mobile";
- to connect SMS notification service "Alfa-Check" and other.

Likewise, in 2013 the opportunity to pay for public services, telephony, cable television, hosting, and Internet services was realized for the bank clients connected to service "Alfa-Mobile" without charging a fee for a transaction by models of payments created in the Internet bank "Alfa-Click".

At the beginning of 2013 Alfa-Bank launched the service for on-line shops and merchant companies of Kazakhstan – Internet Acquiring (quality and safe services related with acceptance of payments made using bank

cards through the Internet). The key competitive advantage is not only the shortest terms for crediting funds, but also use of the electronic business safety control system, which is the best in Russia. Thus, the clients of our partners may use, without doubts, the Internet payments and be quite confident for safety of personal data.

CORPORATE BUSINESS

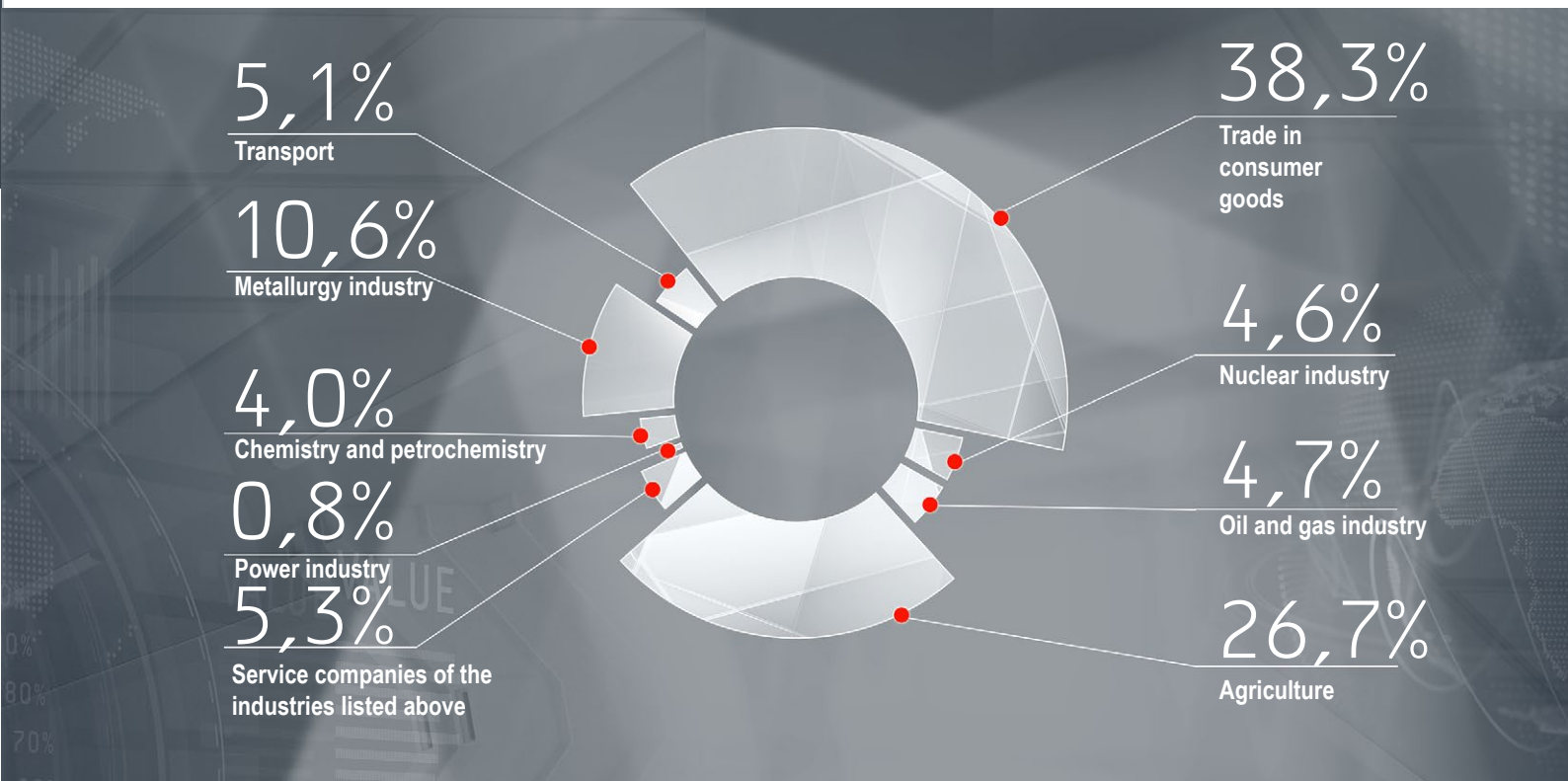
In 2013 Alfa-Bank continued to actively attract corporate clients that resulted in increase in volume of major client lending over past year by 37% amounting to USD 621 738 thousand (2012 – USD 453 147 thousand).

Thousand USD

	2012	2013
Credits	453 147	621 738
Deposits	168 243	329 249
On-demand accounts	159 373	162 281

The basic share of the credit portfolio of major corporate clients is traditionally taken by the trading companies and agriculture. Over 2013 activities connected with cooperation with the companies of the nuclear industry have significantly enhanced, infrastructure construction lending is dynamically developing. In addition, as compared with 2012, a share of investment loans increased by 5% and became equal to 9%. Loans for replenishment of current assets take 91% of loan portfolio of major corporate clients.

Structure of loan portfolio of major corporate clients, 2013



CONSUMER LENDING

The consumer lending direction began to function at the end of 2012. At the end of 2013 the bank representation in the context of consumer lending increased up to 27 cities of Kazakhstan, the number of trade outlets, where Alfa-Bank is represented, achieved 1 150 units.

Thousand USD

	2012	2013
Credits	483	29 669
On-demand accounts	9	1 366

The partners of Alfa-Bank are more than 130 trading companies, which include major sales networks, such as Sulpak, Planeta elektroniki, Mechta, Evrika, Alser, small shops selling technique, furniture, clothes, as well as travel agencies, medical centers, etc. Specialists of Alfa-Bank are working 7 days a week in sales outlets in the shops-partners.

Performances 2013

Portfolio volume, thousand $	29 669
Market share, %	1,5%
Quantity of clients	30 000
Average AEFR	28%
Quantity of sales outlets	1150
Quantity of employees	475
Quantity of credits	47 500

“Installments” product

- Initial contribution: 0%;
- Overpayment: 0 tenge.

“Standard” product

- Initial contribution: 0%-99%;
- Overpayment: 2%-3% a month.

“7–7–7” product

- Initial contribution: strictly 7%;
- Overpayment: 1% a month.

Repayment methods:

- cash office of the Bank;
- Alfa-Bank bank terminals ;
- any subdivisions and bank terminals of “Halyk Bank of Kazakhstan” JSC;
- QIWI terminals.

In accordance with the Development Strategy until 2015 in July 2013 Alfa-Bank launched car lending program in the regions of Kazakhstan. At the end of the year the bank was represented in the cities of Almaty, Astana, Atyrau, Uralsk, and Pavlodar.

47 500

500 CONSUMER CREDITS WERE GRANTED OVER 2013.

SMALL AND MEDIUM-SCALE BUSINESS

In 2004-2008 active growth of SMB lending was evidenced, but since 2009 lending volumes and rates of growth of loan portfolios decreased. The consequence of decrease in lending volume became the world financial crisis. However, in 2011 and 2012 the drop stopped, at the present we may see growth stabilization and recovery. In 2009 and 2012 the most of the SMB market was occupied by MCOs and credit partnerships, due to "stiffening" of credit policies by the banks of Kazakhstan.

Today Alfa-Bank is pursuing the policy of minimization of the portfolio risk by diversifying the same and increasing portfolio yield at the expense of reduction of average ticket, which will mainly occur due to small and micro business lending. However, this does not evidence of the fact that Alfa-Bank tired of clients of the medium-scale business segment, the medium-scale business still remains one of the priority directions of activity.

Thousand USD

	2012	2013
Credits	114 842	133 274
Deposits	37 322	24 265
On-demand accounts	78 774	95 846

Primary directions of activity of the SMB Credit Department:

1) The Regional Sales and Coordination Office is engaged in support of SMB lending at the branches and representative offices of the bank, it considers and supports projects, participates in protection of projects at the meetings of the Credit Committee, as well as it is involved in development of sale of other business directions: attraction to deposits, cash settlement services (hereinafter - CSS), guarantees and letters of credit, etc.

2) Management of sales on Almaty City – it is engaged in attraction of clients to lending in Almaty City, considers and supports SMB projects, as well as it is involved in development of sale of other business directions: attraction to deposits, CSS, guarantees and letters of credit, etc.

3) Micro-Credit and IE Credit Department – work with micro-financing and IE credit segment for business and consumer purposes;

4) Mass Business Office – attraction of clients to cash settlement services from individual entrepreneurs and small legal entities segment, sale of CSS products, Internet banking, POS terminals, etc.

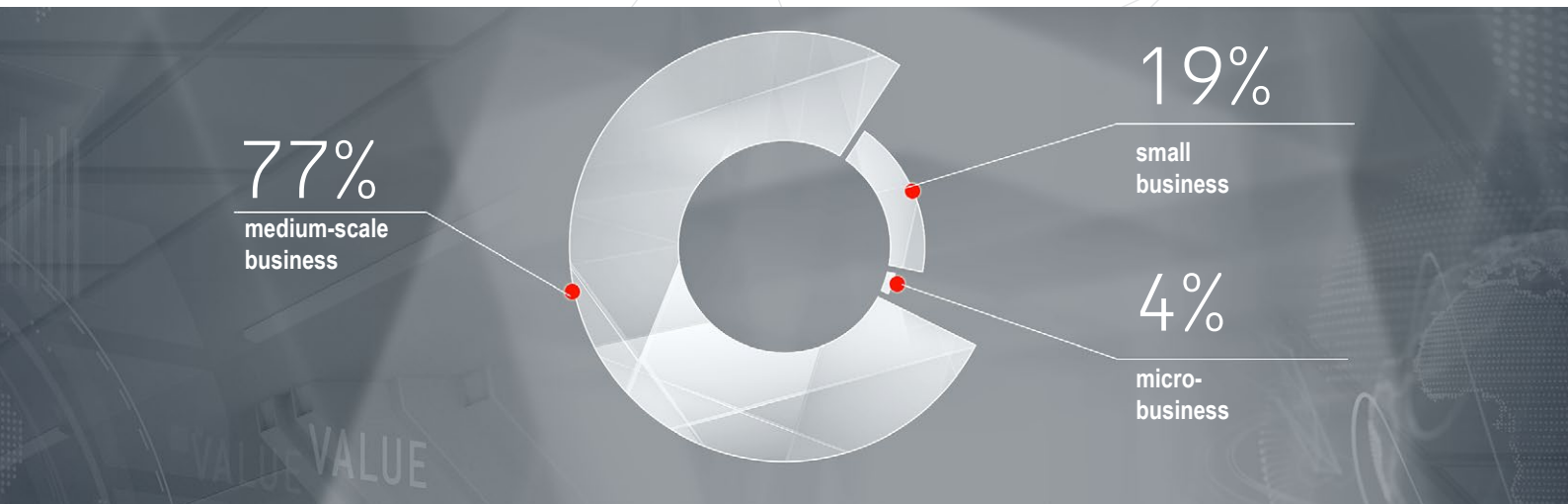
Changes occurred during 2013:

1) Mass Business Office was formed;

2) Micro-Credit and IE Credit Department was formed.

At the current moment 77% of portfolio is concentrated in the Medium-scale business segment. During 2012 and 2013 we managed to increase a share of portfolio of small and micro-business up to 23%.

Portfolio structure at the end of 2013



Clients of SMB sector are represented in the following branches

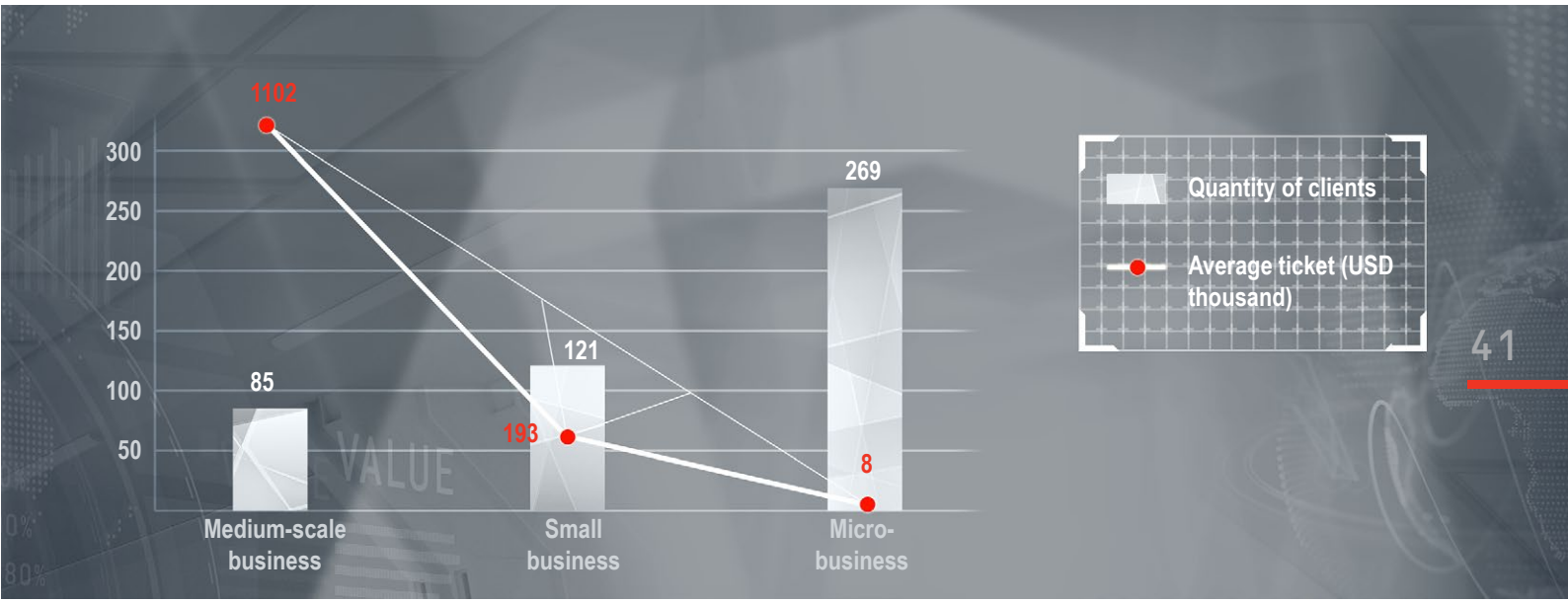
Small and medium–scale business

- trade;
- manufacturing;
- transport;
- telecommunications and communication;
- power industry;
- pharmaceuticals industry;
- other companies from the branches of stable consumer demand.

Micro–business:

- trade;
- services;
- manufacturing (foodstuff, furniture, printing industry, etc.).

The average weighted effective interest rate for loan portfolio:
Medium-scale business – 11,8%
Small business – 13,5%
Micro-business – 33,5%



The most popular SMB services

In the Medium–scale business segment

- working capital financing;
- investment financing;
- cash settlement services;
- corporate credit cards with lending ceiling;
- leasing;
- factoring;
- tender and post-tender guarantees;
- contract financing;
- structural financing.

In the Small business segment

- Alfa-Business standard;
- Alfa-Kanikuly (Vacancy);
- cash settlement services;
- financing within the framework of the government programs of “Damu” BDF” JSC;
- overdraft;
- corporate credit cards with lending ceiling.

In the Micro–business segment

- express credit;
- express credit for a group of borrowers;
- credit on the security of real estate;
- credit to purchase real estate;
- credit on the security of a car.

In the Mass business segment

- remote account opening for legal entities and IEs;
- tariff packages for clients (being developed);
- creation of agency network;
- services to keep loyalty of clients (being developed).

Alfa-Bank

STAFF
POLICY

STAFF POLICY

1198
EMPLOYEES HAS AS AT 31 DECEMBER 2013 "ALFA-BANK" SB JSC

As at 31 December 2013 "Alfa-Bank" SB JSC has 1198 employees. Over the year the number of personnel increased more than twice. Increase in number of personnel is conditioned by stage-by-stage implementation of the Strategy of the Bank development until 2015 in the following key directions of the Bank activity: expansion of branch network, development of retail business, consumer lending, and small and medium-scale business.

The staff policy of the Bank, employees of which are the supreme value, is aimed at formation, development, and preservation of experienced staff, as well as creation of efficient personnel motivation. Over 19 years of activity the team of highly skilled professionals was formed in Alfa-Bank and there is special corporate culture based on five corporate values: tending to leadership, appreciating clients, thinking as businessmen, constantly developing, and working in team.

The Bank provides equal opportunities for each employee based on competencies demonstrated by him/her and effectiveness, professionalism, initiative and approach to work. A peculiarity of Alfa-Bank in the Staff policy is search for and employment of employees to new vacant positions by announcing internal competition from among working employees and efficient use of staff potential within "Alfa-Bank" banking group.

Actions to evaluate personnel provides the head of departments of the Bank with necessary information on professional level of employees in order to make decisions on their training and development, promotion at work, as well as enables to review at certain intervals amounts of employees' remunerations. In the context of these actions the most experienced specialists are enlisted into the personnel reserve.

ADVANCED TRAINING

High level of professional competence is maintained and developed through a system of constant training and advanced training. For this purpose the Bank organizes the following events:

- training seminars held at certain intervals in accordance with the Training Plan;
- secondment of employees to participate in probations, extension courses, conferences, and seminars organized within "Alfa-Bank" banking group;
- sending employees of the Bank to take part in different training programs, seminars held by different training centres training bank employees in the Republic of Kazakhstan and abroad.

BONUSES AND LABOUR REMUNERATION

Labour of the Bank employees is remunerated on the basis of official salaries and guaranteed/compensatory payments provided for by the effective legislation of the Republic of Kazakhstan, the Employment agreement, and collateral agreements thereto. There are also incentive programs under which employees shall be paid bonuses on monthly basis and at other intervals providing they achieve certain performances in work.

When performing plan targets, important urgent instructions of the Bank management, comprehensive, complex tasks within limited periods, as well as temporary performance of additional works (duties), employees are additionally paid bonuses on individual basis.

SOCIAL AND PSYCHOLOGICAL SUPPORT

Incentive system includes not only material incentives, but also social and psychological support of personnel, which furthers formation and support of common corporate spirit, as well as favourable psychological climate in team.

Psychological support of personnel is aimed at ensuring all categories of employees with the most comfortable psychological environment to enable him/her to efficiently perform employment duties.

Alfa-Bank

9

FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

11
INDICATORS OF EARLY RESPONSE TO LIQUIDITY CRISIS – IN THE CONTEXT OF THE PLAN OF LIQUIDITY MANAGEMENT UNDER CRISIS CONDITIONS

"Alfa-Bank" SB JSC attaches substantial importance to risk management. The main purpose of the bank's risk management is to achieve optimal risk level and return of its operations. In 2013 the bank continued to pay much attention to improvement of risk management as a key element of implementation of the bank's development strategy under conditions of strong competition in the banking market, increasing risks of external environment and dynamic bank growth. During 2013 internal and external factors of risk were revaluated both at the level of currently available portfolio of Alfa-Bank and at the level of future and possible transactions. Performed work allowed avoiding financial losses and keeping high quality of credit portfolio against the background of substantial growth of granted credits and incomes under existing economic conditions.

At the present time a common risk management system is in place in Alfa-Bank, which provides for management of credit risks (corporate, small and medium-scale and retail business), market risks (including foreign exchange, interest and liquidity risks) and operating risks. Management of credit and market risks provides for fixing limits of risk and control that risk of potential losses would not exceed such limits. Management of operating risks consists in ensuring proper functioning of internal processes and procedures in order to minimize exposure of the bank to other internal and external risk factors. The bank risk management practice consists of several basic components: risk management, risk detection, as well as risk assessment and risk control.

Internal regulatory base and practice of the bank risk management fully correspond to the requirements of the National Bank of the Republic of Kazakhstan as regards risk management and internal control. The banks introduced and continuously apply requirements of the Basel Committee for Risks I and II, Basel III requirements are being introduced. The Risk Management Department of Alfa-Bank is very actively using in its work the methods, models, and approaches of bank risk management of the Banking group "Alfa-Bank", first of all, Alfa-Bank of Russia, which is constantly rendering methodological and other support, as well as controls, within its competence, quality of the bank risk management.

1) RISK MANAGEMENT: ORGANIZATIONAL STRUCTURE

The Board of Directors is in charge of the structure and quality of functioning of the risk management system by supervising the management of key risks. Its responsibility also includes approval of large exposures.

The Committee for risk management of the Group (hereinafter – the CRMG) is liable for quality and contents of regulatory documents regulating the procedures for risk management (its functions include approval of risk management methods), as well as approval of large exposures. Decisions of the CRMG are of advisory nature for the Board of Directors. At the same time, if the Board of Directors decides to deviate from recommendations of the CRMG, then the CRMG may put this issue for consideration by the Group Supervisory Board.

The Bank Management Board is liable for monitoring and realization of measures to minimize risk, as well as control of adherence to fixed risk parameters.

The Risk Management Department and the Retail Risk Department are in charge of functioning of the risk management system ensuring compliance with general principles of risk management, risk detection, limitation of extent thereof, as well as presentation of reports thereon.

Liquidity, credit and market risks, both at the level of portfolio and transactions, are managed and controlled by many-level system of subdivisions and collegial bodies: Credit

committees, Committee for Asset and Liability Management, Treasury, Risk Management Department, and Retail Risk Department.

2) RISK DETECTION

Within the organizational structure of Alfa-Bank both external and internal factors of risk are generally detected and managed. Special consideration is given to preparation of reviews and reports on risks, which are used to identify the whole range of risk factors and to be basis for determining required procedures for minimization thereof. Thus, Report on quality of credit portfolio and adherence to limits for credit portfolio is weekly put for consideration by the Credit Committee. The Report on all types of market risks is monthly put for consideration by the Committee for Asset and Liability Management, the Report on key risk indicators of all types of risk is weekly sent to the members of the Management Board, heads of the risk management departments of Alfa-Bank of Russia, and, in short, members of the Board of Directors.

3) ASSESSMENT, MANAGEMENT AND CONTROL OF RISKS

Assessment of the Bank risks, reporting and control procedures differ depending on a type of risk, but they are still combined with common methods created and updated by the Risk Management Department and the Retail Risk Department on the basis of standards of the Banking group "Alfa-Bank". Compliance with standards of the group is supported by compulsory coordination of the entire methodological base, used approaches and models with the risk management department of Alfa-Bank of Russia, approval thereof by the Risk Management Committee of the Group and regular forwarding of reports on risks to the risk management department of Alfa-Bank of Russia. The Bank is constantly improving the credit policy and separate procedures for risk management in order to keep and strengthen its positions in the market of banking services, including at the moments of possible market shocks.

MANAGEMENT OF CREDIT RISKS

The basic internal regulatory document regulating the process of assessment, admission and management of the credit risk is the Credit Policy of the bank. The Credit Policy shall be approved by the Board of Directors for a period not exceeding one year. For the purposes of timely response to changes in external and internal factors affecting crediting and credit risks, the Credit Policy is amended more than once a year. All fundamental changes in the Credit Policy shall be agreed with the Risk Management Department of Alfa-Bank of Russia and approved at the meeting in presentia of the Board of Directors of the Bank. The structure and content of the Credit Policy shall correspond to the group standards, this document was drawn up in accordance with the Credit Policy of Alfa-Bank of Russia and is amended depending on appearance of new group standards and approaches to crediting and management of credit risk.

A key analytical instrument to assess a level of credit risk is internal rating model created by the bank on the basis of the rating model of Alfa-Bank of Russia. Internal credit rating of a borrower, as well as basic financial ratios are calculated in the software system "Creditworthiness valuation System" used in the Banking group "Alfa-Bank". Internal credit rating is used for assessment of borrower default risks, calculation of internal limits for a credit portfolio, credit pricing and calculation of amount of provisions for credit.

The credit policy of the bank establishes five internal limits for a credit portfolio:

- limit of concentration per a borrower (a group of related borrowers) depending on rating;
- limit of aggregate extent of major credit risks;
- limit of diversification of credit portfolio by borrower rating;
- limit of concentration of credit portfolio by type of security;
- limit of concentration of credit portfolio by economy branch.

These limits are calculated on weekly basis, report on adherence thereto is put by the Risk Management Department for consideration at the meeting of the Credit Committee and is weekly sent to members of the Management Board and members of the Board of Directors.

There is a structure of credit committees in the bank – the Senior Credit Committee, the Small Credit Committee, the Small Credit Committee of the branch in Astana City, the Retail Credit Committee and the Small Retail Credit Committee. Powers of each credit committee are determined by the Board of Directors depending on amount of limits approved, collateral, and credit products. Loans exceeding 10% of equity capital of the bank or which do not meet the requirements of the Credit Policy are

put for approval by the Board of Directors. Decisions on such projects are only made at the meeting in presentia of the Board of Directors during discussion subject to additional analysis of the project by the Risk Management Department of Alfa-Bank of Russia and consideration at the meeting of the Risk Management Committee of the Group.

The Retail Risk Department is engaged in portfolios of consumer loans repaid by installments, loans to buy a car, credit cards, credits in cash, credits on the security of real estate, and micro-credits of individual entrepreneurs.

The Retail Credit Committee controls performances of a portfolio of retail credits and prospects of development thereof. The Retail Credit Committee shall fix and control risk standards, as well as approve new retail credit products, control a level of reserves for portfolio of retail credits, make other decisions regarding credits granted to natural persons, including approval of non-standard and major credits. Meetings of the Retail Credit Committee are held on weekly basis, it also consists of representatives of all key retail subdivisions of the bank. The meetings of the Small Retail Credit Committee are held on daily basis upon standard applications.

Portfolios of retail loans are monitored by the Retail Risk Department on the basis of weekly and monthly reports. Such monitoring includes detecting of the following indicators:

- indicators of approval/drop broken down by all segments (products, clients);
- delay in payment (both at different times and simultaneously);
- indicators of extension (transition of overdue debt to different stages);
- adherence to risk standard established for each of retail portfolios;
- efficiency of recovery of debt as for each of product portfolios;
- vintage analysis based on monthly data.

MANAGEMENT OF MARKET RISKS

The Bank manages the following types of market risks: liquidity, foreign exchange, and interest risks.

1) MANAGEMENT OF LIQUIDITY RISK

Two basic tools are used in the bank to manage liquidity risk: stress testing:

- stress testing of effect on cumulative gap (liquidity gap) and liquidity ratios of stress events in the context of 6 scenarios of liquidity crisis, which is carried out on monthly basis;
- calculation of indicators of early response to liquidity crisis – in the context of the Plan of liquidity management under crisis conditions, 11 indicators of early response, which shall be calculate on monthly basis, and a number of them (such as dynamics of client deposits) - on weekly basis, are developed, and adherence thereto is controlled.

2) MANAGEMENT OF FOREIGN EXCHANGE RISK

The bank monthly takes the following actions:

- calculation of VaR for dollar, euro and ruble and, in general, for portfolio of those currencies;
- stress testing of devaluation/revaluation of tenge for financial result (net current profit) of the bank;
- analysis of trends, forecast of foreign exchange rates and working out of recommendations on management of exposure of the bank to foreign exchange risks;
- back testing of used models;
- control of foreign exchange positions.

There is potentially a stop loss limit in the event of speculative transactions opening – at the present they are prohibited by the Investmento Policy of Alfa-Bank and are not made.

3) MANAGEMENT OF INTEREST RISK

The bank monthly takes the following actions:

- calculation of duration of security portfolio and evaluation of influence thereof (through growth of basis points) on market value of portfolio;
- calculation of PV BP (value of one basis point).

On weekly basis:

- stress testing of influence of interest risk on net interest income of the bank (+/-2% according to requirement of the Basel Committee);
- analysis of dynamic of interest rates;

- overall estimation of influence of interest risk on the bank;

- working out of recommendations on management of interest risks of debt security portfolio and interest asset and liability portfolio.

At the present the Bank is not exposed to price risks, as it has not investments in equity instruments.

The Risk Management Department monthly analyzes macro-economic situation in the country and in the world on the basis of dynam-

ic of foreign exchange rates, prices for key exchange goods, dynamic of indices on major stock exchanges, value of CDS, sovereign ratings, as well as other quantitative and qualitative factors affecting the world and national economy.

Results of all of calculations and estimations mentioned above are summarized in a form of a monthly Report on market risks, which shall be put for consideration by the Committee for Asset and Liability Management, together with recommendations of the Risk Management Department as regards management of market risks. Separate elements of that report shall be stated in the Report on key risk indicators, which shall be sent to the members of the Management Board and the risk management department of Alfa-Bank of Russia on monthly basis. All analytical tools for management of market risks are created subject to approaches and recommendations of the risk management department of Alfa-Bank of Russia.

MANAGEMENT OF OPERATING RISKS

In order to manage operating risks the following basic tools are used in the bank:

1) risk self-assessment (RSA - Risk Self Assessment) in organizational subdivisions;
2) calculation and control of key risk indicators (KRI – Key Risk Indicators);
3) keeping operating loss data base;
4) analysis of business processes.

1) RSA – RISK SELF-ASSESSMENT

The Management Board annually approves a list of subdivisions, in which Risk self-assessment is planned (about 5 subdivisions a year). In the context of use of that tool a risk chart is used, in which risks are represented, in a form of graphical description, depending on probability and significance of realization thereof that allows determining priority thereof for the bank according to estimation of subdivisions concerned. Based on results of the Risk self-assessment in a subdivision the Risk Management Department shall prepare Report including the Plan of actions to minimize found out risks. The Risk Management Department shall quarterly monitor fulfillment of the Plans of action, results of which shall be presented for consideration by an executive employee of the bank in charge of a subdivision. At the end of a half year the Risk Management Department shall provide the Management Board of the bank with an interim report on fulfillment of annual plan of project implementation, as well as report on fulfillment by participating subdivisions of the Plan of actions to minimize found out risks.

2) KRI – KEY RISK INDICATORS

Key risk indicators are weekly analyzed on the basis of information prepared in integrated banking system, as well as provided by the bank subdivisions. This information is provided for consideration by the Management Board and the risk management department of Alfa-Bank of Russia on weekly basis.

3) OPERATING LOSS DATA BASE

According to the rules for keeping Operating loss data base in each organizational subdivision the risk coordinators are appointed, which shall monthly send to the Risk Management Department an information on operating risk events inside its organizational subdivision, as well as any operating risks of the bank, which they knew due to performance of their functional responsibilities according to prescribed form. On the basis of obtained information the operating risk event shall be entered into the Operating loss data base according to predetermined classification. The Risk Management Department shall, on the basis of data provided by the risk coordinators and registered in the Operating loss data base, provide the bank management (mandatorily to the Chairman of the Management Board, Operations Director, chief audit executive) with a report on operating risks not less than once a month. The Risk Management Department shall present a report on operating risks for consideration by the Board of Directors within terms fixed by the legislation (not less than semiannually).

4) ANALYSIS OF BUSINESS PROCESSES

According to established rules of the bank all internal regulatory documents and amendments thereto shall be approved by the Risk Management Department, whereupon they shall be put for consideration by the Authorized body. For the purposes of prevention of occurrence of operating risks the Risk Management Department shall, in the context of the process of development of internal regulatory documents, analyze business processes and present proposals on minimization of operating risks.

Alfa-Bank

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INTERNAL CONTROL AND AUDIT

Financial Director
Denis Ryltsev

ORGANIZATION OF INTERNAL CONTROL SYSTEM

The Board of Directors and the management of Alfa-Bank ensure availability of an adequate internal control system and create conditions to enable employees to perform their duties in the area of internal control.

In order to ensure functioning of the internal control system the following measures are constantly taken:

- assessment of risks affecting achievement of set targets and taking actions guaranteeing response to changing circumstances and conditions in order to assure efficiency of bank risk assessment;
- provision of participation of all employees (in accordance with their powers and employment duties) in internal control;
- establishment of a procedure for enabling employees to notify the governing bodies, management of Alfa-Bank the information on all violations of the legislation, constituent and internal documents, cases of abusive acts, failure to comply with professional ethics principles;
- adoption of documents relating cooperation of subdivisions performing controlling functions and subdivisions and employees of the bank and control of compliance thereof;
- exception of adoption of decisions/documents and (or) taking actions contradicting the legislation and purposes of the internal control.

INTERNAL AUDIT SERVICE

In order to guarantee objective and independent estimation of internal control system at the bank the internal audit service, activity of which is based on principles of activity consistency, independence, impartiality, and professional competence, is formed.

A purpose of internal audit is to estimate adequacy and efficiency of internal control and risk management systems in all aspects of activity of Alfa-Bank, to timely provide reliable information on status of performance by the bank subdivisions of functions and tasks entrusted to them, to give valid and effective recommendations to improve work thereof, to monitor the internal control system and to assist the Management Board and the Board of Directors to ensure efficient functioning of the bank.

COMPLIANCE RISK MANAGEMENT

Compliance risk management at Alfa-Bank is based on timely prevention and detection of possible sources of compliance events, which may result in losses and/or worsening of business reputation. Compliance system of the bank is a component part of the internal control system and it furthers to maintain reputation, to develop business activity, and to enhance investment attractiveness of the bank.

In order to manage compliance risks the Compliance Control Department, which carries out overall control of compliance with the effective legislation of the Republic of Kazakhstan, internal policies and procedures of the bank, as well as corporate conduct rules, is formed at Alfa-Bank.

Principal tasks and functions of the Compliance Control Department are:

- pursuance of and provision of compliance with the Policy of compliance risk management, as well as coordination of activity of the compliance participants to detect compliance risks;
- organization of a client due diligence system, financial monitoring and timely sending of information on clients' transactions to the authorized body;
- ensuring constant monitoring of satisfaction of compliance requirements and procedures established by Alfa-Bank;
- control of disposal and use of inside information;
- coordination and overall control of satisfaction of requirements of the US Foreign Account Tax Compliance Act (FATCA).

The Compliance Control Department shall prepare, not less than once a year, a report for the Board of Directors of Alfa-Bank on the most significant, in the context of damage for the bank, compliance risks discovered during the year, stating consequences, responsible subdivisions, as well as taken and planned actions to minimize compliance risks.

The compliance control system and compliance risk management are improved in accordance with recommendations of internal and external auditors based on results of check of efficiency of the bank compliance control, as well as decisions of the Board of Directors and the Management Board of Alfa-Bank on evaluation of efficiency of compliance risk management.

COMPLIANCE SYSTEM

SYSTEM OF THE BANK IS A COMPONENT PART OF THE INTERNAL CONTROL SYSTEM AND IT FURTHERS TO MAINTAIN REPUTATION, TO DEVELOP BUSINESS ACTIVITY, AND TO ENHANCE INVESTMENT ATTRACTIVENESS OF THE BANK.

Alfa-Bank

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REPORT ON CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The Code of Corporate Governance of Alfa-Bank approved by Decision of the sole shareholder No.3 dated 14 May 2013 is a set of rules and recommendations, which the bank shall follow in the course of its activities in order to ensure the high level of business ethics in relations inside the organization and with the other market players.

The Code was prepared subject to existing international experience in the area of corporate governance, principles of corporate governance developed by the Organization for Economic Cooperation and Development, as well as on the basis of the Recommendations on application of principles of corporate governance by the Kazakhstan joint-stock companies approved by decision of the Expert Board for securities market under the National Bank of the Republic of Kazakhstan dated 24 September 2002, minutes No.19.

In its activities Alfa-Bank follows the following principles of corporate governance:

- maximal respect and protection of the rights and interests of shareholders;
- efficient management of the bank by the Board of Directors and executive body – Management Board;
- transparency, timeliness and objectivity in disclosing information on activity of Alfa-Bank;
- legality and ethics;
- efficient dividend policy;
- regulation of corporate conflicts.

STRUCTURE OF CORPORATE GOVERNANCE

A number of Committees are functioning under the Board of Directors:

1. COMMITTEE FOR STRATEGIC PLANNING is an advisory and consultative body of the Board of Directors of Alfa-Bank, in its activities it follows the legislation of the Republic of Kazakhstan (hereinafter – RK), decisions of the shareholder and the Board of Directors of the bank, the bank Articles of Association and the Regulations of the Committee for strategic planning of the Board of Directors of "Alfa-Bank" SB JSC approved by Minutes of the meeting of the Board of Directors No.29 dated 30 July 2012.

The Committee performs the following functions and exercises the following powers:

- analysis of and giving recommendations for developing strategic decisions relating to determination of priority directions of activity;
- analysis of and giving recommendations for developing some strategic decisions relating to enhancement of efficiency of the bank activity in the long term;
- preliminary consideration of the plans of actions to implement the strategy of development of Alfa-Bank, documents put for consideration by the Board of Directors, which contain information on the progress of realization of the strategy of development, preliminary consideration of the plans of development;
- giving recommendations to the Board of Directors regarding other questions within its competence in accordance with instructions of the Board of Directors or provisions of the internal documents of the bank.

2. COMMITTEE FOR PERSONNEL AND REMUNERATIONS is an advisory and consultative body of the Board of Directors, in its activities it follows the legislation of RK, decisions of the shareholder and the Board of Directors, the bank Articles of Association and the Regulations of the Committeee for personnel and remunerations of the Board of Directors of "Alfa-Bank" SB JSC approved by Minutes of the meeting of the Board of Directors No.29 dated 30 July 2012.

The Committee performs the following functions and exercises the following powers:

- giving recommendations to the Board of Directors for formation of qualification of requirements to candidates to the positions of executive employees, corporate secretary, officials of internal audit service and other employees directly subordinated to the Board of Directors, as well as regarding decisions connected with appointment to the mentioned positions and early termination of their powers;
- development of the staff policy aimed at formation of qualified staff, minimization of human resource risks;
- contribution to formation of the system of personnel reserve, professional growth, constant training and advanced training for employees;
- making proposals to the Board of Directors on changes in number, term of powers and procedure for work of the Management Board of the bank;
- development of the system of work assessment and remuneration to employees of Alfa-Bank;
- preliminary assessment of the results of work of the members of the Management Board, corporate secretary related with the matters of remuneration;
- making proposals to the Board of Directors on amount and terms of labour remuneration and bonuses payment to the members of the Management Board, corporate secretary; together with the Committee for internal audit, making proposals on amount and terms of labour remuneration and bonuses payment to employees of the Internal Audit Service;
- if necessary, cooperation with involved external experts as for corporate governance, staffing, remunerations, and preparation of necessary recommendations to the Board of Directors, etc.

3. COMMITTEE FOR INTERNAL AUDIT audit is an advisory and consultative body of the Board of Directors, in its activities it follows the legislation of RK, decisions of the shareholder and the Board of Directors of the Bank, the Bank Articles of Association and the Regulations of the Committee for internal audit of the Board of Directors of "Alfa-Bank" SB JSC approved by Minutes of the meeting of the Board of Directors No.29 dated 30 July 2012.

The Committee performs the following functions and exercises the following powers:

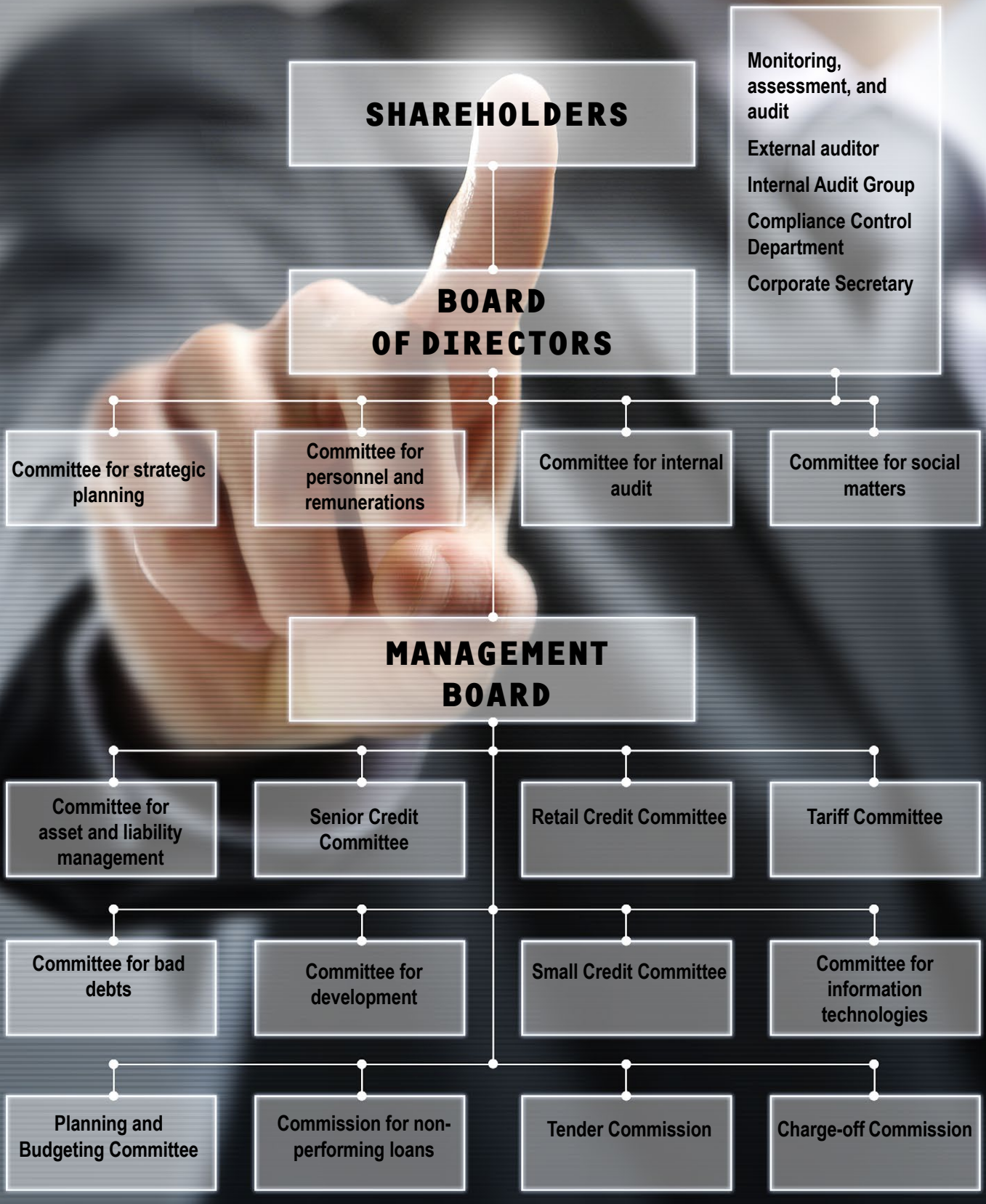
- consideration of the policy of and procedure for internal audit;
- consideration of audit plan, structure and budget of the Internal Audit Service;
- analysis of regular internal audit reports representing in a general form the results of work and the most important auditor's comments;
- finding out restrictions preventing the Internal Audit Service to efficiently perform set tasks and contribution to elimination of such restrictions;
- consideration of proposals on improvement of work of internal audit;
- preparation of recommendations to the Management Board of the bank and authorized bodies on improvement of organization structure of Alfa-Bank and business processes for conformance to the principles of internal control;
- analysis of the results and quality of actions for improvement of the system of internal control;
- if necessary, initiation of unscheduled audits of activity of departments of the bank.

4. COMMITTEE FOR SOCIAL MATTERS matters is an advisory and consultative body of the Board of Directors, in its activities it follows the legislation of RK, decisions of the shareholder and the Board of Directors of the bank, the bank Articles of Association and the Regulations of the Committee for social matters of the Board of Directors of "Alfa-Bank" SB JSC approved by Minutes of the meeting of the Board of Directors No.29 dated 30 July 2012.

Structure of accountability of the levels of corporate governance

- monitoring of conformance of the bank activity to requirements of the legislation of RK in the area of labour protection, occupational safety, health protection, social responsibility;
- development of and giving recommendations regarding procedure for rendering social assistance to the bank employees;
- development of and giving recommendations regarding participation of the bank in social projects;
- development of and giving recommendations regarding preparation of internal documents concerning social matters;
- giving other recommendations to the Board of Directors of the bank in order to make decisions on the matters within competence of the Committee.

Structure of accountability of the levels of corporate governance



Competence of the Board of Directors and the Management Board

Functions of the Board of Directors and the Management Board are allocated in accordance with the legislation of RK. Competence of the Board of Directors includes:

1. ensuring realization of interests and protection of rights of shareholders;
2. determination of priority directions of development of the banks in the long term;
3. objective estimation of adherence to approved priority directions subject to factors affecting activity of the bank;
4. determination of members of the Management Board, terms of their labour remuneration and bonuses payment;
5. determination of members of the internal audit service;
6. making decisions on conclusion of major and third party transactions;
7. approval of internal procedures for managing risks, ensuring compliance with and analysis of efficiency and improvement of procedures;
8. approval of documents regulating internal activity of the bank, with the exception of documents adopted by the Management Board for the purposes of organization of activity of the bank;
9. making decisions on establishment and closing of branches and representative offices of the bank, etc.

Basic directions of activity of the Management Board are:

1. execution of decisions of the General Meeting of Shareholders, the Board of Directors and arrangements for current activity of the bank, subject to compliance with the legal requirements;
2. regulation and approval of internal procedures for the bank functioning;
3. planning;
4. ensuring safety and protection of information;
5. determination of internal labour regulations;
6. motivation and ensuring discipline;
7. ensuring meeting requirements of the legislation, including labour and labour protection laws, safety regulations.

Share capital

The Bank registered and fully allocated 548 400 000 ordinary shares included into the share capital.

The sole shareholder holding 100% shares is "Alfa-Bank" OJSC, Moscow, Russia.

No changes occurred in the shareholding structure for 2013. Transactions with shares were not made.

During 2012 the number of allocated shares of the Bank was increased twice: in January 238 400 000 shares were allocated, October – 210 000 000 shares. Mentioned shares were allocated at par (10 tenge for one share), all shares have equal rights.

Dividend policy

The rights of the shareholders to obtain dividends and procedure for payment thereof are specified in the Articles of Association of the bank and the Code of Corporate Governance of Alfa-Bank approved at the General Meetings of Shareholders. In accordance with the bank Articles of Association dividends on shares may be paid to shareholders on annual basis at the expense of net income.

Over the period of existence of Alfa-Bank dividends were paid to the shareholder:

- in 2011 – based on the results of activity for 2010 – to the amount of 449 582 thousand tenge (4.5 tenge per one ordinary share);
- in 2013 – based on the results of activity for 2012 – to the amount of 408 169 thousand tenge (0.744 tenge per one ordinary share).

Remuneration and bonuses

The remunerations and bonuses paid to the members of the Board of Directors of the Bank for 2013 totally amounted to 11.8 million tenge, 2012 – 31.7 million tenge.

In 2013 the total remuneration to the members of the Management Board, including salary, discretion premiums and other lump-sum compensations, amounted to 403.4 million tenge (2012: 201.3 million tenge, 2011: 153.9 million tenge).

11.8 MILLION TENGE

THE REMUNERATIONS AND BONUSES PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK FOR 2013 TOTALLY AMOUNTED

Alfa-Bank

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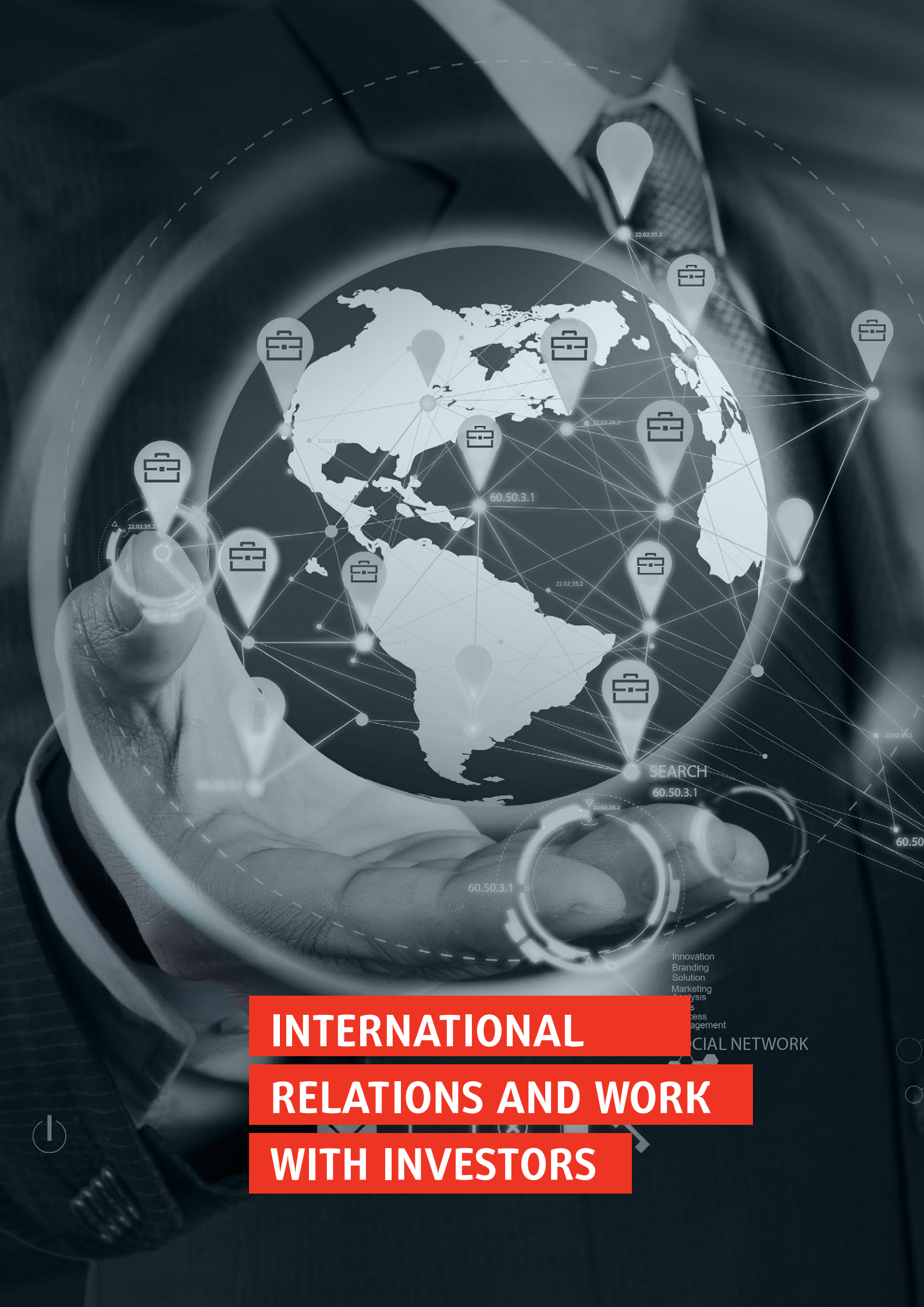

INTERNATIONAL RELATIONS AND WORK WITH INVESTORS

INTERNATIONAL RELATIONS AND WORK WITH INVESTORS

In 2013 substantial changes occurred in the market of banking services – the international participant UniCredit left the market and the major banks – Alliance Bank and Temirbank – consolidated by way of sale and the merger process commenced. Against the background of occurring events Alfa-Bank has strengthened its positions in the market, having confirmed its status of active and reliable partner for the clients and correspondent banks.

The Bank has long-term correspond relations with financial institutions in Kazakhstan, the CIS countries and far foreign countries. This considerably furthers expansion of geography of trade and financial transactions of our clients.

Availability of long-term credit ratings at the level of B+ affirmed by the international rating agencies Fitch Rating (19/06/2013) and Standard&Poor's (03/05/2013) is the confirmation of the correctly chosen strategy of organic growth.

The Bank, being a part of the Bank Group Alfa-Bank, adheres to the group standards for work and relations with investors. Today the principal investor and the sole shareholder of the bank is "Alfa-Bank" OJSC, Russian Federation. From the moment of the bank establish-

ment till now the shareholder renders proper support carrying out additional capitalization. Thus, in 2012 the shareholders increased capital twice by the total amount of 4.5 billion tenge, and in 2013 the bank regulatory capital increased, at the expense of profit capitalization, from the amount of 23.5 billion tenge at the beginning of the year to the amount of 27.7 billion tenge at the end of the year.

The Bank Group analyst team carries out financial and economic analysis and market reviews of the countries of presence of the Group banks that provides the bank with competitive advantage in a form of information "at first hand". Thus, on the basis of this information, Alfa-Bank witnesses current interest of investors in the market, bank, and instruments.

Information policy in relation to active and potential investors is base don principles of transparency, timeliness, and objectivity of disclosure of information on the bank activities. Thus, transparency is invoked to ensure maximal reasonableness and transparency of management of Alfa-Bank. The Bank timely discloses information on basic results, plans, and prospects of its activities, which may materially affect property and other rights of the shareholders and investors, as well as it timely and fully responses requests of the shareholders. The Bank provides on a timely basis with information on corporate events in its activity, and at the same time it complies with strict and reliable procedures for disclosure and confidentiality of information, which is banking, trade and other legally protected secret.

Important information relating to activities of Alfa-Bank and being of interest for investors and shareholders is regularly published at the bank corporate web-site, at the site of the Kazakhstan Stock Exchange, and in mass media.

The Bank will continue to work on improvement of the work with investors using up-to-date technologies oriented to the leading global practice.

27.7 BILLION TENGE

IN 2013 THE BANK REGULATORY CAPITAL INCREASED, AT THE EXPENSE OF PROFIT CAPITALIZATION

Alfa-Bank

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of JSC SB Alfa-Bank:

We have audited the accompanying financial statements of JSC SB Alfa-Bank ("the Bank") which comprise the statement of financial position as at 31 December 2013 and the statements of profit and 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.

Auditor's 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 principles 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.

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the English version of our report takes precedence over the Russian version.

PricewaterhouseCoopers LLP
34 Al-Farabi Ave., Building A, 4th floor, 050059 Almaty, Kazakhstan
T: +7 (727) 298 0448, Ф: +7 (727) 298 0252, www.pwc.com/kz

Opinion
In our opinion, the accompanying 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.

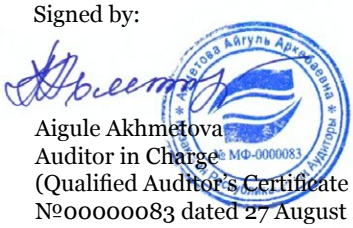
PricewaterhouseCoopers LLP

Almaty, Kazakhstan
14 March 2014

Approved by:

Dana Inkarbekova
Managing Director of PricewaterhouseCoopers LLP
(General State License from the Ministry of Finance of the Republic of Kazakhstan
№ 0000005 dated 21 October 1999)

Signed by:



Aigule Akhmetova
Auditor in Charge
(Qualified Auditor's Certificate
№00000083 dated 27 August 2012)

Signed by:

Derek Clark
Assurance Partner
(Special Power of Attorney #38-11 dated 6 October 2011)

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the English version of our report takes precedence over the Russian version.

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FINANCIAL STATEMENTS

Statement of Financial Position

In thousands of Tenge	Note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	7	17,293,055	10,901,744
Due from other banks	8	150,553	1,436,880
Loans and advances to customers	9	120,307,927	83,971,968
Investment securities available for sale	10	26,369,037	32,179,393
Current income tax prepayment		246,011	166,709
Deferred income tax asset	24	52,619	133,828
Investment properties		12,201	20,266
Intangible assets	11	455,246	195,574
Premises and equipment	11	2,043,751	1,334,044
Other financial assets	12	365,109	308,514
Other assets	13	633,975	360,276
Non-current assets held for sale		37,651	-
TOTAL ASSETS		**167,967,135**	**131,009,196**
LIABILITIES			
Due to other banks	14	6,047,719	11,741,931
Customer accounts	15	130,242,755	91,756,759
Other financial liabilities	16	403,195	655,321
Other liabilities	17	1,269,467	1,218,429
Subordinated debt	18	5,505,138	5,404,361
TOTAL LIABILITIES		**143,468,274**	**110,776,801**
EQUITY			
Share capital	19	5,506,185	5,506,185
Retained earnings		7,731,832	9,213,169
Revaluation reserve for available for sale investments		210,729	83,845
Revaluation reserve for premises		376,293	401,680
Statutory reserves		10,673,822	5,027,516
TOTAL EQUITY		**24,498,861**	**20,232,395**
TOTAL LIABILITIES AND EQUITY		**167,967,135**	**131,009,196**

Approved for issue and signed on behalf of the Board on 14 March 2014.

Smirnov D.F.
Chairman of the Board

Chernykh E. Yu.
Chief Accountant

Statement of Profit or Loss and Other Comprehensive Income

In thousands of Tenge	Note	2013 г.	2012 г.
Interest income	20	12,979,382	9,043,851
Interest expense	20	(4,895,661)	(3,154,794)
Net interest income		**8,083,721**	**5,889,057**
Provision for impairment for loans	9	(1,155,274)	(1,541,963)
Net interest income after provision for loan impairment		**6,928,447**	**4,347,094**
Fee and commission income	21	2,586,368	2,135,290
Fee and commission expense	21	(376,257)	(290,187)
Gains less losses from financial derivatives		(403,598)	(372,355)
Gains less losses from disposal of securities available for sale		(3,330)	420
Gains less losses from trading in foreign currencies		715,246	611,511
Gains less losses from revaluation of foreign currency		369,235	236,569
Provision for credit related commitments		(71,265)	(79,984)
Other operating income	22	237,613	2,495
Administrative and other operating expenses	23	(4,585,967)	(3,208,916)
Profit before tax		**5,396,492**	**3,381,937**
Income tax expense	24	(848,740)	(470,101)
Profit for the year		**4,547,752**	**2,911,836**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- Gains less losses arising during the year		126,884	40,633
Other comprehensive income for the year		**126,884**	**40,633**
Total comprehensive income for the year		**4,674,636**	**2,952,469**

Statement of Changes in Equity

In thousands of Tenge	Note	Share capital	Revaluation reserve for available for sale investments	Revaluation reserve for premises	Statutory reserves	Retained earnings	Total
At 1 January 2012		**1,022,185**	**43,212**	**427,067**	**2,479,021**	**8,824,441**	**12,795,926**
Profit for the year		-	-	-	-	2,911,836	2,911,836
Other comprehensive income		-	40,633	-	-	-	40,633
Total comprehensive income for 2012		**–**	**40,633**	**–**	**–**	**2,911,836**	**2,952,469**
Premises and equipment:							
- Transfer of revaluation surplus on land and premises to retained earnings		-	-	(31,733)	-	31,733	-
- Decrease in deferred tax due to realisation of revaluation reserve	24	-	-	6,346	-	(6,346)	-
Transfer from retained earnings to statutory reserve		-	-	-	2,548,495	(2,548,495)	-
Share issue		4,484,000	-	-	-	-	4,484,000
Balance at 31 December 2012		**5,506,185**	**83,845**	**401,680**	**5,027,516**	**9,213,169**	**20,232,395**
Profit for the year		-	-	-	-	4,547,752	4,547,752
Other comprehensive income		-	126,884	-	-		126,884
Total comprehensive income for 2013		**–**	**126,884**	**–**	**–**	**4,547,752**	**4,674,636**
Premises and equipment:							
- Transfer of revaluation surplus on land and premises to retained earnings		-	-	(31,733)	-	31,733	-
- Decrease in deferred tax due to realisation of revaluation reserve	24	-	-	6,346	-	(6,346)	-
Transfer from retained earnings to statutory reserve		-	-	-	1,699,722	(1,699,722)	-
Transfer from retained earnings to dynamic reserves		-	-	-	3,946,584	(3,946,584)	-
Dividends paid	25	-	-	-	-	(408,170)	(408,170)
Balance at 31 December 2013		**5,506,185**	**210,729**	**376,293**		**7,731,832**	**24,498,861**

Statement of Cash Flows

In thousands of Tenge	Note	2013 г.	2012 г.
Cash flows from operating activities			
Interest received		13,128,583	8,941,170
Interest paid		(4,402,247)	(2,717,883)
Fees and commissions received		2,560,942	2,160,559
Fees and commissions paid		(379,106)	(290,021)
Expenses paid for financial derivatives		(403,598)	(284,462)
Income received from trading in foreign currencies		715,246	611,511
Other operating income received/(expenses paid)		364,497	(35,246)
Staff costs paid		(3,031,371)	(1,764,316)
Administrative and other operating expenses paid		(1,306,901)	(862,869)
Income tax paid		(1,094,748)	(884,550)
Cash flows from operating activities before changes in operating assets and liabilities		**6,151,297**	**4,873,893**
Changes in operating assets and liabilities			
Net decrease in due from other banks	8	1,220,218	116,174
Net increase in loans and advances to customers	9	(37,348,180)	(36,386,604)
Net decrease/(increase) in other financial assets	12	375,106	(315,679)
Net decrease/ (increase) in other assets	13	26,305	(297,398)
Net decrease in due to other banks	14	(5,726,001)	(946,922)
Net increase in customer accounts	15	38,340,665	25,027,060
Net (decrease)/increase in other financial liabilities	16	(661,767)	166,241
Net increase in other liabilities	17	54,239	177,462
Net cash from/(used in) operating activities		**2,431,882**	**(7,585,773)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	10	(8,048,291)	(34,463,260)
Proceeds from disposal and redemption of investment securities available for sale	10	13,628,995	29,432,139
Acquisition of premises and equipment	11	(919,759)	(640,269)
Prepaid capital expenditures		(96,130)	(141,419)
Acquisition of intangible assets	11	(350,935)	(134,865)
Net cash from/(used in) investing activities		**4,213,880**	**(5,947,674)**
Cash flows from financing activities			
Subordinated debt payments	18	(215,517)	(324,321)
Shares issued	19	-	4,484,000
Dividends paid	25	(408,170)	-
Effect of exchange rate changes on cash and cash equivalents		**(623,687)**	**4,159,679**
Effect of exchange rate changes on cash and cash equivalents		**369,236**	**169,483**
Net increase/ (decrease) in cash and cash equivalents		**6,391,311**	**(9,204,285)**
Cash and cash equivalents at the beginning of the year	**7**	**10,901,744**	**20,106,029**
Cash and cash equivalents at the end of the year	**7**	**17,293,055**	**10,901,744**

NOTES TO THE FINANCIAL STATEMENTS

INFLATION IN 2013 WAS **4.8%** (2012: 6%)

1. INTRODUCTION

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for JSC SB Alfa-Bank (the "Bank").

The Bank was established on 9 December 1994 and was incorporated and is domiciled in the Republic of Kazakhstan. The Bank is a joint stock company and was set up in accordance with the requirements of the legislation of the Republic of Kazakhstan. As of 31 December 2013 and 31 December 2012 the Bank's immediate parent company was OJSC "Alfa Bank" (Russia) (the "Shareholder"). As of 31 December 2013 and 31 December 2012 the Bank's ultimate parent company was ABH Holding SA ("ABHH"), a Luxembourg registered company, owned by individuals. At 31 December 2013 Mr. Fridman, Mr. Khan and Mr. Kuzmichev collectively controlled and owned a 77.86% (31 December 2012: 77.86%) interest in ABHH.

On 29 June 2009 ABH Financial Limited, which is 100% indirect controlling shareholder of OJSC "Alfa Bank" (Russia), concluded a call option agreement with ABHH, its ultimate shareholder, whereby ABHH received a right to acquire for a fixed consideration, and at any time until 29 June 2014, shares representing a 100% interest in JSC SB Alfa-Bank Kazakhstan. This agreement effectively transferred to ABHH all potential voting rights and economic benefits relating to the Bank.

Principal activity. The Bank's principal activity is commercial and retail banking operations within the Republic of Kazakhstan. The Bank has operated under a full banking license reissued by the Committee for the control and supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan (the "Committee") on 21 December 2007.

The Bank has its main office located in Almaty and operates through branches in Astana, Aktau, Atyrau, Ust Kamenogorsk and Pavlodar, representative offices in Karaganda, Uralsk, Petropavlovsk, Kokshetau, Kostanay and additional branches in Astana, Atyrau, Uralsk and Semey. The Bank opened new branches in Karaganda, Aktobe, Almaty, Petropavlovsk and Uralsk in 2013. The average number of Bank's employees during the year was 754 (2012: 413).

Registered address and place of business. The Bank's registered address is:

Almaty, Masanchi St., 57-A
The Republic of Kazakhstan

Presentation currency. These financial statements are presented in thousands of Kazakhstani Tenge («Tenge»).

2. OPERATING ENVIRONMENT OF THE BANK

Republic of Kazakhstan. The economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, a low level of liquidity in the public and private debt and equity markets and lack of market conformity and transparency.

The economy of the Republic of Kazakhstan, suffered from the global financial crisis of 2008 and 2009, experienced a moderate recovery in 2012 and 2013 with a 5.8% increase of GDP in 2013 (2012: 7%). Inflation in 2013 was 4.8% (2012: 6%).The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates and increased money market liquidity levels.

Additionally, the banking sector in Kazakhstan is particularly impacted by political, legislative, fiscal and regulatory developments in the Republic. The prospects for future economic stability in Kazakhstan in 2014-2015 are largely dependent upon the effectiveness of a range of measures undertaken by the Government. There remains the possibility of unpredictable changes in the financial and economic

754 PEOPLE

WAS THE AVERAGE NUMBER OF BANK'S EMPLOYEES DURING THE YEAR

environment that may have an adverse effect on the Bank's operations. See also Note 36.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis

if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Derivatives and other financial instruments are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognised on the date when the Bank becomes a contractual party of the agreement related to such financial instrument.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the National Bank of Republic of Kazakhstan (hereinafter "NBRK") and all interbank placements and short-term NBRK notes with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Reserve assets required to cover minimal reserve requirements. Reserve assets required to cover minimal reserve requirements with the NBRK represent non-interest bearing deposits which are available to finance the Bank's day to day operations and hence are considered as part of cash and cash equivalents for the purposes of the statement of cash flow.

Due from other banks. Amounts due from

other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Bank considers whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to fully or partially recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously

IN 2013 THE BANK OPENED NEW BRANCHES IN KARAGANDA, AKTOBE, ALMATY, PETROPAVLOVSK AND URALSK

written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in non current assets held for sale or investment properties depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss for the year – is removed from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through profit or loss for the year.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Investment property. Investment property is property held by the Bank for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment prop-

erty is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, without deduction of any transaction costs. Market value of the Bank's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Premises and equipment. Premises and equipment are stated at cost, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises of the Bank are subject to revaluation with sufficient frequency to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit and loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists management estimates the recoverable amount, which is deter-

mined as the higher of an asset fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year, to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expense).

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful lives as follows:

	Useful lives in years
Premises	25
Office and Computer Equipment	2-5
Other assets	2-10

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. All of the Bank's intangible assets have definite useful lives and primarily comprise capitalised computer software.

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (operating lease expense) on a straight-line basis over the period of the lease.

Non–current assets classified as held for sale. . Non-current assets are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. 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.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are 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 arising from early retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements and currency swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Bank does not apply hedge accounting.

Certain derivative instruments embedded

in other financial instruments are treated as separate derivative instrument when their risks and characteristics are not closely related to those of the host contact.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the deferred tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are liabilities of uncertain timing or amount. Provisions are recorded in the financial statements, when the Bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When collection of loans and other debt instruments become doubtful, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying

transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and presentation currency is the national currency of the Republic of Kazakhstan, Tenge ("Tenge").

Monetary assets and liabilities are translated into bank's functional currency at the official exchange rate of the NBRK at the respective reporting date. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into bank's functional currency at year-end official exchange rates of the NBRK are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical costs. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

154.06 ₸

= USD 1 WAS THE PRINCIPAL RATE OF EXCHANGE USED FOR TRANSLATING FOREIGN CURRENCY BALANCES AT 31 DECEMBER 2013

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 154.06 (2012: USD 1 = Tenge 150.74), Euro 1 = Tenge 211.17 (2012: Euro 1 = Tenge 199.22 Tenge). See also Note 36.

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

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

Staff costs and related contributions. Wages, salaries, contributions to pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Statutory reserves. In accordance with regulation of the NBRK dated 27 May 2013, statutory reserve fund for unforeseeable risks and future losses was terminated. The management of the Bank will consider transfer of statutory reserve fund during formal shareholders' meeting.

Based on 2013 requirements of the NBRK for creation of dynamic reserves by second-tier banks, the Bank created dynamic reserve to cover expected future losses on the loan portfolio.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may in-

clude observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of derivatives and certain other instruments. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 33.

Tax legislation. Kazakhstani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 35.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Bank from 1 January 2013:

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income".

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. Required amendments made by the Bank. Refer to Note 34.

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements".

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project,

the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

"Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity's [consolidated] financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. Required disclosure was added to the Bank's notes to financial statements. Refer to Note 30.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that spare parts, stand-by and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment was removed because this requirement was too restrictive when compared with the definition of property, plant and equipment.

IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable.

The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Bank's financial statements. Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans", which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Bank.

Unless otherwise described above, the new standards and interpretations have not affected significantly the Bank's financial statements.

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". ". IFRS 9, issued in November 2010, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures.

Key features of the standard are as follows:

- Fi nancial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. потоков денежных средств по инструменту.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

"Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

Amendments to IAS 36 – "Recoverable amount disclosures for non–financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment

allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

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

7. CASH AND CASH EQUIVALENTS

In thousands of Tenge	31 December 2013	31 December 2012
Cash on hand	1,714,662	1,365,890
Cash balances with the NBRK (other than mandatory reserve deposits)	2,240,119	1,473,030
Mandatory cash balances with NBRK	2,239,849	1,889,817
Correspondent accounts and overnight placements with other banks:	11,098,090	5,418,930
- Kazakhstan	17,665	134,800
- Other countries	11,080,425	5,284,130
Placements with other banks with original maturities of less than three months	335	754,077
Total cash and cash equivalents	**17,293,055**	**10,901,744**

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2013:

In thousands of Tenge	Cash balances with the NBRK, including mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
Neither past due nor impaired				
- A- to A+ rated	-	9,193,216	-	9,193,216
- BBB- to BBB+ rated	4,479,968	27,341	-	4,507,309
- BB- to BB+ rated	-	1,177,267	-	1,177,267
- B- to B+ rated	-	266	700,335	700,601
Total cash and cash equivalents, excluding cash on hand	**4,479,968**	**10,398,090**	**700,335**	**15,578,393**

The credit quality of cash and cash equivalents balances is summarised based on Standard and Poor's ratings as follows at 31 December 2012:

In thousands of Tenge	Cash balances with the NBRK, including mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
Neither past due nor impaired				
- A- to A+ rated	-	4,391,220	-	4,391,220
- BBB- to BBB+ rated	3,362,847	164,353	-	3,527,200
- BB- to BB+ rated	-	804,446	-	804,446
- B- to B+ rated	-	58,201	754,077	812,278
Unrated	-	710	-	710
Total cash and cash equivalents, excluding cash on hand	**3,362,847**	**5,418,930**	**754,077**	**9,535,854**

The information on related party balances is disclosed in Note 35.

8. DUE FROM OTHER BANKS

In thousands of Tenge	31 December 2013	31 December 2012
Short-term placements with other banks with original maturities of more than three months	150,553	477,721
Long-term deposits in other banks	-	959,159
Total due from other banks	**150,553**	**1,436,880**

The placements as of 31 December 2013 and 2012 were made with:

	31 December 2013	31 December 2012
-BB+ rated	-	323,870
-BB rated	150,553	153,851
-B rated	-	959,159
Total due from other banks	**150,553**	**1,436,880**

Interest rate analysis of due from other banks is disclosed in Note 28. The information on related party balances is disclosed in Note 35. Fair value of due from other banks is disclosed in Note 33.

9. LOANS AND ADVANCES TO CUSTOMERS

In thousands of Tenge	31 December 2013	31 December 2012
Corporate loans	114,367,726	86,382,994
Loans to individuals – consumer loans	8,719,211	891,867
Loans to individuals – entrepreneurs	1,097,244	229,761
Mortgage loans	618,276	454,705
Gross loans and advances to customers	**124,802,457**	**87,959,327**
Less: Provision for loan impairment	(4,494,530)	(3,987,359)
Total loans and advances to customers	**120,307,927**	**83,971,968**

Movements in the provision for loan impairment during 2013 and 2012 are as follows:

In thousands of Tenge	2013	2012
Provision for loan impairment at 1 January	**3,987,359**	**2,424,360**
Provision for loan impairment created during the year	3,261,714	2,534,952
Recovery of provision for loan impairment during the year	(2,106,440)	(992,989)
Transfer of provision for loan impairment to discount on loans	(651,012)	-
Amounts written off during the year as uncollectible	(14,053)	(398)
Difference of exchange rate	16,962	21,434
Provision for loan impairment at 31 December	**4,494,530**	**3,987,359**

Economic sector risk concentrations within the customer loan portfolio are as follows

In thousands of Tenge	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Wholesale trade	63,188,205	51%	44,945,854	51%
Production	23,503,234	19%	10,767,026	12%
Individuals	9,337,487	7%	1,346,572	2%
Crude oil and natural gas	5,183,344	4%	2,041,621	2%
Construction	3,824,918	3%	1,232,137	1%
Agriculture	3,501,054	3%	1,794,581	2%
Retail trade	3,297,445	3%	3,401,953	4%
Transportation	2,666,730	2%	13,160,202	15%

Economic sector risk concentrations within the customer loan portfolio (continued)

In thousands of Tenge	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Research and development	1,905,290	2%	1,554,697	2%
Real estate	1,469,471	1%	804,718	1%
Publishing	383,127	0%	336,057	0%
Hotel services	62,144	0%	142,799	0%
Mining	22,963	0%	1,504,506	2%
Other	6,475,045	5%	4,926,604	6%
Total loans and advances to customers	**124,802,457**	**100%**	**87,959,327**	**100%**

At 31 December 2013 the total aggregate amount of loans of 15 largest borrowers was Tenge 39,397,989 thousand (31 December 2012: Tenge 37,872,299 thousand) or 31.6 percent of the gross loan portfolio (31 December 2012: 43.1 percent). Information about collateral at 31 December 2013 is as follows:

In thousands of Tenge	Corporate loans	Loans to individuals – consumer loans	Loans to individuals - entrepreneurs	Mortgage loans	Total
Unsecured loans	**3,593,670**	**6,555,040**	**82,150**	**–**	**10,230,860**
Loans collateralised by third party guarantees	**61,726,227**	**62,413**	**355,745**	**–**	**62,144,385**
Loans collateralised by:	**49,047,829**	**2,101,758**	**659,349**	**618,276**	**52,427,212**
- real estate other than residential	15,678,700	563,358	578,854	-	16,820,912
- cash deposits	7,448,291	490,860	-	-	7,939,151
- inventory	7,427,352	-	-	-	7,427,352
- vehicles	2,427,135	271,875	11,520	-	2,710,530
- residential real estate	250,656	771,629	63,923	618,276	1,704,484
- capital equipment	766,902	-	-	-	766,902
- other	15,048,793	4,036	5,052	-	15,057,881
Total loans and advances to customers	**114,367,726**	**8,719,211**	**1,097,244**	**618,276**	**24,802,457**

Information about collateral at 31 December 2012 is as follows:

In thousands of Tenge	Corporate loans	Loans to individuals – consumer loans	Mortgage loans	Loans to individuals - entrepreneurs	Total
Unsecured loans	**3,195,381**	**390,284**	**–**	**–**	**3,585,665**
Loans collateralised by third party guarantees	**47,242,306**	**52,795**	**88,942**	**14,081**	**47,398,124**
Loans collateralised by:	**35,945,307**	**448,788**	**365,763**	**215,680**	**36,975,538**
- real estate other than residential	16,283,361	38,510	-	79,260	16,401,131
- cash deposits	6,231,933	276,217	179,863	97,230	6,785,243
- inventory	3,668,535	-	-	-	3,668,535
- insurance of companies with a rating not lower than "BB-"	3,524,733	-	-	-	3,524,733
- vehicles	1,212,897	3,786	-	-	1,216,683
- residential real estate	393,432	130,028	185,900	39,190	748,550
- other	4,630,416	247	-	-	4,630,663
Total loans and advances to customers	**86,382,994**	**891,867**	**454,705**	**229,761**	**87,959,327**

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

In thousands of Tenge	Corporate loans	Loans to individuals – consumer loans	Loans to individuals - entrepreneurs	Mortgage loans	Total
Current and not impaired					
- Large borrowers with credit history over two years	26,297,155	-	-	-	26,297,155
- Large new borrowers	27,818,626	-	-	-	27,818,626
- Loans to medium size entities	32,359,982	-	-	-	32,359,982
- Loans to small entities	16,832,882	-	1,077,887	-	17,910,769
- Loans to individuals	-	8,564,401	-	618,276	9,182,677
Total neither past due nor impaired	**103,308,645**	**8,564,401**	**1,077,887**	**618,276**	**113,569,209**
Loans determined to be impaired (gross)					
- not past due	9,602,499	-	964	-	9,603,463
- less than 30 days overdue	-	-	12,507	-	12,507
- 30 to 90 days overdue	168,603	-	5,886	-	174,489
-91 to 180 days overdue	791,380	90,697	-	-	882,077
- 181 to 360 days overdue	378,378	54,676	-	-	433,054
- over 360 days overdue	118,221	9,437	-	-	127,658
Total impaired loans (gross)	11,059,081	154,810	19,357	-	11,233,248
Less impairment provisions	(4,236,445)	(213,586)	(44,498)	(1)	(4,494,530)
Total loans and advances to customers	**110,131,281**	**8,505,625**	**1,052,746**	**618,275**	**120,307,927**

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of Tenge	Corporate loans	Loans to individuals – consumer loans	Loans to individuals - entrepreneurs	Mortgage loans	Total
Current and not impaired					
- Large borrowers with credit history over two years	27,206,896	-	-	-	27,206,896
- Large new borrowers	24,220,951	-	-	-	24,220,951
- Loans to medium size entities	11,503,181	-	-	-	11,503,181
- Loans to small entities	6,086,544	-	-	229,761	6,316,305
- Loans to individuals	-	156,729	248,752	-	405,481
Total neither past due nor impaired	**69,017,572**	**156,729**	**248,752**	**229,761**	**69,652,814**
Loans determined to be impaired (gross)					
- not past due	16,836,398	734,082	205,953	-	17,776,433
- less than 30 days overdue	22,213	523	-	-	22,736
- 30 to 90 days overdue	-	107	-	-	107
- 181 to 360 days overdue	476,553	-	-	-	476,553
- over 360 days overdue	30,258	426	-	-	30,684
Total impaired loans (gross)	**17,365,422**	**735,138**	**205,953**	**–**	**18,306,513**
Less impairment provisions	(3,936,414)	(33,809)	(17,136)	-	(3,987,359)
Total loans and advances to customers	**82,446,580**	**858,058**	**437,569**	**229,761**	**83,971,968**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified.

The primary factors the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

Impairment trigger events for past due and not past due loans which have been impaired include recent oil trade market legislation changes, strict regulation of retail prices of oil products, existing outstanding debts from other banks, recent debt restructurings, negative non-financial information about borrowers, etc.

Fair value of collateral at 31 December 2013 was as follows:

In thousands of Kazakhstani Tenge	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	92,642,433	299,344,307	17,488,848	9,364,784
Loans to individuals – consumer loans	2,137,422	5,659,792	6,368,203	6,748
Loans to individuals – entrepreneurs	836,562	4,274,513	216,184	-
Mortgage loans	618,275	1,488,650	-	-
Total	**96,234,692**	**310,767,262**	**24,073,235**	**9,371,532**

Fair value of collateral at 31 December 2012 was as follows:

In thousands of Kazakhstani Tenge	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	78,472,023	216,199,791	3,974,557	-
Loans to individuals – consumer loans	483,062	1,726,565	374,996	-
Loans to individuals – entrepreneurs	437,569	1,170,586	-	-
Mortgage loans	229,761	640,806	-	-
Total	**79,622,415**	**219,737,748**	**4,349,553**	**–**

Fair value of collateral disclosed represents the estimated amount, which can be received by the legal owners of these assets. For loans the Management considers collateral taking into account an uncertainty in respect of final receipt of collateral in the current economic circumstances and as such the loans are still considered as impaired. The impairment provisions reflect the possibility that management will not be able to obtain the title and take possession of collateral related to outstanding loans. In spite of the difficulties in taking possession over collateral, management of the Bank will try to achieve repayment of outstanding loans by all available measures.

Fair values of real estate, production equipment, inventory and other assets were determined by the Bank through the use of professional property appraisers.

Interest rate analysis of loans and advances to customers is disclosed in Note 28. The information on related party balances is disclosed in Note 35.

10. INVESTMENT SECURITIES AVAILABLE FOR SALE

In thousands of Tenge	31 December 2013	31 December 2012
Government securities of the Ministry of Finance of the Republic of Kazakhstan	17,649,129	16,292,963
Corporate bonds	8,719,908	9,296,979
Notes NBRK	-	6,589,451
Total investment securities available for sale	**26,369,037**	**32,179,393**

Government securities of the Ministry of Finance of the Republic of Kazakhstan are bonds with the nominal value of Tenge 1,000 with the maximum maturity of 1,827 days. Yield to maturity on these bonds was an average of 4.32 percent as at 31 December 2013 (31 December 2012: 4.07 percent).

No notes mature in 2014 (31 December 2012: Tenge 3,300,000 thousand matured in January 2013, Tenge 2,110,000 thousand matured in February 2013, Tenge of 1,200,000 thousand matured in April 2013 with a yield to maturity of 1.81 percent).

The movements in investment securities available for sale are as follows:

In thousands of Tenge	2013 г.	2012 г.
Carrying amount at 1 January	32,179,393	27,125,238
Fair value gains less losses	210,729	83,845
Interest income accrued	(440,381)	(60,811)
Purchases	8,048,291	34,463,260
Disposals and redemption of current investment securities available for sale	(13,628,995)	(29,432,139)
Carrying amount at 31 December	**26,369,037**	**32,179,393**

Analysis by credit quality of investment securities classified as available for sale at 31 December 2013 is as follows:

In thousands of Tenge	Ministry of Finance bonds	Corporate bonds	Total
Neither past due nor impaired			
- BBB- to BBB+ rated	17,649,129	2,111,652	19,760,781
- BB- to BB+ rated	-	6,608,256	6,608,256
Total neither past due nor impaired	**17,649,129**	**8,719,908**	**26,369,037**

Analysis by credit quality of investment securities classified as available for sale at 31 December 2012 is as follows:

In thousands of Tenge	NBRK notes	Ministry of Finance bonds	Corporate bonds	Total
Neither past due nor impaired				
- BBB- to BBB+ rated	6,589,451	16,292,963	4,112,030	29,402,609
- BB- to BB+ rated	-	-	5,184,949	2,776,784
Total neither past due nor im–paired	**6,589,451**	**16,292,963**	**9,296,979**	**32,179,393**

There are no investment securities available for sale include securities pledged under sale and repurchase agreements (31 December 2012: Tenge 11,182,954 thousand). Interest rate analysis of investment securities available for sale is disclosed in Note 28.

11. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of Tenge	Note	Premises and land	Office and computer equip-ment	Other fixed assets	Total premises and equip-ment	Computer software licences
Cost or valuation at 1 January 2012		673,281	181,176	334,673	1,189,129	278,428
Accumulated depreciation/ amortisation		(109,840)	(116,360)	(159,899)	(386,099)	(176,812)
Carrying amount at 1 January 2012		**563,441**	**64,816**	**174,774**	**803,030**	**101,616**
Additions		335,905	165,541	140,106	641,552	134,865
Disposals		-	(585)	(698)	(1,283)	-
Depreciation/amortisation charge	23	(37,601)	(24,672)	(46,982)	(109,255)	(40,907)
Carrying amount at 31 December 2012		**861,745**	**205,100**	**267,200**	**1,334,044**	**195,574**
Cost or valuation at 31 December 2012		1,009,186	346,132	474,081	1,829,398	413,293
Accumulated depreciation/ amortisation		(147,441)	(141,032)	(206,881)	(495,354)	(217,719)
Carrying amount at 31 December 2012		**861,745**	**205,100**	**267,200**	**1,334,044**	**195,574**
Additions		215,146	321,076	384,576	920,798	350,935

Premises, Equipment and Intangible Assets (continued)

In thousands of Tenge	Note	Premises and land	Office and computer equip-ment	Other fixed assets	Total premises and equip-ment	Computer software licences
Disposals		-	(21)	(1,019)	(1,040)	-
Depreciation/amortisation charge	23	(49,515)	(74,849)	(85,688)	(210,052)	(91,263)
Carrying amount at 31 December 2013		**1,027,376**	**451,306**	**565,069**	**2,043,751**	**455,246**
Cost or valuation at 31 December 2013		1,224,332	667,187	857,637	2,749,156	764,228
Accumulated depreciation/ amortisation		(196,956)	(215,881)	(292,569)	(705,406)	(308,982)
Carrying amount at 31 December 2013		**1,027,376**	**451,306**	**565,069**	**2,043,751**	**455,246**

Premises and land were valued at the end of 2013 and 2012 by an independent firm of professional appraisers, who hold recognised and relevant professional qualifications and have recent experience in valuation of assets of similar location and category. Sales comparison approach and income capitalisation methods were used as the basis for the appraisal of land and premises. When applying the market value, the observable active market prices were used for evaluation. The 2013 and 2012 valuation did not result in adjustments to the carrying value.

Included in the above carrying amount is Tenge 434,315 thousand (31 December 2012: Tenge 466,047 thousand) representing revaluation surplus relating to premises and land of the Bank.

12. OTHER FINANCIAL ASSETS

In thousands of Tenge	31 December 2013	31 December 2012
Restricted cash	195,656	191,440
Commission income accrued	168,153	86,624
Foreign exchange swap contracts	1,100	8,600
Investments	200	10,200
Foreign exchange forward and spot contracts	-	11,650
Total other financial assets	**365,109**	**308,514**

Included in investments are shares of Central Depository JSC in accordance with the requirements of regulatory bodies. The investments are accounted at cost.

Restricted cash represents balances on deposit placed by Bank on behalf of VISA International Service Association.

The Bank does not have the right to use these funds for the purposes of funding its own activities.

Analysis by credit quality of other financial assets outstanding at 31 December 2013 is as follows:

In thousands of Tenge	Commission income accrued	Investments at cost	Derivatives	Restricted cash	Total
Neither past due nor impaired					
- Collected or settled after the end of the reporting period	168,153	-	1,100	-	**169,253**
- Not due at the date of authorisation of the financial statements for issue	-	200	-	195,656	**195,856**
Total neither past due nor impaired	**168,153**	**200**	**1,100**	**195,656**	**365,109**

Analysis by credit quality of other financial assets outstanding at 31 December 2012 is as follows:

In thousands of Tenge	Commission income accrued	Investments at cost	Derivatives	Restricted cash	Total
Neither past due nor impaired					
- Collected or settled after the end of the reporting period	86,624	-	20,250	-	106,874
- Not due at the date of authorisation of the financial statements for issue	-	10,200	-	191,440	201,640
Total neither past due nor impaired	**86,624**	**10,200**	**20,250**	**191,440**	**308,514**

Fair value of other financial assets is disclosed in Note 33. The information on related party balances is disclosed in Note 35.

13. OTHER ASSETS

In thousands of Tenge	31 December 2013	31 December 2012
Prepayments for software	314,057	151,150
Prepayments for services	181,891	64,537
Inventories	104,003	107,306
Other	34,024	37,283
Total other assets	**633,975**	**360,276**

It is expected that entire amount of other assets as at 31 December 2013 will be settled during 2014 (31 December 2012: entire amount during 2013).

14. DUE TO OTHER BANKS

In thousands of Tenge	31 December 2013	31 December 2012
Short-term placements of other banks	2,775,250	1,467,263
Long-term placements of other banks	2,500,000	-
Long-term loans from other banks	662,763	-
Short-term loans from other banks	79,086	-
Correspondent accounts and overnight placements of other banks	30,620	123,471
Sale and repurchase agreements with other banks	-	10,151,197
Total due to other banks	**6,047,719**	**11,741,931**

The Bank had no pledged investment securities available for sale under a sale and repurchase agreement with other banks (31 December 2012: Tenge 11,182,954 thousand).

Interest rate analysis of due to other banks is disclosed in Note 28. The information on related party balances is disclosed in Note 35. Fair value of due to other banks is disclosed in Note 33.

15 CUSTOMER ACCOUNTS

In thousands of Tenge	31 December 2013	31 December 2012
State and public organisations		
- Current/settlement accounts	3,415,958	1,282,850
- Term deposits	4,121,936	4,875,124
Other legal entities		
- Current/settlement accounts	36,892,233	34,980,313
- Term deposits	54,566,052	28,721,418
Individuals		
- Current/demand accounts	3,536,654	3,440,541
- Term deposits	27,709,922	18,456,513
Total customer accounts	**130,242,755**	**91,756,759**

State and public organisations exclude government owned profit oriented businesses.
Economic sector concentrations within customer accounts are as follows:

In thousands of Tenge	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Individuals	31,246,576	24%	21,897,054	24%
Construction	23,281,347	18%	17,615,350	19%
Insurance	22,767,401	17%	12,652,244	14%
Wholesale trade	18,212,171	14%	9,163,782	10%
Services	9,284,377	7%	5,563,788	6%
Public organisations	7,537,894	6%	6,157,974	7%
Retail trade	4,002,429	3%	2,227,654	2%
Financial intermediation	3,338,436	3%	6,477,264	7%
Research and development	2,102,793	2%	4,614,110	5%
Mining	2,071,925	2%	838,141	1%
Production of equipment	483,686	0%	136,894	0%
Transport	454,600	0%	291,475	0%
Energy production	329,120	0%	914,170	1%
Metal production	274,509	0%	368,838	0%
Publishing	193,068	0%	220,424	0%
Real estate	144,060	0%	80,779	0%
Other	4,518,363	3%	2,536,818	3%
Total customer accounts	**130,242,755**	**100%**	**91,756,760**	**100%**

As at 31 December 2013 the Bank had 50 customers (31 December 2012: 31 customers) with balances above Tenge 500,000 thousand. The aggregate balance of these customers was Tenge 84,247,771 thousand (31 December 2012: 55,163,761 thousand) or 64.7% (31 December 2012: 60.2%) of total customer accounts.

Interest rate analysis of customer accounts is disclosed in Note 28. The information on related party balances is disclosed in Note 35. For the estimated fair value of customer accounts refer to Note 33.

16. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

In thousands of Tenge	Note	31 December 2013	31 December 2012
Provision for credit related commitments		333,506	262,320
Accounts payable		42,882	29,915
Creditors on letters of credit		21,052	101,741
Deferred commission on issued guarantees		5,755	8,013
Foreign exchange forward contracts	32	-	253,332
Total other financial liabilities		**403,195**	**655,321**

Information on fair value of other financial liabilities is disclosed in Note 33.
Movements in provisions for credit related commitments are as follows:

In thousands of Tenge	2013	2012
Carrying amount at 1 January	**262,320**	**181,492**
Provisions created	333,506	236,817
Provision reversed	(262,241)	(156,833)
Foreign exchange difference	(79)	844
Carrying amount at 31 December	**333,506**	**262,320**

Provisions of Tenge 333,506 thousand (2012: 236,817) were created for losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

The information on fair value of financial instruments is disclosed in Note 33.

17. OTHER LIABILITIES

Other liabilities comprise the following:

In thousands of Tenge	31 December 2013	31 December 2012
Accrued employee costs	645,518	753,984
Accrued expenses for employee benefits	263,671	166,292
Prepayments	162,903	214,114
Taxes other than on income payable	154,017	79,803
Other	43,358	4,236
Total other liabilities	**1,269,467**	**1,218,429**

Included in accrued employee costs as of 31 December 2013 is an amount of Tenge 442,847 thousand (31 December 2012: Tenge 531,736 thousand) which represents an annual performance bonus provided to the Bank's personnel.

All of the above liabilities are expected to be settled within twelve months of the end of the reporting period.

18. SUBORDINATED DEBT

Subordinated debt of Tenge 5,505,138 thousand (2012: Tenge 5,404,361 thousand) carries an interest rate of six month LIBOR + 5.5% p.a and matures on 1 March 2018. The debt ranks after all other creditors in the case of liquidation. Subordinated debt was received from Amsterdam Trade Bank, an entity under common control of ABH Holding SA.

Refer to Note 33 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 28. Information on related party balances is disclosed in Note 35.

19. SHARE CAPITAL

As at 31 December 2013 and 31 December 2012 the share capital was as follows:

In thousands of Tenge except for number of shares	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 31 December 2012	**548,400**	**5,484,000**	**22,185**	**5,506,185**
New shares issued	-	-	-	-
At 31 December 2013	**548,400**	**5,484,000**	**22,185**	**5,506,185**

All ordinary shares have a nominal value of Tenge 10 per share (31 December 2012: Tenge 10 per share) and rank equally. Each share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

20. INTEREST INCOME AND EXPENSE

In thousands of Tenge	2013	2012
Interest income		
Loans and advances to customers	11,627,624	7,680,207
Investment securities available for sale	1,116,992	1,192,562
Factoring to clients	108,852	21,330
Due from other banks	70,051	111,993
Finance lease	34,247	9,434
Correspondent accounts with other banks	16,920	15,370
Reverse repo transactions	4,696	4,948

Interest Income and Expense (continued)

In thousands of Tenge	2013	2012
Term deposits placed with NBRK	-	8,007
Total interest income	**12,979,382**	**9,043,851**
Interest expense		
Term deposits of corporate entities	2,266,290	1,052,794
Term deposits of individuals	1,557,240	1,295,493
Subordinated debt	316,294	365,259
Current/settlement accounts	304,534	246,194
Direct repo transactions	255,430	121,324
Term placements of other banks	160,446	20,336
Long-term debt to other banks	35,427	53,394
Итого процентных расходов	**4,895,661**	**3,154,794**
Net interest income	**8,083,721**	**5,889,057**

Interest income accrued on impaired loans and advances in 2013 is Tenge 1,561,103 thousand (2012: Tenge 1,536,665 thousand).

The information on related party transactions is disclosed in Note 35.

21. FEE AND COMMISSION INCOME AND EXPENSE

In thousands of Tenge	2013	2012
Fee and commission income		
- Settlement transactions	728,475	691,613
- Guarantees issued	533,908	430,718
- Transactions on sale and purchase of foreign currency	514,342	450,500
- Cash transactions	356,693	259,822
- Commission for loan origination for other banks	249,790	148,894
- VISA	45,040	43,760
- Encashment services	32,654	29,928
- Letters of credit	27,189	24,662
- Payment card transactions	16,832	5,119
- Provision of safes	8,422	6,465
- Other	73,023	43,809
Total fee and commission income	**2,586,368**	**2,135,290**

Fee and Commission Income and Expense (continued)

In thousands of Tenge	2013	2012
Fee and commission expense		
- Deposits Guarantee Fund	137,272	88,623
- VISA	82,343	48,871
- Encashment services	47,476	39,594
- Settlement transactions	46,537	28,904
- Payment cards transactions	12,212	8,012
- Cash transactions	11,297	24,892
- Commission expense for guarantees	-	45,819
- Other	39,120	5,472
Total fee and commission expense	**376,257**	**290,187**
Net fee and commission income	**2,210,111**	**1,845,103**

The information on related party transactions is disclosed in Note 35.

22. OTHER OPERATING INCOME

In thousands of Tenge	2013	2012
Other income from operating activity	194,143	1,921
Gain on disposal of fixed assets	24,932	-
Other income from non-operating activity	18,538	574
Total other operating income	**237,613**	**2,495**

23. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of Tenge	Note	2013	2012
Staff costs		2,953,534	2,110,246
Depreciation of premises and equipment	11	210,052	109,255
Operating lease expense		168,263	101,317
Taxes other than on income		154,095	118,320
Advertising and marketing services		153,729	111,941
Communication expense		105,253	64,888
Software support expense		101,886	79,822
Amortisation of software and other intangible assets	11	91,263	40,907
Business trip expenses		88,122	49,824
Security expense		83,565	70,153
Insurance expense		60,990	36,690
Stationery		23,113	8,202
Professional services		19,851	17,354
Professional membership fee		11,731	11,138
Transportation		10,171	8,342
Representative expenses		47	4,535
Other		350,302	265,982
Total administrative and other operating expenses		**4,585,967**	**3,208,916**

Included in staff costs are social tax of Tenge 180,558 thousand and social security payments of Tenge 59,392 thousand (2012: Tenge 107,735 and 32,535 thousand, respectively) and an annual performance bonus provided to the Bank's personnel of Tenge 442,847 thousand (2012: Tenge 531,736 thousand).

The information on related party transactions is disclosed in Note 35.

24. INCOME TAXES

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Tenge	2013	2012
Current income tax expense	767,531	838,751
Deferred tax expense/(credit)	81,209	(368,650)
Income tax expense for the year	**848,740**	**470,101**

On 26 November 2010, the President of the Republic of Kazakhstan signed the "Law on amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of taxation", according to which the corporate income tax rate was fixed at 20% without changes in rates in subsequent years.

In thousands of Tenge	2013	2012
IFRS profit before tax	**5,396,492**	**3,381,937**
Theoretical tax charge at statutory rate (2013: 20%; 2012: 20%)	1,079,298	676,387
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable income	(6,850)	(4,248)
- Income from securities exempt from taxation	(222,732)	(240,764)
- Non-deductible expenses	31,690	56,301
Other	(32,666)	(17,575)
Income tax expense for the year	**848,740**	**470,101**

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (2012: 20 percent).

In thousands of Tenge	1 January 2013	Credited/ (Charged) to profit or loss	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax losses carry forwards			
Premises and equipment: Revaluation reserve of premises	(93,207)	6,346	(86,861)
Premises and equipment: Difference due to application of different depreciation rates	(40,778)	(47,759)	(88,537)
Capital expenditure on rented buildings	(7,116)	(13,387)	(20,503)
Impairment provisions for доans and advances to customers	(418,656)	(206,821)	(625,477)
Assignment			
Excess of interest income of past due loans	330,341	(104,398)	225,943
Tax losses on swap and forward deals	4,469	(4,469)	-
Accruals	120,611	129,156	249,767
Начисления	238,164	160,123	398,287
Net deferred tax asset	**133,828**	**(81,209)**	**52,619**
Recognised deferred tax asset	693,585	180,412	873,997
Recognised deferred tax liability	(559,757)	(261,621)	(821,378)
Net deferred tax asset	**133,828**	**(81,209)**	**52,619**

In thousands of Tenge	1 January 2013	Credited/ (Charged) to profit or loss	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax losses carry forwards			
Premises and equipment: Revaluation reserve of premises	(99,555)	6,346	(93,207)
Premises and equipment: Difference due to application of different depreciation rates	(19,008)	(21,770)	(40,778)
Capital expenditure on rented buildings	(2,832)	(4,284)	(7,116)
Impairment provisions for Loans and advances to customers charged for the year	(348,817)	(69,839)	(418,656)
Securities available for sale: measurement differences	525	(525)	-
Loans and advances	-	330,341	330,341
Excess of interest income of past due loans	3,372	1,097	4,469
Deferred interest and commission income from loans and guarantees issued	14,095	(14,095)	-
Tax losses on swap and forward deals	64,319	56,292	120,611
Accruals	153,079	85,087	238,164
Net deferred tax asset	**(234,822)**	**368,650**	**133,828**
Recognised deferred tax asset	234,865	458,720	693,585
Recognised deferred tax liability	(469,687)	(90,070)	(559,757)
Net deferred tax asset	**(234,822)**	**368,650**	**133,828**

At 31 December 2013 the deferred income tax asset in the amount of Tenge 480,051 thousand (2012: deferred income tax asset in the amount of Tenge 158,759 thousand) were expected to be settled within more than twelve months.

25. DIVIDENDS

In thousands of Tenge	2013	2012
Dividends payable at 1 January	–	–
Dividends declared during the year	408,170	-
Dividends paid during the year	(408,170)	-
Dividends payable at 31 December	–	–
Dividends per share declared during the year (expressed in Tenge per share)	**0.744**	–

All dividends were declared and paid in US dollars.

26. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share. Earnings per share are calculated as follows:

In thousands of Tenge except for number of shares	Note	2013	2012
Profit for the year attributable to ordinary shareholders		4,674,636	2,952,469
Profit for the year attributable to the owners of the Parent		4,674,636	2,952,469
Weighted average number of ordinary shares in issue (thousands)	19	548,400	333,667
Basic and diluted earnings per ordinary share (expressed in Tenge per share)		**8.52**	**8.85**

27. SEGMENT ANALYSIS

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the operating decision makers and for which discrete financial information is available. The operating decision makers of the Bank are the Management Board. The Management Board regularly uses for operational decision making and resource allocation financial information based on IFRS.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of one main business segment – corporate banking which represents direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products. The Bank also has retail banking which represents private banking services, private customer current accounts, savings, deposits and debit cards, consumer loans.

(b) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2013 is set out below:

In thousands of Tenge	Corporate banking	Retail banking	31 December 2013
Assets			
Loans and advances to customers	110,131,281	10,176,646	120,307,927
Investments in securities	26,369,037	-	26,369,037
Cash and deposits	17,443,608	-	17,443,608
Other financial assets	365,109	-	365,109
Investment property	12,201	-	12,201
Long-term assets held for sale	37,651	-	37,651
Total reportable segment assets	**154,358,887**	**10,176,646**	**164,535,533**
Liabilities			

Segment Analysis (Continued)

In thousands of Tenge	Corporate banking	Retail banking	31 December 2013
Customer accounts	98,996,179	31,246,576	130,242,755
Due to other banks	6,047,719	-	6,047,719
Other financial liabilities	403,195	-	403,195
Subordinated debt	5,505,138	-	5,505,138
Total reportable segment liabilities	**110,952,231**	**31,246,576**	**142,198,807**

In thousands of Tenge	Corporate banking	Retail banking	31 December 2013
2013:			
Interest income from loans	10,540,900	913,529	11,454,429
Interest expense from customer accounts	(2,266,290)	(1,557,240)	(3,823,530)
Net interest income/(loss)	**8,274,610**	**(643,711)**	**7,630,899**
Provision for loan impairment	(981,238)	(174,036)	(1,155,274)
Net interest income/(expense) after provision for loan portfolio impairment	7,293,372	(817,747)	6,475,625
Interest income from cash management	1,208,658	-	1,208,658
Interest expense from cash management	(755,836)	-	(755,836)
Fee and commission income from reportable segments	2,309,576	276,792	2,586,368
Fee and commission expense from reportable segments	(281,702)	(94,555)	(376,257)
Foreign exchange translation gain less losses	(3,330)	-	(3,330)
Gains less losses from financial derivatives	(403,598)	-	(403,598)
Gains less losses from trading in foreign currencies	715,246	-	715,246
Gains less losses from revaluation of currency	369,235	-	369,235
Provision for credit related commitments	(71,265)	-	(71,265)
Administrative and other operating expenses	(3,178,491)	-	(3,178,491)
Segment result	**7,201,865**	**(635,510)**	**6,566,355**

Information about reportable segment profit or loss, assets and liabilities for the year ended 31 December 2012 is set out below:

In thousands of Tenge	Corporate banking	Retail banking	31 December 2012
Assets			
Loans and advances to customers	82,446,580	1,525,388	83,971,968
Investments in securities	32,179,393	-	32,179,393
Cash and deposits	12,338,624	-	12,338,624
Other financial assets	308,514	-	308,514
Investment property	20,266	-	20,266
Total reportable segment assets	**127,293,377**	**1,525,388**	**128,818,765**
Liabilities			
Customer accounts	69,859,705	21,897,054	91,756,759
Due to other banks	11,741,931	-	11,741,931
Other financial liabilities	655,321	-	655,321
Subordinated debt	5,404,361	-	5,404,361

In thousands of Tenge	Corporate banking	Retail banking	31 December 2012
2012 :			
Interest income from loans	7,503,421	207,550	7,710,971
Interest expense from customer accounts	(1,052,795)	(1,295,492)	(2,348,287)
Net interest income/(loss)	6,450,626	(1,087,944)	5,362,684
Provision for loan impairment	(1,465,132)	(76,831)	(1,541,963)
Net interest income after recovery of provision for loan portfolio impairment	4,985,494	(1,164,775)	3,820,721
Interest income from cash management	1,332,880	-	1,332,880
Interest expense from cash management	(806,507)	-	(806,507)
Fee and commission income from reportable segments	1,930,226	205,064	2,135,290
Fee and commission expense from reportable segments	(233,304)	(56,883)	(290,187)
Foreign exchange translation gain less losses	420	-	420
Losses less gains from financial derivatives	(372,355)	-	(372,355)
Gains less losses from trading in foreign currencies	611,511	-	611,511
Gains less losses from revaluation of currency	236,569	-	236,569
Provision for credit related commitments	(79,984)	-	(79,984)
Administrative and other operating expenses	(2,253,450)	-	(2,253,450)
Segment result	**5,351,500**	**(1,016,592)**	**4,334,907**

The cash management is performed by Treasury Department to support liquidity of the Bank as a whole. Related income and expense is associated with interbank placements and transactions on correspondent accounts.

Reconciliation of income and expenses, assets and liabilities for reportable segments:

In thousands of Tenge	31 December 2013	31 December 2012
Total reportable segment assets	164,535,533	128,818,765
Current income tax prepayment	246,011	166,709
Premises and equipment and Intangible assets	2,498,997	1,529,618
Other assets	633,975	360,276
Deferred tax asset	52,619	133,828
Total Assets	**167,967,135**	**131,009,196**
Total reportable segment liabilities	**142,198,807**	**109,558,372**
Other liabilities	1,269,467	1,218,429
Total Liabilities	**143,468,274**	**110,776,801**

In thousands of Tenge	2013	2012
Total segment result	**6,566,355**	**4,334,907**
Other operating income	237,613	2,495
Administrative and other operating expenses	(1,407,476)	(955,466)
Profit before tax	**5,396,492**	**3,381,936**
Income tax expense	(848,740)	(470,101)
Total Profit for the year	**4,547,752**	**2,911,836**

The Bank's income is generated in Kazakhstan. Geographical areas of operations of the Bank have been reported in Note 28 of these financial statements based on the ultimate domicile of the counterparty, i.e. based on economic risk rather than legal risk of the counterparty. The Bank has no customers which represent ten percent or more of the total revenues generated in 2013 (2012: nil).

28. FINANCIAL RISK MANAGEMENT

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

In addition the Bank has the following concentration limits based on the total amount of finance arrangement of the borrower/group of borrowers:

- limits on the risk concentration;
- limits on collateral concentration;

- limits on industry concentration;
- limits on geographical concentration.

The Bank established several credit committees which are responsible for approving credit limits for borrowers:

- The Board of Directors reviews and approves limits above 10% from own capital, and meets when necessity arises. It is also responsible for issuing guidance to the credit committee;
- The credit committee reviews and approves credit limits below the limit of 10% from own capital. The credit committee reviews and approves projects that exceed stated limits and those projects that do not fall in the responsibility of a Credit Risk Monitoring Department and Credit Risk Monitoring Department in Astana branch. The credit committee meets on a weekly basis;
- The Bank has established a Credit Risk Monitoring Department and Credit Risk Monitoring Department in Astana branch in 2011. The responsibilities of the Credit Risk Monitoring Department include deciding on whether to initiate financing in the form of loans/guarantees backed by deposits; initiation of uncovered tender guarantees up to Tenge 1 million; initiation of financing to the medium sized businesses in the amount of up to USD 400 thousand.
- The responsibilities of the Credit Risk Monitoring Department in Astana branch include deciding on whether to initiate financing in the form of loans/guarantees backed by deposits; initiation of uncovered tender guarantees up to Tenge 1 million;
- In October 2012, the Bank created a Retail Credit Committee, which makes decisions on stating the limits for the following categories:
  - Loans to individuals without collateral (including cash to be received in the future and guarantees of individuals) for the period of 60 months in the amount of Tenge 15 thousand to Tenge 6,000 thousand (equivalent in currency);
  - Loans to individuals secured by real estate for the period up to 120 months in the amount of Tenge 1,000 thousand to Tenge 150,000 thousand (equivalent in currency);
  - Loans to individuals secured by vehicles for the period up to 60 months in the amount of Tenge 1,000 thousand to Tenge 15,000 thousand (equivalent in currency);
  - Loans to individuals secured by cash for the period up to 120 months without limitations.

The Retail Credit Committee has also following responsibilities:

- Decisions within the limits delegated by the Management;
- Monitoring of credit risk exposures and quality of loan portfolio;
- Acceptance of changes in loan products, methodologies for assessing borrowers, procedures for credit risk control.

- In 2013 the Bank created a Small Retail Credit Committee, which makes decisions on stating the limits for the following categories:
  - Loans to individuals without collateral (including cash to be received in the future) for the period up to 48 months in the amount of Tenge 15 thousand to Tenge 3,000 thousand (equivalent in currency);
  - Loans to individuals secured by real estate for the period up to 120 months in the amount of Tenge 1,000 thousand to Tenge 15,000 thousand (equivalent in currency);
  - Loans to individuals secured by vehicles for the period up to 60 months in the amount of Tenge 1,000 thousand to Tenge 5,000 thousand (equivalent in currency).

Monitoring of credit risk exposures is performed by means of regular reviews of reports that are produced by the credit department's officers based on a structured analysis focusing on the following:

- customer's business and financial performance;
- compliance with intended use of the credit product;
- adequacy of collateral, and
- deteriorating creditworthiness.

As a result of the monitoring, the Credit risk monitoring department prepares monthly reports that include any necessity to review the internal rating of the borrower. Reports are submitted to the Credit Department for final disposition.

The Bank's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures. In the light of current economic environment, the Bank reviews the fair values of all collaterals on the market on a quarterly basis.

Market risk. The Bank is exposed to market risks. Market risks arise from open positions in (a) currency, (b) interest rate, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Currency risk is a risk that the fair value or future cash flows of a finan-

cial instrument will fluctuate because of changes in foreign exchange rates. The danger of losses arises due to revaluation of the Bank's positions by currencies in value terms.

Management's objective is to keep currency positions close to zero. The maximum permitted limits are determined as follows:

- 10,000 thousand US dollars, that represent Tenge 1,507,400 thousand;
- 5,000 thousand EUR, that represent Tenge 996,100 thousand.

The Bank determines foreign currency limits for each type of transaction. If the position exceeds established limits the Bank concludes derivative transactions.

Set limits on the level of exposure by currencies are monitored on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

In thousands of Tenge	31 December 2013			31 December 2012			
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Tenge	118,287,251	(100,986,402)	17,300,849	88,554,376	(83,693,750)	18,731,300	23,591,925
US Dollars	37,617,643	(32,870,422)	4,747,221	36,551,697	(20,182,723)	(20,978,690)	(4,609,716)
Euros	6,355,905	(6,998,095)	(642,190)	1,392,131	(3,406,620)	2,014,308	182
Russian Roubles	2,216,308	(1,341,319)	874,989	2,223,283	(2,213,696)	-	9,586
Pound Sterling	1,908	(551)	1,357	7,113	(6,640)	-	474
Other	6,466	(2,018)	4,448	59,699	(54,943)	-	4,756
Total	**164,485,481**	**142,198,807)**	**22,286,674**	**128,788,299**	**(109,558,372)**	**(233,082)**	**18,996,843**

Derivatives in each column represents the fair value, at the reporting date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the reporting date, with all other variables held constant:

In thousands of Tenge	At 31 December 2013		At 31 December 2012	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars strengthening by 20% (2012:10%)	949,444	905,305	(460,972)	(460,972)
US Dollars weakening by 20% (2012:10%)	(949,444)	(905,305)	460,972	460,972
Euro strengthening by 8% (2012:10%)	(51,375)	(51,375)	(18)	(18)
Euro weakening by 8% (2012:10%)	51,375	51,375	18	18
Russian Rouble strengthening by 13% (2012: 10%)	131,248	131,248	4,616	4,616
Russian Rouble weakening by 13% (2012: 10%)	(131,248)	(131,248)	(4,616)	(4,616)

Изменение финансового результата и собственных средств (продолжение)

In thousands of Tenge	At 31 December 2013		At 31 December 2012	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
Pound Sterling strengthening by 10% (2012: 10%)	136	136	47	47
Pound Sterling weakening by 10% (2012: 10%)	(136)	(136)	(47)	(47)
Swiss Franc strengthening by 5% (2012: 10%)	5	5	73	73
Swiss Franc weakening 5% (2012: 10%)	(5)	(5)	(73)	(73)
Total effect of strengthening	**1,029,458**	**985,318**	**(456,254)**	**(456,254)**
Total effect of weakening	**(1,029,458)**	**(985,318)**	**456,254**	**456,254**

The Bank's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

In thousands of Tenge	Average exposure during 2013		Average exposure during 2012	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars strengthening by 20% (2012:10%)	98,834	89,123	20,003	20,003
US Dollars weakening by 20% (2012:10%)	(98,834)	(89,123)	(20,003)	(20,003)
Euro strengthening by 8% (2012:10%)	(3,701)	(3,701)	(1,537)	(1,537)
Euro weakening by 8% (2012:10%)	3,701	3,701	1,537	1,537
Russian Rouble strengthening by 13% (2012: 10%)	13,846	13,846	(1,356)	(1,356)
Russian Rouble weakening by 13% (2012: 10%)	(13,846)	(13,846)	1,356	1,356
Pound Sterling strengthening by 10% (2012: 10%)	48	48	(1)	(1)
Pound Sterling weakening by 10% (2012: 10%)	(48)	(48)	1	1
Swiss Franc strengthening by 5% (2012: 10%)	8	8	1	1
Swiss Franc weakening 5% (2012: 10%)	(8)	(8)	(1)	(1)
Total effect of strengthening	**109,034**	**99,323**	**17,110**	**17,110**
Total effect of weakening	**(109,034)**	**(99,323)**	**(17,110)**	**(17,110)**

Interest rate risk. Interest rate risk is defined as exposure of the Bank's financial condition to adverse movements in interest rates. The Bank takes on exposure 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 reduce or create losses in the event that unexpected movements arise. Management monitors on a weekly basis and sets limits on the level of mismatch of interest rate re-pricing that may be undertaken.

The Bank applies gap analysis for interest rate risk management. The Bank combines financial assets and financial liabilities into periods of maturity or contractual re-pricing, whichever occurs earlier, and identifies the gap. The positive gap implies that increase in interest rates for this particular maturity would lead to increase of net interest income (decrease of interest rates would lead to decrease of net interest income). The negative gap implies that increase in interest rates for this particular maturity would lead to decrease of net interest income (decrease of interest rates would lead to increase of net interest income).

When interest rates are expected to increase the Bank increases maturity of borrowings; reduces fixed rate loans; reduces maturity of investment portfolio; disposes of securities; and recalls credit lines.

When interest rates are expected to decrease the Bank decreases maturity of borrowings; increases share of fixed rate loans; invests in securities with longer maturity; and extends credit lines.

Also, the Bank monitors interest rates for the similar instruments at the market and evaluate probable exposures on weekly basis.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Tenge	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2013						
Total financial assets	43,023,889	61,665,382	22,199,316	37,596,894	200	164,485,681
Total financial liabilities	(49,946,081)	(29,519,897)	(23,528,677)	(39,204,152)	-	(142,198,807)
Net interest sensitivity gap at 31 December 2013	**(6,922,192)**	**32,145,485**	**(1,329,361)**	**(1,607,258)**	**200**	**22,286,874**
31 December 2012						
Total financial assets	37,721,391	53,302,393	11,900,436	25,864,079	10,200	128,798,499
Total financial liabilities	(57,830,211)	(20,697,296)	(10,917,700)	(20,113,165)	-	(109,558,372)
Net interest sensitivity gap at 31 December 2012	**(20,108,820)**	**32,605,097**	**982,736**	**5,750,914**	**10,200**	**19,240,127**

The table below summarises interest rates based on reports reviewed by the Bank's key management personnel:

In % p.a.	2013				2012			
	Tenge	USD	Euro	Other	Tenge	USD	Euro	Other
Assets								
Cash and cash equivalents	3.5	0	0	0	0	0	0	0
Due from other banks	-	0	-	-	-	7.1	-	8.5
Loans and advances to customers	10.9	10.29	10.29	11.19	10.9	8.7	8.3	11.1
Investment securities available for sale	4.73	8.16	-	-	4.74	8.9	-	-
Liabilities								
Due to other banks	6.22	3.13	3.0	1.0	5.8	8.6	-	6.4
Customer accounts								
- term deposits of legal entities	6.43	3.07	4.89	4.25	5.2	5.5	3.9	3.5
- term deposits of individuals	8.57	5.09	3.84	3.96	7.4	5.4	3.9	4.0

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2013 is set out below:

In thousands of Tenge	Note	Kazakhstan	OECD	Other countries	Total
Financial assets					
Cash and cash equivalents	7	6,912,631	9,446,434	933,990	**17,293,055**
Due from other banks	8	150,553	-	-	**150,553**
Loans and advances to customers	9	120,299,887	5,398	2,642	**120,307,927**
Investment securities available for sale	10	26,369,037	-	-	**26,369,037**
Other financial assets	12	364,931	174	4	**365,109**
Total financial assets		**154,097,039**	**9,452,006**	**936,636**	**164,485,681**
Financial liabilities					
Due to other banks	14	5,275,372	71,597	700,750	**6,047,719**
Customer accounts	15	127,692,299	579,725	1,970,731	**130,242,755**
Subordinated debt	18	-	5,505,138	-	**5,505,138**
Other financial liabilities	16	401,684	1,382	129	**403,195**

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2013 (continued)

In thousands of Tenge	Note	Kazakhstan	OECD	Other countries	Total
Total financial liabilities		**133,369,355**	**6,157,842**	**2,671,610**	**142,198,807**
Net position on financial instruments		**20,727,684**	**3,294,164**	**(1,734,974)**	**22,286,874**
Credit related commitments	**31**	**84,522,181**	**1,652,610**	**4,500**	**86,179,291**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Kazakhstani counterparties actually outstanding to/from off-shore companies of these Kazakhstani counterparties are allocated to the caption "Kazakhstan". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Bank's assets and liabilities at 31 December 2012 is set out below:

In thousands of Tenge	Note	Kazakhstan	OECD	Other countries	Total
Financial assets					
Cash and cash equivalents	7	5,617,612	4,552,595	731,537	**10,901,744**
Due from other banks	8	153,851	-	1,283,029	**1,436,880**
Loans and advances to customers	9	83,966,034	-	5,934	**83,971,968**
Investment securities available for sale	10	32,179,393	-	-	**32,179,393**
Other financial assets	12	272,528	-	35,986	**308,514**
Total financial assets		**122,189,418**	**4,552,595**	**2,056,486**	**128,798,499**
Financial liabilities					
Due to other banks	14	10,562,309	41,174	1,138,448	**11,741,931**
Customer accounts	15	90,132,736	650,180	973,843	**91,756,759**
Subordinated debt	18	-	5,404,361	-	**5,404,361**
Other financial liabilities	16	654,639	561	121	**655,321**
Total financial liabilities		**101,349,684**	**6,096,276**	**2,112,412**	**109,558,372**
Net position on financial instruments		**20,839,734**	**(1,543,681)**	**(55,926)**	**19,240,127**
Credit related commitments	**31**	**61,166,442**	**–**	**3,500**	**61,169,942**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10 percent of net assets. Refer to Note 9.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of

the Bank.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities. The Bank invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of deposits with 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.

The table below shows liabilities at 31 December 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis in accordance with contract terms of financial instruments at 31 December 2013 is as follows:

In thousands of Tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	305,870	-	5,079,085	662,764	-	**6,047,719**
Customer accounts	49,258,065	22,819,748	25,015,655	32,195,472	953,815	**130,242,755**
Other financial liabilities	382,142	16,664	4,389	-	-	**403,195**
Undrawn credit lines	6,427	1,191,250	12,276,350	44,817,223	535,208	**58,826,458**
Guarantees issued	1,445,634	2,660,224	16,841,640	4,535,925	-	**25,483,423**
Total potential future payments for financial obligations	**51,398,138**	**26,687,886**	**59,217,119**	**82,211,384**	**1,489,023**	**221,003,550**

The maturity analysis of financial liabilities in accordance with contract terms at 31 December 2012 is as follows:

In thousands of Tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	10,726,157	16,005	511,610	384,125	104,034	**11,741,931**
Customer accounts	46,514,486	13,403,395	17,489,771	13,855,594	493,513	**91,756,759**
Other financial liabilities	589,566	45,233	20,522	-	-	**655,321**
Undrawn credit lines	42,854,936	-	128,461	-	-	**42,983,397**
Guarantees issued	1,383,988	-	6,329,684	7,652,062	-	**15,365,734**
Total potential future payments for financial obligations	**102,069,133**	**13,464,633**	**24,480,048**	**21,891,781**	**597,547**	**162,503,142**

Payments in respect of gross settled forwards (total amount) will be accompanied by related cash inflows which are disclosed at their present values in Note 32. Customer accounts are classified in the above analysis based on contractual maturities.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2013:

In thousands of Tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Financial assets						
Cash and cash equivalents	17,293,055	-	-	-	-	**17,293,055**
Due from other banks	150,553	-	-	-	-	**150,553**
Loans and advances to customers	7,643,377	34,076,749	49,899,439	22,722,448	7,569,759	**121,911,772**
Investment securities available for sale	17,867,667	-	-	8,501,370	-	**26,369,037**
Other financial assets	364,909	-	-	-	200	**365,109**
Total financial assets	**43,319,561**	**34,076,749**	**49,899,439**	**31,223,818**	**7,569,959**	**166,089,526**
Financial liabilities						
Due to other banks	305,870	-	5,079,085	662,764	-	**6,047,719**
Customer accounts	49,258,065	22,819,748	25,015,655	32,195,472	953,815	**130,242,755**
Other financial liabilities	382,142	16,664	4,389	-	-	**403,195**
Subordinated debt	-	-	113,038	5,392,100	-	**5,505,138**
Total financial liabilities	**49,946,077**	**22,836,412**	**30,212,167**	**38,250,336**	**953,815**	**142,198,807**

In thousands of Tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Net liquidity gap at 31 December 2013	**(6,626,516)**	**11,240,337**	**19,687,272**	**(7,026,518)**	**6,616,144**	**23,890,719**
Cumulative liquidity gap at 31 December 2013	**(6,626,516)**	**4,613,821**	**24,301,093**	**17,274,575**	**23,890,719**	**–**

The analysis by expected maturities may be summarised as follows at 31 December 2012:

In thousands of Tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Financial assets						
Cash and cash equivalents	10,901,744	-	-	-	-	**10,901,744**
Due from other banks	208,570	-	1,228,310	-	-	**1,436,880**
Loans and advances to customers	3,430,346	28,811,900	31,443,167	13,115,867	7,170,688	**83,971,968**
Investment securities available for sale	22,882,414	-	3,719,453	5,577,526	-	**32,179,393**
Other financial assets	298,314	-	-	-	10,200	**308,514**
Total financial assets	**37,721,388**	**28,811,900**	**36,390,390**	**18,693,393**	**7,180,888**	**128,798,499**
Financial liabilities						
Due to other banks	10,726,157	16,005	511,610	384,125	104,034	**11,741,931**
Customer accounts	46,514,486	13,403,395	17,489,771	13,855,594	493,513	**91,756,759**
Other financial liabilities	589,566	45,233	20,522	-	-	**655,321**
Subordinated debt	-	-	128,461	-	5,275,900	**5,404,361**
Total financial liabilities	**57,830,209**	**13,464,633**	**18,150,364**	**14,239,719**	**5,873,447**	**109,558,372**
Net liquidity gap at 31 December 2013	**(20,108,821)**	**15,347,267**	**18,240,566**	**4,453,674**	**1,307,441**	**19,240,127**
Cumulative liquidity gap at 31 December 2013	**(20,108,821)**	**(4,761,554)**	**13,479,012**	**17,932,686**	**19,240,127**	**–**

Any excess of current liabilities over the amount of corresponding assets which may arise is associated with settlement accounts of customers. The Bank analyses balances on such accounts on a daily basis by using certain statistical models and defines core amounts remaining on long term periods. Such funds might be invested in highly liquid assets such as state securities or more long term instruments.

Therefore the management believes that despite the fact that a substantial portion of customers accounts are on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks 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 maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

29. MANAGEMENT OF CAPITAL

The Bank's objectives when managing capital are (a) to comply with the capital requirements set by the the Committee for the control and supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan (the "Committee"), (b) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios is monitored monthly in accordance with the guidelines set by the Committee. The reports outlining their calculation reviewed and signed by the Bank's Chairman and Chief Accountant are filed with the Committee on a monthly basis. The Bank's regulatory capital as managed by the Bank's Asset and Liability Committee is divided into two tiers:

Tier 1 capital: capital (net of any book values of the treasury shares), additional capital, retained earnings and reserves created by appropriations of retained earnings of previous period, perpetual agreements. The book value of intangible assets (except for licensed software), previous and this period's losses are deducted in arriving at Tier 1 capital; and

Tier 2 capital: current period net profits, qualifying subordinated debt capital (not exceeding fifty percent of total tier 1 capital) and perpetual instruments, collective impairment allowances and unrealized gains arising on the fair valuation of fixed assets and securities.

Tier 3 capital: qualifying subordinated debt capital not included into tier 2 capital.

Under the current capital requirements set by the Committee banks have to maintain a minimum level of regulatory capital and capital adequacy ratios (K1-1 – a ratio of Tier 1 capital to total assets at or above the required minimum of 5 percent (2012: 5 percent) and K2 - a ratio of total regulatory capital to the risk-weighted assets at or above the required minimum of 10 percent (2012: 10 percent).

The table below presents the regulatory capital on the basis of the Bank's reports presented to the Committee:

In thousands of Tenge	31 December 2013	31 December 2012
Tier 1 capital		
Share capital	5,484,000	5,484,000
Share premium	22,185	22,185
Provisions	6,727,238	5,027,516
Intangible assets	(14,463)	(348)
Retained earnings of prior years according to the Committee rules	5,011,999	4,536,678
Deferred tax liability	-	234,822
Total tier 1 capital	**17,230,959**	**15,304,853**

The regulatory capital (continued)

In thousands of Tenge	31 December 2013	31 December 2012
Tier 2 capital		
Retained earnings according to the Committee rules	2,719,833	2,583,214
Revaluation	587,022	503,064
Subordinated debt	5,392,100	5,275,900
Deferred tax liability		69,839
Total 2 tier capital	8,698,955	8,432,017
Total regulatory capital	**25,929,914**	**23,736,870**

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of credit, market, operational and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

30. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial instruments subject to offsetting are as follows at 31 December 2013:

In thousands of Tenge	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Net amount of exposure
ASSETS				
Other financial assets: - Other financial derivatives	2,312,000	2,310,900	1,100	1,100
TOTAL ASSETS SUBJECT TO OFFSETTING	**2,312,000**	**2,310,900**	**1,100**	**1,100**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

In thousands of Tenge	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Net amount of exposure
ASSETS				
Other financial assets: - Other financial derivatives	4,748,310	4,739,210	9,100	9,100
TOTAL ASSETS SUBJECT TO OFFSETTING	**4,748,310**	**4,739,210**	**9,100**	**9,100**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are set off in the statement of financial position.

31. CONTINGENCIES AND COMMITMENTS

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Kazakhstani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Kazakhstani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Kazakhstani tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Tenge	Note	31 December 2013	31 December 2012
Undrawn credit lines		58,826,458	42,854,936
Guarantees issued		25,483,423	17,636,687
Import letters of credit		2,202,916	940,639
Less: provision for credit related commitments	16	(333,506)	(262,320)
Total credit related commitments, net of provision		**86,179,291**	**61,169,942**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was Tenge 354,558 thousand (2012: Tenge 364,061 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Tenge	65,338,866	44,410,317
US Dollars	19,464,453	15,774,209
Euro	757,276	653,096
Russian Roubles	618,696	332,320
Total	**86,179,291**	**61,169,942**

The information on related party balances is disclosed in Note 35.

Assets pledged and restricted. The Bank had assets pledged as collateral with the following carrying value:

In thousands of Tenge	Note	31 December 2013		31 December 2012	
		Asset pledged	Related liability	Asset pledged	Related liability
Investment securities available for sale	10	-	-	11,182,954	10,151,197
Total		**–**	**–**	**11,182,954**	**10,151,197**

32. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded with related parties of the Bank on the basis of standardised contracts. The instruments have favourable conditions (and are assets), or potentially unfavourable conditions (and are liabilities) as a result of interest rates fluctuations in the market, currency exchange rates or other variable factors associated with these instruments. The total fair value of derivative financial instruments may significantly change from time to time.

The table below sets out fair values, at the reporting date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

In thousands of Tenge	Note	31 December 2013		31 December 2012	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards: fair values, at the end of the reporting period, of					
- Tenge receivable on settlement (+)		-	-	766,750	17,964,550
- USD payable on settlement (-)		-	-	(755,600)	(18,217,882)
Net fair value of foreign exchange forwards	**12**	**–**	**–**	**11,150**	**(253,332)**
Foreign exchange swaps: fair values, at the end of the reporting period, of					
- USD receivable on settlement (+)		2,312,000	-	4,522,200	-
- Tenge payable on settlement (-)		(2,310,900)	-	(4,513,600)	-
Net fair value of foreign exchange swaps	**12**	**1,100**	**–**	**8,600**	**–**
Foreign exchange spots: fair values, at the end of the reporting period, of				226,110	-
- USD receivable on settlement (+)		-	-	(225,610)	-
- Tenge payable on settlement (-)		-	-	-	-
Net fair value of foreign exchange spots	**12**	**–**	**–**	**500**	**–**

As at 31 December 2013 the Bank had no open forward contracts with a related party (31 December 2012: ten contracts to sell USD 122,000 thousand with equivalent of Tenge 18,390,280 thousand).

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities and (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2013			31 December 2012		
In thousands of Tenge	Level 1	Level 2	Total	Level 1	Level 2	Total
ASSETS AT FAIR VALUE						
FINANCIAL ASSETS						
Investment securities available for sale	**26,369,037**	**–**	**26,369,037**	**32,179,393**	**–**	**32,179,393**
Government securities of the Ministry of Finance of the Republic of Kazakhstan	17,649,129	-	17,649,129	32,179,393	-	16,292,963
Corporate bonds	8,719,908	-	8,719,908	9,296,979	-	9,296,979
Notes NBRK	-	-	-	6,589,451	-	6,589,451
Other financial assets	**1,100**	**–**	**1,100**	**8,600**	**11,150**	**19,750**
Foreign exchange forward contracts	-	-	-		11,150	11,150
Foreign exchange swap contracts	1,100	-	1,100	8,600	-	8,600
Other financial assets	-	-	-		-	-
NON–FINANCIAL ASSETS	**–**	**1,039,577**	**1,039,577**	**–**	**882,011**	**882,011**
- Premises	-	1,027,376	1,027,376	-	861,745	861,745
- Investment properties	-	12,201	12,201	-	20,266	20,266
TOTAL ASSETS RECURRING FAIR VALUE MEASURE–MENTS	**26,370,137**	**1,039,577**	**27,409,714**	**32,187,993**	**893,161**	**26,491,703**

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of Tenge	31 December 2013			31 December 2012		
	Level 1	Level 2	Carrying value	Level 1	Level 2	Carrying value
Assets						
Cash and cash equivalents	17,293,055	-	17,293,055	10,901,744	-	10,901,744
Cash on hand	1,714,662	-	1,714,662	1,365,890	-	1,365,890
Cash balances with the NBRK	2,240,119		2,240,119	1,473,030	-	1,473,030
Mandatory cash balances with the NBRK	2,239,849	-	2,239,849	1,889,817	-	1,889,817
Correspondent accounts and overnight placements with other banks	11,098,090	-	11,098,090	5,418,930	-	5,418,930
Placements with other banks with original maturities of less than three months	335	-	335	754,077	-	754,077
Due from other banks	**150,553**	–	**150,553**	**1,436,880**	–	**1,436,880**
Short-term placements with other banks with original maturities of more than three months	150,553	-	150,553	477,721	-	477,721
Long-term deposits in other banks	-	-	-	959,159	-	959,159
Loans and advances to customers	–	**122,531,175**	**120,307,927**	–	**88,370,655**	**87,959,327**
Corporate loans	-	112,166,468	110,131,281	-	86,794,322	86,382,994
Loans to individuals – consumer loans	-	8,662,806	8,505,625	-	891,867	891,867
Loans to individuals – entrepreneurs	-	629,701	618,275	-	454,705	454,705
Mortgage loans	-	1,072,200	1,052,746	-	229,761	229,761
Other financial assets	-	364,009	364,009	-	288,264	288,264
Restricted cash	-	195,656	195,656	-	191,440	191,440
Other	-	168,353	168,353	-	96,824	96,824
Non–financial assets	–	**12,201**	**12,201**	–	**20,266**	**20,266**
Investment properties	-	12,201	12,201	-	20,266	20,266
Total	**17,443,608**	**122,907,385**	**138,127,745**	**12,338,624**	**88,679,185**	**100,606,481**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In thousands of Tenge	31 December 2013			31 December 2012		
	Level 1	Level 2	Carrying value	Level 1	Level 2	Carrying value
FINANCIAL LIABILITIES						
Due to other banks	–	**6,047,719**	**6,047,719**	–	**11,741,931**	**11,741,931**
Correspondent accounts and overnight placements of other banks	-	30,620	30,620	-	123,471	123,471
Short-term placements of other banks	-	2,775,250	2,775,250	-	1,467,263	1,467,263
Long-term placements of other banks	-	2,500,000	2,500,000	-	-	-
Sale and repurchase agreements with other banks	-	-	-	-	10,151,197	10,151,197
Short-term loans from other banks	-	79,086	79,086	-	-	-
Long-term loans from other banks	-	662,763	662,763	-	-	-
Customer accounts	–	**129,860,757**	**130,242,755**	–	**91,822,117**	**91,756,759**
Current/settlement accounts of state and public organisations	-	3,415,958	3,415,958	-	1,282,850	1,282,850
Term deposits of state and public organisations	-	4,103,711	4,121,936	-	4,881,245	4,875,124
Current/ settlement accounts of other legal entities	-	36,892,233	36,892,233	-	34,980,313	34,980,313
Term deposits of other legal entities	-	54,324,795	54,566,052	-	28,757,481	28,721,418
Current/ demand accounts of individuals	-	3,536,654	3,536,654	-	3,440,542	3,440,542
Term deposits of individuals	-	27,587,406	27,709,922	-	18,479,687	18,456,513
Subordinated debt	–	**5,505,138**	**5,505,138**	–	**5,404,361**	**5,404,361**
Subordinated debt	-	5,505,138	5,505,138	-	5,404,361	5,404,361
Total	–	**141,413,614**	**141,795,612**	–	**108,968,409**	**108,903,051**

The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

34. RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity. The following table provides a reconciliation of classes of financial assets with these measurement categories at 31 December 2013.

In thousands of Tenge	Loans and receivables	Available-for-sale assets	Assets designated at FVTPL	Total
FINANCIAL ASSETS				
Cash and cash equivalents	17,293,055	-	-	**17,293,055**
Due from other banks	150,553	-	-	**150,553**
Loans and advances to customers:				
- Corporate loans	110,131,281	-	-	**110,131,281**
- Loans to individuals - entrepreneurs	1,052,746	-	-	**1,052,746**
- Loans to individuals – consumer loans	8,505,625	-	-	**8,505,625**
- Mortgage loans	618,275			**618,275**
Investment securities available for sale	-	26,369,037	-	**26,369,037**
Other financial assets				
- Foreign exchange forward contracts	-	-	1,100	**1,100**
- Other financial assets	364,009	-	-	**364,009**
TOTAL FINANCIAL ASSETS	**138,115,544**	**26,369,037**	**1,100**	**164,485,681**
NON–FINANCIAL ASSETS	**3,481,454**	**–**	**–**	**3,481,454**
TOTAL ASSETS	**141,596,998**	**26,369,037**	**1,100**	**167,967,135**

The following table provides a reconciliation of classes of financial assets with these measurement categories at 31 December 2012:

In thousands of Tenge	Loans and receivables	Available-for-sale assets	Assets designated at FVTPL	Total
FINANCIAL ASSETS				
Cash and cash equivalents	10,901,744	-	-	10,901,744
Due from other banks	1,436,880	-	-	**1,436,880**
Loans and advances to customers:				
- Corporate loans	82,446,580	-	-	**82,446,580**
- Loans to individuals - entrepreneurs	229,761	-	-	**229,761**
- Loans to individuals – consumer loans	858,058	-	-	**858,058**
- Mortgage loans	437,569	-	-	**437,569**
Investment securities available for sale	-	32,179,393	-	**32,179,393**
Other financial assets				
- Foreign exchange forward contracts	-	-	11,150	**11,150**
- Other financial assets	288,264	-	9,100	**297,364**
TOTAL FINANCIAL ASSETS	**96,598,856**	**32,179,393**	**20,250**	**128,798,499**
NON–FINANCIAL ASSETS	**2,210,697**	**–**	**–**	**2,210,697**
TOTAL ASSETS	**98,809,553**	**32,179,393**	**20,250**	**131,009,196**

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2013 and 2012, the outstanding balances with related parties were as follows:

In thousands of Tenge	Note	31 December 2013			31 December 2012		
		Share-holder	Members of the Board	Entities under common control	Share-holder		Entities under common control
Cash and cash equivalents (contractual interest rate: 2013: 0%; 2012: 0%)		906,649	-	-	727,847	-	710
Due from other banks	8	-	-	--	323,870	-	959,159
Gross amount of loans and advances to customers (contractual interest rate: 2013: 9%-20%; 2012: 14%-16.9%)		-	2,638	244,000	-	3,786	-
Impairment provisions for loans and advances to customers		-	-	(243,432)	-	-	-
Other financial assets:							
- Foreign exchange contracts		-	-		-	-	11,150
- Accrued commission income			1	55,976			
Due to other banks		4,092	-	26,406	1,138,447	-	1,587
Customer accounts (contractual interest rate: 2013: 3-9%,2012: 4-8.5%)		-	301,302	3,664	-	128,746	14,172
Other financial liabilities:		124	-	-			
- Foreign exchange contracts		-	-	-	-	-	(253,332)
-Subordinated debt	18	-	-	5,505,138	-	-	,404,361

There was no foreign exchange contracts concluded with entities under common control as of 31 December 2013. The foreign exchange contracts concluded with other related parties as of 31 December 2012 were as follows:

In thousands of Tenge	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards: fair values, at the end of the reporting period, of		
- Tenge receivable on settlement (+)	766,750	17,964,550
- USD payable on settlement (-)	(755,600)	(18,217,882)
Net fair value of foreign exchange forwards	**11,150**	**(253,332)**

The income and expense items with related parties for the year 2013 and 2012 were as follows:

In thousands of Tenge	2013			2012		
	Share-holder	Members of the Board	Entities under common control	Share-holder	Members of the Board	Entities under common control
Interest income	20,438	660	43,078	36,611	710	-
Interest expense	(40,491)	(5,947)	(316,294)	3,893	1,240	301,397
Provision for loan impairment	-	-	(243,432)	-	-	-
Net commission income	-	234	249,856	-	161	139
Gain less loss from financial derivative instruments	(10,817)	-	(340,305)	16,964	-	(262,527)
Gain less loss from operations with foreign currency	29,442	299	48	(76,927)	10	151

Aggregate amounts lent to and repaid by related parties during 2013 and 2012 were:

In thousands of Tenge	2013	2012
	Members of the Board	Members of the Board
Amounts lent to related parties during the period	4,078	400
Amounts repaid by related parties during the period	6	-

The Bank's policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

Key management of the Bank represents members of the Board of Directors and the Executive Board. Key management compensation is presented below:

In thousands of Tenge	31 December 2013	31 December 2012
Key management compensation accrued as at the reporting date	**276,234**	**289,798**
- short-term bonuses	92,660	138,317
- long-term bonuses	183,574	151,481

	2013 г.	2012 г.
Key management compensation expense for the period	**524,308**	**242,839**
- salaries	165,919	148,033
- short-term bonuses	102,870	67,021
- long-term bonuses	201,036	-
- state pension and social security costs	54,483	27,785

36. SUBSEQUENT EVENTS

In January 2014 the Bank received a loan from JSC «Development Bank of the Republic of Kazakhstan». The loan was given for the amount of Tenge 4,000,000 thousands for 5 years under the program for support of industrial-innovative development of Kazakhstan for the further financing of ultimate borrowers.

On 11 February 2014 National Bank of Republic of Kazakhstan stopped supporting the Tenge exchange rate and decreased currency interventions. As a result, the exchange rate depreciated to Tenge 185 for 1 USD or approximately 19%. This situation has not caused any material effect on the Bank's financial position, as the Bank did not have significant open foreign currency positions.

In February, 2014 the Bank issued bonds for the amount of Tenge 3,006,000 thousand. The bonds are included in the official list of Kazakhstan Stock Exchange (KASE) within "Rated bonds" category. The circulation period of the bonds is from 4 November 2013 till 4 November 2018. The annual rate of the bonds is 7% with fixed semi-annual coupon payments.

Alfa-Bank

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INFORMATION FOR INVESTORS

"ALFA-BANK" SUBSIDIARY BANK JOINT-STOCK COMPANY
Legal address: 57A, Massanchi St., Almaty City, 050012, Republic of Kazakhstan
License to make bank transactions No.236 issued on 21 December 2007.

Call Center:	8-8000-8000-75 (free)
	8-771-936-4000 (toll)
	+7 (727) 244-75-75
Fax:	+7 (727) 292-08-21
Web-site	www.alfabank.kz

CONTACT DETAILS FOR INVESTORS:
Head of the Department in charge of financial institutions
Dzhanibek Issagulov
Tel.: +7 (727) 259-05-01, ext. 4083
E-mail: IR@alfabank.kz

Auditor:
PricewaterhouseCoopers LLP
34, Al-Farabi Ave., Block "A",
Almaty City, 050059, Republic of Kazakhstan
Tel.: +7 (727) 330 3200
Fax: +7 (727) 244 6868

Registrar:
"Single Registrar of Securities" JSC
141, Abylai khan Ave., Almaty City,
050000, Republic of Kazakhstan
Tel.: +7 (727) 272 47 60
Fax: +7 (727) 272 47 60

BRANCHES AND OFFICES:

Head Office
57A, Massanchi St., Almaty City, 050012
tel.: +7 (727) 244-75-75
fax: +7 (727) 292-08-21

Almaty Branch
140, Aimanov St., Almaty City
tel.: +7 (7272) 590-501, ext. 2489, 2458

Astana Branch
39/1, Abai Ave., Astana City
tel.: (+7 7172) 32-84-68
fax: (+7 7172) 32-84-73

"Essil" Office in Astana City
13/2, Kabanbai batyr Ave., VP-1, Astana City
tel.: (+7 7172) 75-56-05
fax: (+7 7172) 75-56-06

Aktau Branch
16, microdistrict 26, BC Nurbek, Aktau City
tel.: (+7 7292) 41-44-01 ext. 601
fax: (+7 7292) 41-44-01 ext. 602

Aktobe Branch
5A, Aliya Moldagulova Ave., Aktobe City
tel.: +7 (7132) 70-40-32

Atyrau Branch
48, Azattyk Ave., Business Centre "Premiera-Atyrau", Atyrau City
tel.: +7 (7122) 25-10-39
fax: +7 (7122) 25-10-39

Atyrau Office
113, Kulmanov Baktygerei St., Atyrau City
tel.: +7 (7122) 251-039

Karaganda Branch
72/3, Bukhar-Zhyrau Ave., Karaganda City
tel.: +7 (7212) 92-24-76
fax: +7 (7212) 47-51-78

Pavlodar Branch
5B, Pobeda Square, Pavlodar City
tel.: +7 (7182) 39-36-01
+7 (7182) 39-36-03

Petropavlovsk Branch
64A, Internatsionalnaya St., Petropavlovsk City
tel.: + 7 (7152) 55-10-14

Uralsk Branch
28, Saraishyk St., Letter 56B, Uralsk City
tel.: +7 (7112) 55-47-30

Ust–Kamenogorsk City
50, M. Gorky St., Ust-Kamenogorsk City
tel.: +7 (7232) 26-15-07
fax: +7 (7232) 24-86-99

Semei Office
29, Baisseitov St., Semei City
tel.: +7 (7222) 60-47-11

Representative Office in Kokshetau City
92, Akansere St., Kokshetau City
tel.: + 7 (7162) 25-06-80

Representative Office in Kostanai City
111A, Al-Farabi Ave., Kostanai City
tel.: +7 (7142) 39-04-09

Representative Office in Shymkent City
7, Zheltoksan St., office 401, Shymkent City
tel.: +7 (7252) 27-73-74

www.alfabank.kz