2013

ЖЫЛДЫҚ ЕСЕП

ГОДОВОЙ ОТЧЕТ

ANNUAL REPORT

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

Миллиондардың таңдауы!

Выбор миллионов!

Bank of choice!

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

How many things are looked upon as quite impossible until they have actually been effected.

Pliny the Elder

AT-A-GLANCE

Financial highlights

Key figures	2013		2012	
	KZTm	US$m	KZTm	US$m
Total assets	2,506,414	16,317	2,407,998	16,022
Total equity	392,179	2,553	339,639	2,260
Loans to customers	1,482,245	9,649	1,319,208	8,778
Amounts due to customers	1,766,648	11,501	1,699,182	11,306
Net interest income	80,610	525	75,698	508
Fees and commissions, net	44,267	288	45,091	302
Net income	72,409	471	69,961	469

Ratio	2013	2012
	%	%
Return on average common equity	20.8	24.0
Return on average assets	2.9	2.9
Net interest margin	4.9	4.9
Net interest spread	4.8	5.2
Cost-to-income	31.4	34.4
Cost-to-assets	2.2	2.2
Tier 1 Capital Adequacy ratio (BIS guidelines)	17.2	16.2
Total Capital Adequacy ratio (BIS guidelines)	18.5	18.3

Number of customers/accounts

Key figures	2013	2012
Retail accounts (mln)	8.8	6.5
Payment cards (mln)	4.3	3.7
Retail loans (thousand)	554.5	500.0
Mortgage loans (thousand)	20.6	22.4
Consumer loans issued within the framework of payroll projects (thousand)	520.9	460.0
Other consumer loans (thousand)	13.0	15.4
Payroll project customers (mln)	2.5	2.3
Payroll project entities, including government entities (thousand)	20.3	18.6
Number of Internet banking users (thousand) - individuals - legal entities	 194.7 11.6	 69.3 11.4

Distribution network

JSC Halyk Bank	544 outlets, including: 22 regional branches 122 sub-regional offices 47 personal service centres 4 VIP-centres 349 limited service branches 2,034 ATMs 11,172 POS-terminals, including 803 m-POS-terminals 588 bank kiosks
JSC Halyk-Kazakhinstrakh	18 branches, 235 sales outlets
JSC Halyk-Life	16 branches
JSC Halyk Leasing	2 branches, 2 officees
LLP Halyk Inkassatsiya	18 branches, 37 outlets
JSC Halyk Accumulative Pension Fund	18 branches
JSC Halyk Bank Kyrgyzstan	9 branches, 5 cash outlets
JSC Halyk Bank Georgia	4 branches
JSC NBK Bank	1 branch

Halyk Group's full-time equivalent employees as of 31 December 2013: 11,198.

Structure of Halyk Group*

JSC Halyk Bank
Universal commercial bank

- 100% NBK Bank, Russia
- 100% Halyk Bank Kyrgyzstan
- 100% Halyk Bank Georgia
- 100% Halyk Finance (brokerage and AM)
- 100% Halyk Leasing (leasing)
- 100% Halyk Life (life insurance)
- 100% Kazakhinstrakh (insurance)
- 100% Halyk Pension Fund (pension fund and AM)
- 100% Kazteleport (telecommunications)
- 100% Halyk Inkassatsiya (cash collection services)
- 100% Halyk-Project (distressed asset management)

*Major subsidiaries included

Current ratings*

Agency	Long-term
Moody's Investor Services	Ba2
Fitch Ratings	BB
Standard&Poor's	BB

* as of 31 March 2014

Shareholders of the Bank as at 31 December 2013*:

№	Name	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
1	JSC HG Almex	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	10.6%
2	JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan *	758,082,743	6.8%	661,367,710	6.1%	96,715,033	49.5%
3	GDR	2,093,909,040	18.9%	2,093,909,040	19.2%	-	-
4	Other	228,090,752	2.0%	150,042,269	1.3%	78,048,483	39.9%
5	Total shares in circulation (on consolidated basis)	11,104,231,603	100%	10,908,700,519	100%	195,531,084	100%

JSC “Holding Group ‘ALMEX’” (“ALMEX”) is a holding company, which, in addition to its controlling interest in the Bank, has an interest in LLP “Insurance broker AON Kazakhstan”.

JSC Accumulative Pension Fund of Halyk Bank, the subsidiary of Halyk Bank, (“Halyk Pension Fund”) is a leading private pension fund in the Republic of Kazakhstan, which was established in January 1998.

** Shares of the Bank have been listed on the Kazakhstan Stock Exchange since 1998 and common shares in the form of global depositary receipts on the London Stock Exchange since December 2006.*

The only honest measure of your success is what you are doing compared to your true potential.

Paul J.Mayer

THE BUSINESS MODEL

Reliable financial position

- High level of capitalization under BIS guidelines: tier 1 capital adequacy ratio - 17.2%, total capital adequacy ratio - 18.5%;
- Sufficient liquidity: liquid assets to total assets - 25.4%;
- High-quality funding base: loans to customers to deposits - 83.9%;
- Sufficient level of provisions: the share of non-performing loans (overdue by 30 days or more) has stabilised at 18%, coverage by provisions is 96.6%;
- Long-term ratings*:
  – Moody's Investor Services Ba2;
  – Fitch Ratings BB;
  – Standard&Poor's BB.

Systemically important financial group in Kazakhstan with a strong market position

- High long-term credit ratings in Kazakhstan;
- The leading universal financial group in Kazakhstan, with the largest client base and the largest branch network in Kazakhstan;
- The leading position in retail deposits, retail current accounts, net income and commision income, cards, letters of credit and payroll projects;
- A participant in government business-support programs.

Market share

- The largest branch network of outlets and ATMs;
- The Bank's market share in the second-tier bank deposit market is 20.3%, on term-deposits 18.6%, on demand deposits 33%;
- The Bank's market share in the retail lending market is 13.2%;
- The Bank's market share in cards is 43.6%;
- The Bank's share in the volume of social payments in Kazakhstan is 54.2%, 72% of which receive pensions and benefits, using Bank's cards.

Diversified sources of income

- Large revenues are supported by diversified flows of commission income, and insurance business revenue, which accounted for 27% of total revenue in 2013.

* as of 31March 2014

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They who wish to do great things and have no doubts about their courage, find themselves on the top.

James Sharp

STATEMENT OF THE CHAIRMAN

Dear shareholders,

In 2013, Halyk Bank being the corner stone of the country's leading financial services group produced high growth rates and exerted significant influence over the development of the main trends in Kazakhstan financial sector. The Bank began implementing actively its new mid-term 2013-2015 Strategy and completed the tasks on strengthening the Group's leading position in all market segments.

At the same time, last year the Bank was n involved in discussions on a number of large-scale projects. Among these were an initiative to establish the Single Accumulated Pension Fund (SAPF) and the transfer of assets of JSC Halyk Pension Fund to it, withdrawal of the state from the capital of some Kazakhstan banks, participation of our Bank in evaluation and possible acquisition of BTA Bank in connection therewith, and a discussion between the regulator and second-tier banks on possible creation of a Single Processing Centre.

Overall, the past year was marked by the stabilisation of the main macroeconomic indicators: the economy grew by 6%, investments increased by 6.5%, industrial production by 2.3%, the volume of construction by 3%, and gross agricultural output by 10.8%. In addition, the level of inflation in the country reached a comfortable level of 4.8%. The industrial sector showed relatively good dynamics, particularly production of hydrocarbons, as well as trade, transport and construction.

Strengthening positions of the domestic banking sector and recovery of the lending process were an important positive factor last year. According to the regulator, as at YE 2013, banking sector's loan portfolio grew by 14.5%.

However, overall increase in lending in the Kazakhstan banking sector was achieved mainly due to substantial increase in consumer lending. While in 2013 the market for retail loans grew by 27% in the Kazakhstan banking system, a significant part of that increase (more than 46% of it) was achieved through consumer lending. The president of the Republic of Kazakhstan paid attention to this trend, when addressing to the government's expanded session last autumn.

In its turn, Halyk Bank maintained more moderate and responsible retail lending policy which reduces risks for both sides and contributes to systemic stability. To this end, we adjusted the terms of retail loans, taking into an account the risks existing in this sector. Moreover, unlike other market participants, we did not discontinue our mortgage programs.

During last year other areas of the banking business produced positive dynamics too: medium-sized businesses significantly increased their loan portfolio, outpacing the growth of the corporate loans portfolio.

Despite the continuing increase of non-performing loans in Kazakhstan banking system overall, are, the Bank made it a priority to reduce the share of problem assets in its loan portfolio. Last year our subsidiary for distressed asset management started working intensively, after a number of troubled assets worth more than USD 40 million were transferred to it at the initial phase. The first project of this subsidiary has been successfully finalised in Almaty very recently. This year the Board of Directors has set the task to continue to clean up the Bank's loan portfolio from "toxic" assets. This is one of the most important tasks for the upcoming period.

Halyk Group has always participated actively in government programs aimed at developing and supporting economically active population. To this end, we plan to continue participating in government programs to support small and medium-sized business and the recovery of the agricultural sector.

Given recent trends on the Kazakhstan financial market, we plan to make adjustments to the mid-term strategic plans of the Group in 2014. Nonetheless, the basic goals remain the same: providing portfolio growth of at least 10% per annum and specific measures for a cleaner, healthier Bank balance sheet.

Our subsidiaries will be working to implement a number of important tasks in the coming year.

Thus, the Group's foreign subsidiary banks in Georgia, Kyrgyzstan and Russia will have to have stable earnings indicators. Moreover, we will pay particular attention to the development of our business in Russia, on account of ongoing integration processes within the Customs Union and the United Economic area.

In 2014, the transfer of pension assets managed by our subsidiary pension fund to the Single Accumulated Pension Fund will be completed. Moreover, the Group, with its vastly experienced and highly qualified team, is seeking to continue to work in pension asset management segment by creating a specialised company.

On the insurance market, JSC "Halyk-Kazakhinstrakh" (Kazakhinstrakh) should gradually shift its focus to retail insurance, and Halyk Life will develop accumulative life insurance products.

Concerning the upcoming issuances within the frame of "People's IPO," the Group intends to participate actively in these issuances through its subsidiary Halyk Finance.

We intend to use intensively the capacities of our subsidiary engaged in automation and telecommunications. We have adopted a new Kazteleport strategy that includes rendering such services within the entire financial group.

Our subsidiary Halyk Inkassatsiya is strengthening its material base, and its efforts will focus on expansion of its core business, mainly by attracting third-party clients.

Overall, we will increase our efforts in personnel development – training and education – throughout the Group. Measures will be taken to develop and renovate the material base, optimise and reconstruct the branch network and expand remote sales channels, which will undoubtedly increase the quality of service in the Group's companies.

Two significant anniversaries for the domestic financial system fell on 2013: the 20th anniversary of Kazakhstan national currency and the 90th anniversary of Halyk Bank and the national savings system. During the year, a number of socially significant cultural, sports, education, sponsor and charitable jubilee events were held country wide and were positively received by our citizens.

In accordance with the approved Rules for Sponsorship and Charitable Aid of Halyk Bank and the recommendations of the Board of Directors' permanent Social Responsibility Committee, the Bank is implementing a number of projects as part of business social responsibility . Thus, we implemented social projects totaling more than KZT 566 million in 2013. They involved support for sponsored orphanages, specialised organisations, talented students, veteran and health care organisations, as well as development of public cultural and sports awareness – including sponsorship of Kairat Football Club, the Astana Opera Theatre, the Ayala Fund and many other things.

It should be emphasised that the Board of Directors supports transparency principles in the activities of the Bank and its subsidiaries. Therefore, we are fully open to productive cooperation with shareholders, investors, ratings agencies, analysts and other interested parties.

We plan to adhere to the approved Dividend Policy of the Bank, according to which 15-50% of the total net income for the reporting year is allocated to dividend payments on common shares.

In conclusion, on behalf of the Board of Directors, I would like to thank our shareholders, partners and all our colleagues for their fruitful cooperation, understanding and support of Halyk Group's strategic development course.

Alexander Pavlov
Chairman of the Board of Directors

STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Dear shareholders, investors and partners,

2013 will be remembered for two landmark anniversaries for our financial system - the 20th anniversary of the Kazakhstan national currency and the 90th anniversary of our financial institution. In commemoration of this date, during 2013, Halyk Bank held a number of socially important cultural, sports, educational, charitable jubilee campaigns in all major cities of Kazakhstan

Over the last decade Halyk Bank transformed into the market largest financial services group which consists of investment banking, insurance, leasing, pension, cash collection and telecommunication companies, as well as subsidiary banks in Russia, Kyrgyzstan and Georgia, producing high rates of sustainable growth every year.

2013 was no exception. . It was the first year of implementing a previously adopted 2013 - 2015 medium-term Halyk Group development strategy and another year of growth in almost all business areas for Halyk Bank and its subsidiaries.

Undoubtedly, external factors, such as the transfer of pension assets to the Single Accumulated Pension Fund, a proposal for the acquisition of BTA Bank, and other initiatives on which considerable human, material and time resources were allocated, had a significant impact on the Bank's and Group's activity.

For most of the year, Halyk Bank carried out due diligence on BTA Bank, engaging external consultants. Halyk Bank presented JSC Sovereign Wealth Fund "Samruk-Kazyna" (hereinafter, Samruk-Kazyna) indicative, non-binding conditions for the acquisition of BTA Bank shares based on the results of a comprehensive inspection. The conditions were not accepted.

In November 2013, negotiations on possible acquisition of BTA Bank shares from Samruk-Kazyna were officially terminated by mutual consent of the parties.

It was a large, time-consuming effort. I would like to thank all the employees of the Bank who were involved in these projects in addition to doing their fundamental tasks.

In addition during the second quarter of 2013 the Committee for the Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan supervision unit conduncted a scheduled comprehensive inspection of the Bank's activity as of 1 February 2013. The regulator's inspection led to no significant corrections.

This was a record year for Halyk Bank in terms of the size of net profit, KZT 72.4 billion, which was one of the best on the Kazakhstan banking market.

The Group's equity increased significantly by 15.5%. The capital adequacy ratio remained one of the highest in the Kazakhstan banking system.

The Bank continued to increase its assets, and loans portfolio growth dynamics remained positive. Moreover, the quality of our loan portfolio remains one of the most stable in the sector. There is a trend towards a gradual decrease in non-performing loans (NPLs).

During the past year, deposit base of the Bank continued to increase. We retained our leading positions on the retail deposit market.

Return on capital remains one of the highest among universal banks.

It is very important for us to achieve such strong indicators in order to continue expanding our product line, improve the quality of service and provide customers with high-quality services in all segments of business.

During last year, the Bank kept improving its product line and developing IT banking systems and technologies.

We increased significantly lending volumes to SME while implementing state programs and the Bank's own programs.

The Board of Directors and the Management Board of the Bank pay special attention to the development of our distance sales channels and, most of all, to Internet banking. In the middle of last year, one hundred thousandth client was registered in our Internet banking system for individuals and the number internet-banking clients continues to grow every day. We are planning to invest considerable efforts in its further development in the nearest future.

The Bank is actively advancing in retail consumer lending, expanding remote sales channels and offering innovative new banking services and products, such as the co-branded "Magic Card" credit card of Halyk Bank and Beeline platformed on Visa and contactless Visa Classic PayWave cards. To facilitate trade and service entities, Halyk Bank purchased new POS terminals and launched mobile POS-terminals, a new solution on the market of payments cards in Kazakhstan. Halyk Bnak kept expanding its branch network in Kazakhstan and Georgia. This year we opened new offices of regional branch Semey, a personal service center in the city of Temirtau, repaired and reconstructed 35 outlets. Overseas, in Tbilisi, the capital of the Republic of Georgia, we opened one more branch of JSC Halyk Bank Georgia.

Successful implementation of strategic objectives and the adoption of the Bank's dividend policy by the Board of Directors enabled us to pay dividends on common shares for the first time in the post-crisis years.

For the first time in the last two years, international rating agencies upgraded the Bank's ratings. The international rating agency Fitch Ratings upgraded the long-term issuer default rating of Halyk Bank from BB- to BB, and the forecast on the Bank's ratings is "Stable."

Numerous awards from EMEA Finance, Global Finance and Euromoney international financial publications, the leadership in EMEA Finance "EMEA-300, 2013" of and The Banker's TOP 1000 WORLD BANKS 2013 rankings were the result of the Bank's effective work and that of its subsidiaries. In the traditional survey of world's 500 banking brands conducted by the international consulting company Brand Finance in 2013, Halyk Bank took the 334th position (out of 500) and won the highest brand value (Halyk Bank) among the banks of Kazakhstan.

In conclusion, I would like to note that the strong results in 2013 allowed us to improve the quality of our Bank and to keep the leading positions on Kazakhstan market, as well as to strengthen positions of our subsidiaries, including foreign subsidiaries. All this was possible due to the vast experience and high commitment of our employees. We are also grateful to our customers, shareholders and partners for their fruitful cooperation, which allowed us to achieve such strong performance in 2013.

I am sure that our strategic plans, backed by your support and trust, will continue contributing to the successful development of Halyk Group.

Chief Executive Officer
Umut Shayakhmetova

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Patience, persistence and perspiration make an unbeatable combination for success.

Napoleon Hill

BOARD OF DIRECTORS

Alexander Pavlov, (1953)

Chairman, Independent Director

Mr. Pavlov was appointed Chairman of the Board in March 2004. Between 1994 and 2000, he was Minister of Finance, then Deputy Prime Minister, and finally First Deputy Prime Minister of the Republic of Kazakhstan. From 2000 to 2002, he was Vice Chairman of the Management Board and Vice Chairman of the Board of Directors of copper mining company JSC Kazakhmys. Between 2002 and 2004, he was First Deputy Prime Minister of the Republic of Kazakhstan. From 2006 to 2008, Mr. Pavlov was member of the Board of Directors of JSC "Kazakhstan Holding for Management of State Assets "Samruk". Mr. Pavlov is a graduate of the Belorussia State Institute of People's Economy, where he specialized in economics. He is an honorary professor at Karaganda State University.

Ulf Wokurka, (1962)

Independent Director

Ulf Wokurka was appointed to the Board in April 2011. Between 1990 and 1999, he held various positions both in the head office and foreign offices of Deutsche Bank AG. From 2006 to 2008, Mr. Wokurka was Deputy CEO and CFO of JSC Kazakhstan Holding for Management of State Assets Samruk and Chairman of the Board of Directors of JSC Kazpochta. In 2007, Mr. Wokurka was elected a member of the International Advisory Board of RFCA, Independent Director of JSC Kazakhstan Development Bank, member of the Kazakhstan Independent Directors Association, and Independent Director of JSC Kazyna Capital Management. From 2008 to 2010, he served as Managing Director of Metzler Asset Management Gmbh, Frankfurt and Independent Director of the Board of Directors of JSC BTA Bank. In 2010, Mr. Wokurka was appointed a Managing Director of Deutsche Bank AG and head of Deutsche Bank's Representative Office in Kazakhstan. Since June 2012, Mr. Wokurka has been Independent Director of JSC National Investment Corporation of the National Bank of Kazakhstan. He graduated from Martin Luther University (Germany) and Moscow State Institute of International Relations.

Arman Dunaev, (1966)

Independent Director

Mr. Dunaev was appointed to the Board in September 2013. From June 2003 to March 2004, he was the Chairman of the Board of JSC National Innovation Fund. From March 2004 to April 2004, he was the First Deputy Minister of Finance of the Republic of Kazakhstan. From April 2004 to February 2006, he was the Minister of Finance of the Republic of Kazakhstan. From January 2006 to January 2008, he was the Chairman of the Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organizations. From January 2008 to October 2008, he was the Chairman of the Board of JSC Sustainable Development Fund Kazyna. From November 2008 to May 2011, he was the Deputy CEO of JSC NWF Samruk-Kazyna. From December 2011 to February 2012, he was the Adviser to the CEO of JSC NWF Samruk-Kazyna.

Franciscus Cornelis Wilhelmus (Frank) Kuijlaars, (1958)

Independent Director

Mr. Kuijlaars was appointed to the Board in April 2009. From 1990 to 2007, Mr. Kuijlaars served at ABN AMRO Bank and later at RBS as a Head of Corporate and Investment Banking in Belgium, Regional Manager in Brazil and Country Manager in Russia and Argentina. Mr. Kuijlaars was a Member of the Supervisory Board in Russia, Kazakhstan and Uzbekistan. After his appointment to the position of a Corporate Executive Vice President in 2001, in addition to supervision of global energy issues, he was a member of the Executive Committees of the countries of Europe, Central and Eastern Europe, Middle East and Africa, as well as a member of the Corporate and Investment Banking Committee. He is an advisor to several international organizations, and for a long time was a member of the Foreign Investor Council of the President of the Republic of Kazakhstan. Since 2006, Mr. Kuijlaars has been an Independent Director and member of the Board of Directors of JSC National Company KazMunayGas. Mr. Kuijlaars received a Masters Degree in Law from Erasmus University, Rotterdam, The Netherlands. He studied at the Dutch Institute of Banks and Insurance Companies and studied in a number of postgraduate programs in such international institutions as the Fontainebleau (France), Cambridge (UK) and Harvard Business School (USA).

Zhomart Nurabayev, (1971)

Member of the Board of Directors, Representative of JSC Holding Group ALMEX

Mr. Nurabayev was appointed to the Board in December 2012. Between 1993 and 1995, he held various positions in the General Tax Inspection of the Ministry of Finance of the Republic of Kazakhstan. From 1995 to 2000, he was head of division in the Almaty City Tax Committee, Deputy Chairman of the Tax Committee for Zhetysu District, then Almaty District and then Medeu District of Almaty. From November 2000 to May 2003, he was the Chief Financial Officer of LLP TransOil Investments. From May 2003 to September 2005, he was the Chief Financial Officer of JSC Holding Group ALMEX. From September 2005 to July 2007, he was the Chief Financial Officer and member of the Board of JSC Holding Group ALMEX. From August 2007 to November 30, 2012, he was the Deputy CEO of JSC Holding Group ALMEX. Since December 2012, Mr. Nurabayev has been CEO of JSC Holding Group ALMEX and a member of the Board of Directors of JSC Holding Group ALMEX. Mr. Nurabayev is an economics graduate of the Kazakh State Academy of Management and a law graduate of the Kazakh National Pedagogical University.

Christof Ruehl, (1958)

Independent Director

Mr. Ruehl was appointed to the Board in June 2007. He previously worked at the University of California, Los Angeles, where he was an Assistant Professor of Economics. From 1998 to 2005, he worked for the World Bank Group, he was Senior Economist in Washington from 1998 to 2001, Chief Economist in Moscow from 2001 to 2004, and Lead Economist and Sector Leader in Brazil from 2004 to 2005. Since 2005, he had been the Deputy Chief Economist of BP plc and in 2007 he became Group Chief Economist and Vice President of BP plc. In 2008, he became Chairman of the British Institute of Energy Economics, London. He holds an MBA from the University of Bremen, Germany.

Umut Shayakhmetova, (1969)

Member of the Board of Directors, Chief Executive Officer

Ms. Shayakhmetova was elected CEO of Halyk Bank in January 2009 and member of the Board of Directors in April 2009. In 1997, she began working at CJSC ABN AMRO Bank Kazakhstan, where she held a number of positions in structured finance before becoming Chairperson of the Management Board of CJSC ABN AMRO Asset Management in 1998 and, in 2000, Deputy Chairperson of the Management Board of CJSC ABN AMRO Bank Kazakhstan. She has been a Deputy CEO of Halyk Bank since November 2004. Ms. Shayakhmetova is an economics graduate of the University of People's Friendship, Moscow, and holds an MBA from Rutgers University, New Jersey, USA.

MANAGEMENT BOARD

Umut Shayakhmetova
1969

Chief Executive Officer

Biography

Marat Almenov
1976

Deputy CEO: Retail Banking

Biography

Dauren Karabayev
1978

Deputy CEO: International Activities, Treasury and Subsidiaries

Biography

Aliya Karpykova
1970

Deputy CEO:
Finance, Accounting and Property

Biography

Saule Kishkimbayeva
1968

Deputy CEO: Corporate Banking

Biography

Stanislav Kosobokov
1978

Deputy CEO: SME Banking

Biography

Askar Smagulov
1975

Deputy CEO:
Operations and Information Technologies

Biography

Kozhamurat Uskimbayev
1954

Deputy CEO: Security and Problem Loans

Biography

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A company should not take its position in the market for granted. A company should constantly reevaluate.

Bill Gates

KEY EVENTS OF 2013

- In March 2013, A.M. Best Europe – Rating Services Limited, the international rating agency, affirmed the financial strength rating of B++ (Good) and issuer credit rating of bbb of Kazakhinstrakh. The outlook for both ratings is stable.

- In May 2013, the Bank repaid in full one of its Eurobond issues for the outstanding amount of USD 270 million bearing a coupon rate of 7.75% p.a.

- In June 2013, executives of Halyk Bank of Kazakhstan and the administration of East Kazakhstan region took part in the opening of the new building of the regional branch Semey as part of events to celebrate the 90th anniversary of the country's oldest financial institution.

- In July 2013, Halyk Bank announced the resignation of Mr. Kadyrzhan Damitov, Independent Director, from the Bank's Board of Directors, effective 31 July 2013, after he submitted a letter of resignation.

- In September 2013, Halyk Bank and Visa Inc. announced the launch of a new contactless payment service and the issue of contactless payment cards Visa Classic PayWave.

- In September 2013, an Extraordinary General Shareholders Meeting elected Mr. A.G. Dunaev as an independent director.

- In October 2013, in commemoration of the 68th anniversary of Temirtau, Halyk Bank presented a new office in the personal service centre (PSC), which is conveniently situated in the centre of the city of metallurgists. Representatives of the city administration (Akimat), the management of Halyk Bank and JSC ArcelorMittal Temirtau, as well as residents and guests of Temirtau, took part in the solemn ceremony.

- In October 2013, JSC Halyk Bank Georgia opened the new Didube branch in the district of Tbilisi with the same name, in the shopping centre located at 8 Tsabadze St.

- In October 2013, the Bank made the scheduled repayment of another Eurobond issue for the outstanding amount of USD 490.5 million bearing a coupon rate of 9.25% p.a.

- Subsidiary of Halyk Bank of Kazakhstan JSC Halyk Finance (Halyk Finance) acted as a Joint Lead Manager and Book-runner for the debut Eurobond issue by JSC Kazakhstan Engineering National Company.

- As part of events to celebrate its 90th anniversary, the Bank reopened the PSC in Zhanaozen after its renovation. Businessmen, members of the city administration (Akimat) and executives of the Bank's regional branch, residents and guests of the city took part in the opening ceremony.

Awards

- In January 2013, Halyk Bank was named the winner in the "Best Foreign Exchange Provider Kazakhstan 2013" nomination by international magazine *Global Finance* for the third year in a row.

- In January 2013, Expert RA Kazakhstan Rating Agency upgraded Kazakhinstrakh insurance company's reliability rating to A++ "Exclusively high reliability rating." Previously, the company had the rating at A+ "Very high reliability rating."

- In February 2013, *Euromoney*, an international magazine, reported that Halyk Bank had received an award in the annual "Private Banking and Wealth Management Survey" contest for 2013 in the category "High Net Worth II" for Kazakhstan.

- In March 2013, Halyk Finance won four prestigious 2012 Achievement Awards from *EMEA Finance*, an international magazine:

  – Most Innovative Bond;

  – Best MYR Sukuk;

  – Best IPO in CEE;

  – Best Depositary Receipt Program.

- In March 2013, the Kazakhstan Financial Forum, an annual conference organized by Cbonds Information Agency (Russia), presented the prestigious Cbonds AWARDS-2012, for which Kazakhstan's financial market leaders have been nominated yearly. The winners were selected through an independent survey of market participants. Based on Cbonds' independent survey, Halyk Finance won four top awards:

  – Best DCM Team in Kazakhstan Bond Market;

  – Best Eurobond Primary Placement – for the issue and placement of Eurobonds by JSC Development Bank of Kazakhstan;

  – Best Bond Primary Placement – for work on Eurasian Development Bank's debut KZT bond issue under the Eurasian Development Bank's debut KZT bond program;

  – Best Macroeconomics & Fixed Income Research.

- In April 2013, the companies of Halyk Group received the most awards from JSC Kazakhstan Stock Exchange (KASE) in various nominations based on results from 2012:

  – Halyk Bank received a KASE diploma "For aspiring to transparency" in the group "Listed companies of the economy's financial sector" as the leader of Kazakhstan's leading financial group, enjoying a deserved reputation among international investors and experts, and as a company building its business on transparency;

  – a golden diploma in the category "Leader of the repo transaction market" was awarded to a subsidiary of Halyk Bank – Halyk Pension Fund;

  – a silver diploma in the category "Leader of the repo transaction market" was awarded to Halyk Bank;

  – Halyk Finance received the top award in the category "Leading financial consultant" for the third year in a row.

- In April 2013, based on custom research on 500 banking brands of the world conducted by the international consulting firm Brand Finance, Halyk Bank (brand Halyk) occupying 334th place (out of 500) had the highest brand value among Kazakhstan's banks. The value of Halyk brand this year was worth USD 266 million.

- In April 2013, Halyk Bank won the "Best Bank in Kazakhstan" nomination the fifth year in a row and Halyk Finance won the "Best Investment Bank in Kazakhstan" nomination for the 3rd consecutive year in the Europe Banking Awards 2012 selection by EMEA Finance, an esteemed international magazine.

- In May 2013, Halyk Finance won two prestigious awards from *The Banker*, a respected international magazine:

  – the first "The Banker Deals of the Year 2013" award was received in the category "Asia-Pacific region: bonds of sovereign and supranational companies and agencies" for the indirect exchange of Eurobonds issued by JSC Development Bank of Kazakhstan (DBK) for USD 500 million and the issue of DBK's new 10-year benchmark Eurobonds for USD 1 billion in December 2012. Halyk Finance's role in this transaction was Joint Lead Manager and Book-runner for the issue of DBK's new Eurobonds and Joint Dealer Manager for the indirect purchase of DBK's old Eurobonds;

  – the second "The Banker Deals of the Year 2013" award was received in the category "Asia-Pacific region: Islamic finance" for the debut issue of 5-year Islamic bonds "Sukuk "Al-Murabaha" for 240 million Malaysian ringgits in August 2012, where Halyk Finance acted as a Joint Lead Manager and Book-runner.

- In May 2013, Halyk Bank was among the winners of the Investment Angel award in the category "fastest-growing Kazakhstan and foreign banks." The awards ceremony was held in the capital of Kazakhstan during the VI Astana Economic Forum.

- In July 2013, Halyk Finance reported that it had topped the Cbonds agency's ranking of Kazakhstan's Eurobond book-runners in the results from the first half of 2013.

- In September 2013, Halyk Bank became the leader among Kazakhstan's second-tier banks in the ranking "TOP 1000 WORLD BANKS 2013" of *The Banker*, a respected international magazine.

- In October 2013, Halyk Bank was the only company in Kazakhstan's financial sector that was included in the rating of the 300 largest companies of Europe, Middle East and Africa – EMEA-300 2013, by *EMEA Finance*, a respected international magazine.

- In November 2013, the managers and employees of Halyk Bank received an award from the executives of the National Bank of the Republic of Kazakhstan and the Association of Financiers of Kazakhstan in honor of the 20th anniversary of the introduction of the national currency.

- In December 2013, Halyk Bank won the third annual reports contest organized by Expert RA Kazakhstan rating agency in the category "Best annual report in the financial sector."

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Success in business requires training and discipline and hard work. But if you're not frightened by these things, the opportunities are just as great today as they ever were.

David Rockefeller

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR OF THE REPUBLIC OF KAZAKHSTAN

Economy of Kazakhstan

Economic growth in Kazakhstan accelerated from 5.0% in 2012 to 6.0% in 2013 despite stagnating terms of trade. The growth was driven mainly by the service sector and domestic consumption and less by oil production and agriculture. Elevated consumer demand and government support for investments more than offset the shrinking of the external demand and the tightening of fiscal policy. Despite slow growth of real incomes, consumer demand remained strong, buoyed by a boom in consumer lending. Investments growth was mainly represented by infrastructure projects financed or guaranteed by the public sector. Private investments continued to decelerate.

Already disciplined, fiscal policy began to tighten further. The budget deficit at KZT 701 billion (2.1% of GDP) turned out to be less than the planned KZT 791 billion. A more consolidated measure of the public sector balances (that is, including the National Fund), was in surplus, estimated at 3.8% of GDP, and slightly less than the surplus of 4.9% of GDP in 2012.

Not surprisingly, headline inflation declined from 6.0% in 2012 to an historic low of 4.8% in 2013. The decrease in inflation, in addition to fiscal factors, was also a result of a sharp monetary tightening. Unlike the fiscal tightening, the monetary contraction was not entirely discretionary. During the second half of the year the monetary authorities were defending the heavily managed float by interventions, which resulted in extremely high and volatile interest rates in the money market. The macroeconomic policies affected primarily the goods inflation. Inflation of services, especially of regulated utilities, remained much higher than the consumer price index, but the regulated utility tariffs still remain below the economic costs.

In February 2014, the NBK devalued the Tenge by 20%, from 156 to 185 KZT/USD, with a much narrower band of plus-or-minus 3 KZT/USD. The devaluation dictated that we revised our forecasts for 2014. While we maintain that real GDP growth will remain at 5.0%, we raise a nominal GDP projection to a growth rate of 17%, consumer inflation to 10-14%, significantly lower expectations for the volatility of money market rates, and anticipate a moderate reduction in the interest rates for public borrowing (1 percentage point across the entire curve).

We expect CPI inflation to pick-up post devaluation. In 2014 the main effect will be from a pass-through. In goods inflation a pass-through is likely to be quick and strong, especially in the consumer durables, which are almost entirely imported. The government is likely to control inflation of regulated tariffs in order to offset the uncontrollable pass-through into goods inflation. As a result, the services inflation in 2014 will be below the goods inflation. Another, longer term effect of the devaluation on inflation will come from lower interest rates. Inflation will receive help from the 10% increase in public sector wages announced by the government soon after the devaluation. We expect that the devaluation will have a largely neutral impact on our GDP growth and positive impact on the trade and current balance in 2014-2015. The effect of the improved competitiveness on the production and exports will be limited because of the low elasticity of the commodity sectors with respect to the cost of labor and partly offset by the lower-than-otherwise fiscal stimulus. The devaluation will curb the imports, supporting the non-resource domestic SMEs such as in agriculture and food processing, but because of the wage inflation the effect will be minor and temporary. On the other hand, the intensifying calls for price controls

Fig. 1. GDP growth, year-on-year

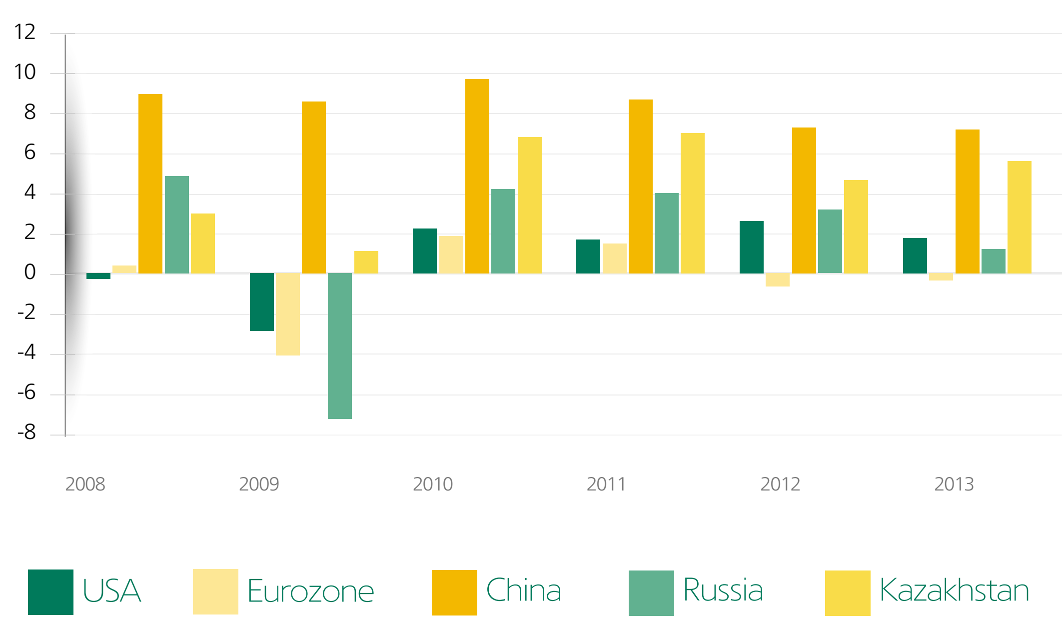
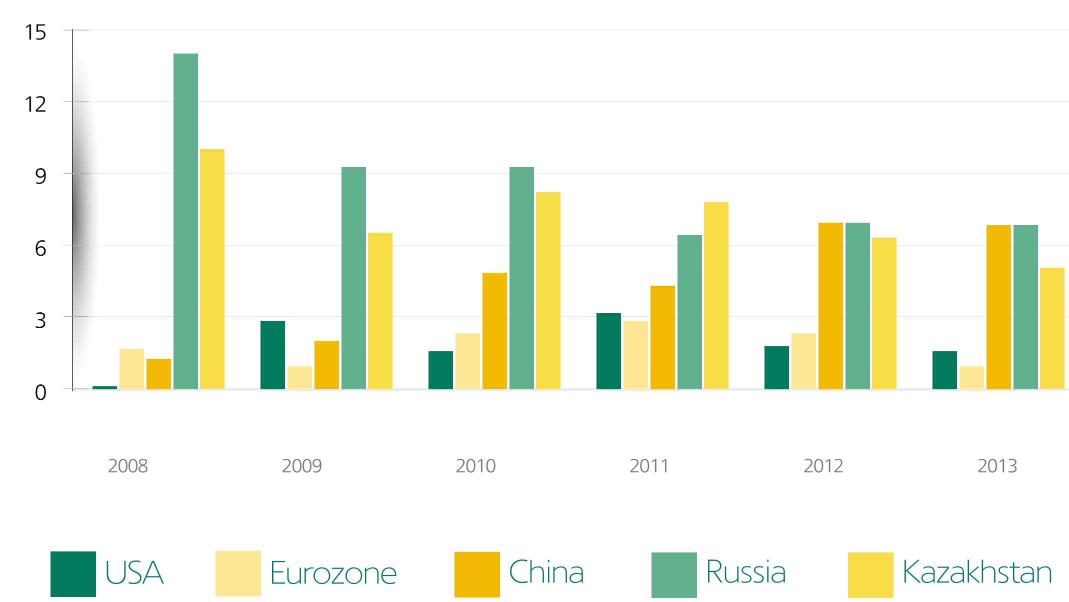


Fig. 2. Inflation, % p.a. at the end of the period



and "social responsibility of the businesses" are likely to weigh down on the returns of both SMEs and large exporters.

Consumer demand by households is expected to slow down because of slower real income and consumer lending growth, the latter being affected by the rising credit risks as the market nears saturation and more restrictive new prudential regulations.

Investment demand will be supported by the public sector, from the government of Kazakhstan to the state-owned enterprises and public-private schemes, involving the international development institutions. With the unification of pension funds, the SAPF, managed by the National Bank, may become a major source of financing for the infrastructure projects. Russian and Chinese quasi-sovereigns with a strategic interest in Kazakhstan, are also likely to finance investments in resources infrastructure.

Investment climate

The government plans to make Kazakhstan to achieve status of the top 30 most competitive nations. The quality of government services continues to improve, petty corruption is down, but the progress as measured by the broader competitiveness indicators remains slow. Strong fiscal position remains the macroeconomic foundation for the investors' confidence in Kazakhstan. Government's foreign assets outpaced the growth of the foreign debt and the ratio of public debt to GDP at the level of 12% is one of the lowest in the world.

Fig. 3. Public debt, % of GDP

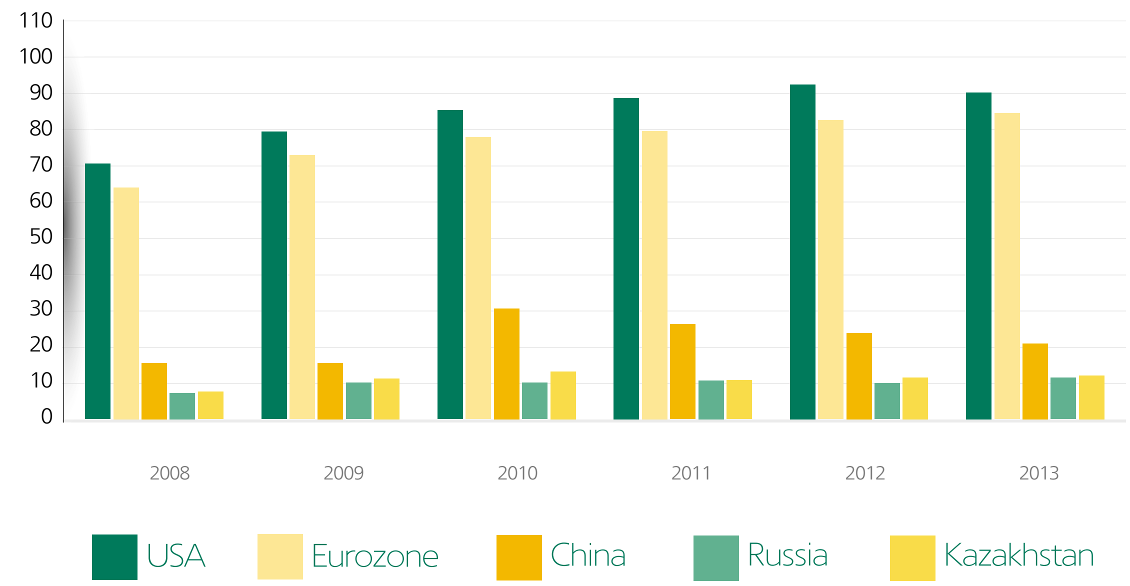
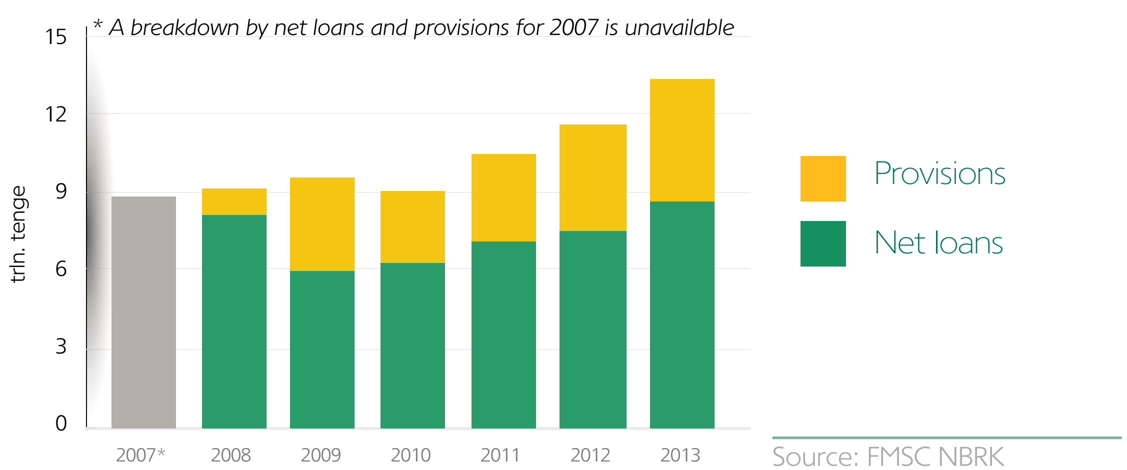


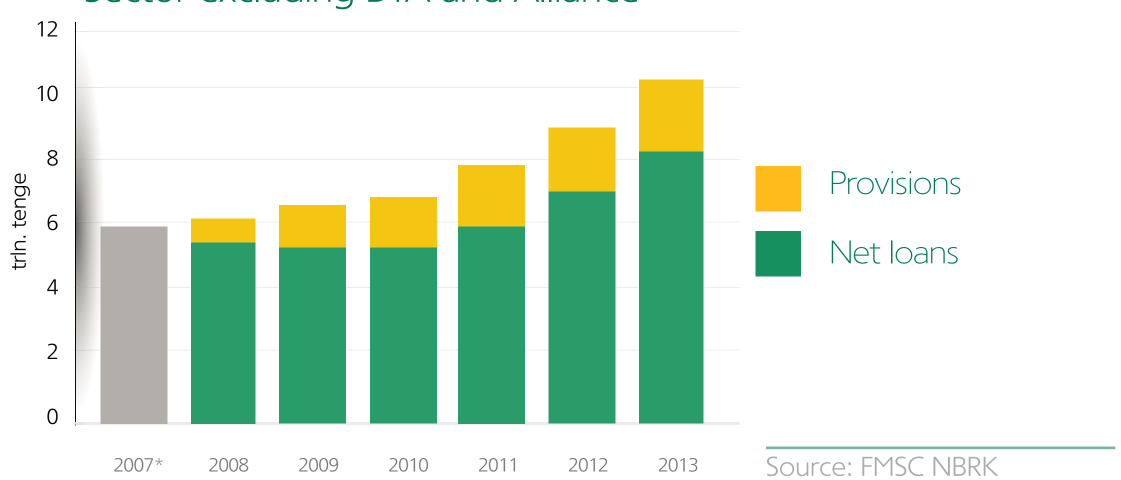
Fig. 4. Gross loans portfolio: breakdown of provisions and net loans*:

Sector



Source: FMSC NBRK

Sector excluding BTA and Alliance



Source: FMSC NBRK

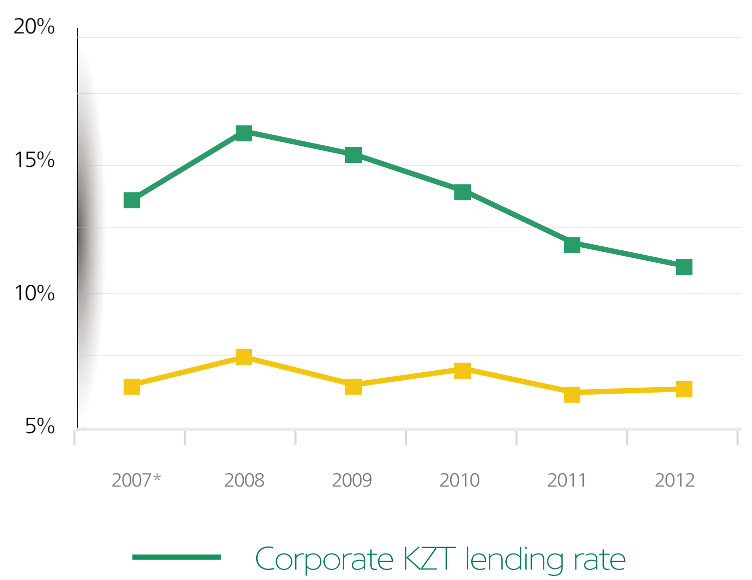
Loans

Loans slowed down in 2013. Unsecured consumer lending was the main driver of credit growth, and of its slowdown. Unsecured consumer loans were expanding at the rate of 40% per year in 2013, but began to slow down in the second half of the year. The growth of corporate loans remained modest at 10% per year.

We expect a further slowdown in consumer lending in 2014 due to higher risks as the market nears saturation and real incomes stagnate and because of newly introduced restrictive regulation for consumer lending.

The returns on capital continued to rise thanks to the stabilization of asset quality at larger banks and the rapid expansion of highly profitable consumer lenders. Unification of pension funds reduced the steady flow of fee and commission income. The average return on equity for the sector, excluding BTA and Alliance Bank, rose to 13.1% in 2013 from 8.6% in 2012 and 3.5% in 2011. The leaders of consumer lending demonstrate the return on equity of 20-45% for the last three years and the relatively good asset quality.

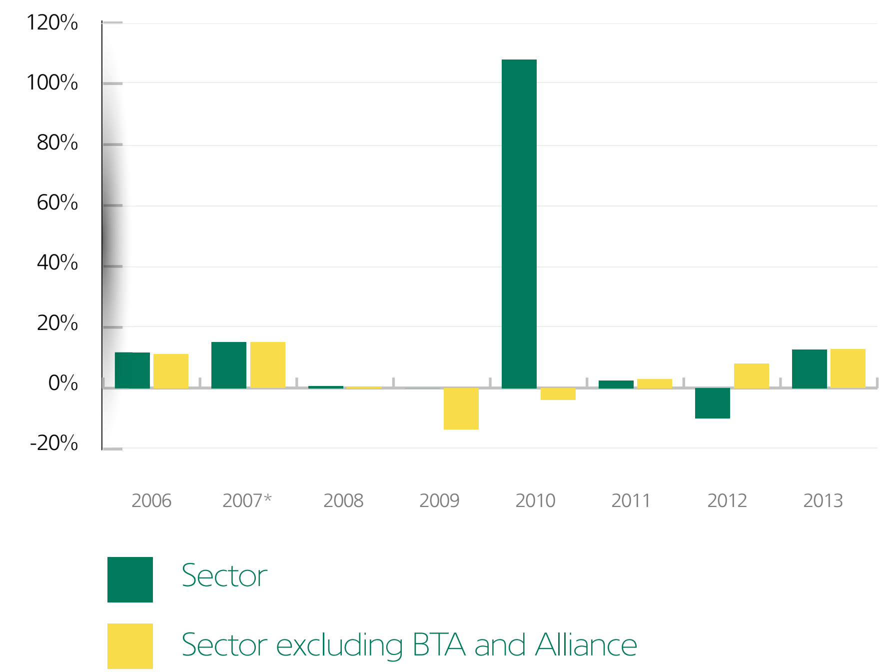
Fig. 5. Average annual rates on corporate loans and household deposits



Source: FMSC NBRK

Fig. 6. Return on equity of the banking sector and the banking sector excluding BTA and Alliance*

*ROE of sector for 2009 is unavailable, because capital of sector was negative



Source: FMSC NBRK

Quality of assets

Asset quality has stabilized. The regulatory steps to clean up balance sheets of bad loans proved ineffectual due to a number of legal, judicial and tax administration constraints that hamper the claiming and the restructuring of creditor rights. The National Bank set the schedule to lower the non-performing loans from 31% in 2013 to 10% of gross loans in 2016. The requirement is likely to be met, by banks transferring the non-performing loans from the regulated balances to the 'bad bank' subsidiaries.

The devaluation is likely to have a minor impact on the quality of foreign currency denominated loans and loans secured by real assets. The quality of loans denominated in Tenge may somewhat improve. The government plans to use KZT 1 trillion from the National Fund to improve bank asset quality, including purchasing bad loans from the banks.

Funding

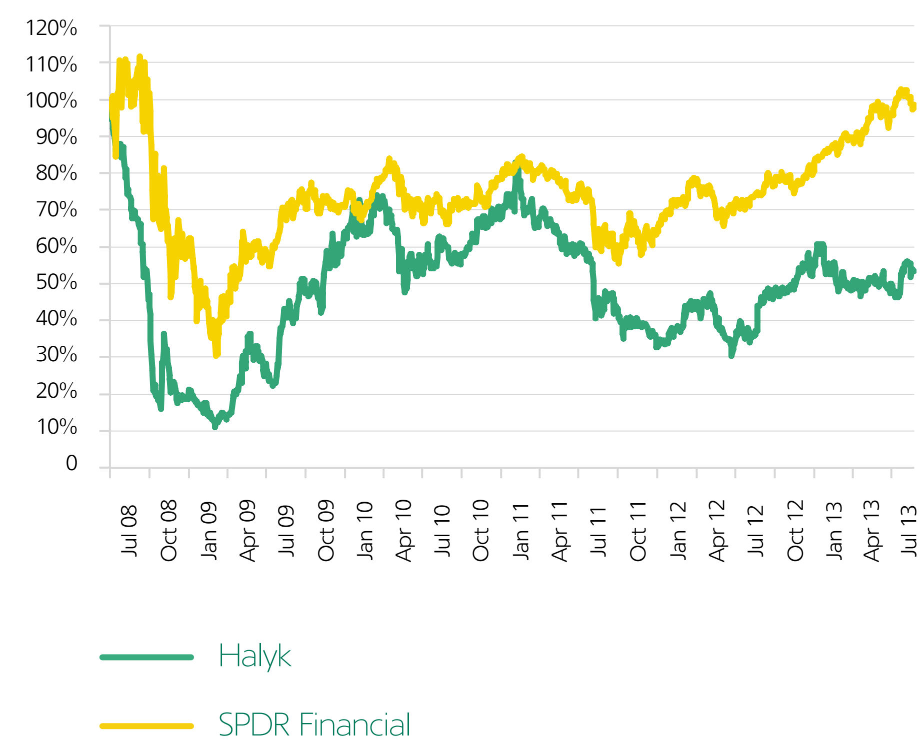
Funding problems manifest in the absence of long-term market-based funding available for banks. The National Bank concerned with maintaining the exchange rate is unable to perform the function of the lender of last resort, which results in high and highly volatile interest rates during the periods of exchange rate misalignment. External funding is limited by the regulatory requirements and the high cost of hedging the foreign currency risk. The costs of maturity transformation become prohibitively high because of high interest rate volatility and the permanently high risk of refinancing in the absence of the lender of last resort. Deposits remain too risky and expensive as a source. The February devaluation eliminated the exchange rate pressure on Tenge and allowed for much lower interest rates, but did not resolve the problem of long-term Tenge-denominated funding. In order to establish a more stable and predictable interest rate environment, the monetary policy may need a radical departure from the regime of managed exchange rate. After the devaluation, the President instructed the National Bank to develop a plan to transition to the inflation targeting framework. The implementation of this plan may require a greater degree of the National Bank's operational independence. Meanwhile, the Government may attempt to channel the long-term funding by non-market methods, for example, allocating the funds of the National Fund or the SAPF for infrastructure projects, either directly or through banks.

Indicators of the banking sector of Kazakhstan

Fig. 7. External debt and deposits of the banking sector

Source: FMSC NBRK

Fig. 8. Halyk Bank's share price performance and in relation to the index of financial shares SPDR



Source: Bloomberg

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Money should not sit around.

A.V. Suvorov

FINANCIAL REVIEW

Consolidated statements of profit or loss

Interest income increased by 13.4% for 12m 2013 vs. 12m 2012 mainly due to an increase in average balances of loans to customers by 17.8%, partially offset by a decrease in average interest rates on loans to customers to 11.7% p.a. for 12m 2013 vs. 12.1% p.a. for 12m 2012. Interest expense increased by 8.6% for 12m 2013 vs. 12m 2012 mainly due to higher interest rates offered by the Bank to its customers on KZT deposits, as well as an increase in average balances of term deposits. As a result, net interest income before impairment charge increased by 17.1% to KZT 106.6bn for 12m 2013 vs. 12m 2012.

Impairment charge increased by 69.4% for 12m 2013 vs. 12m 2012, mainly due to a growing loan portfolio during 12m 2013 as well as aging of non-performing loans. Allowances for loan impairment remained flat at 17.9% of the gross loan portfolio as at 31 December 2013.

Fee and commission income from transactional banking (i.e. excluding pension fund and asset management) increased by 19.1% for 12m 2013 vs. 12m 2012 as a result of growing volumes of transactional banking business.

Net pension fund and asset management fees decreased by 40.1% for 12m 2013 vs. 12m 2012 due to a 67.7% decrease in performance fees, partially offset by a 14.7% increase in asset management fees. Performance fees decreased mainly due to a decrease in market value of gold and certain Kazakhstan securities, as well as ongoing changes in the pension system, investment restrictions imposed by the National Bank of Kazakhstan and a higher share of cash in the investment portfolio of Halyk Pension Fund as a result of such restrictions. Asset management fees increased as a result of growing size of assets under management.

Other non-interest income (excluding insurance) decreased by 4.3% for 12m 2013 vs. 12m 2012 mainly as a result of a 39.4% decrease in other income due to one-time dividends received on investment securities in 2012 and was partially offset by a 15.9% increase in net realized gain from available-for-sale investment securities. Income from trading and asset and liability management operations which comprise net gain from financial assets and liabilities through profit or loss and net gain on foreign exchange operations increased to KZT 9.5bn for 12m 2013 vs. KZT 9.2bn for 12m 2012.

Insurance underwriting income less insurance claims incurred, net of reinsurance, increased by 8.9% for 12m 2013 vs. 12m 2012 mainly as a result of a 9.3% increase in insurance underwriting income due to the growing volume of general and life-insurance business, partially offset by a 2.6 times increase in insurance reserves due to the larger portion of contract amount retained by the life insurance company for future pension payments under pension annuity contracts in 1Q 2013 and 2Q 2013.

Operating expenses increased by 5.8% for 12m 2013 vs. 12m 2012 mainly due to a 5.7% increase in salaries and other employee benefits. The increase in salaries and other employee benefits was a result of adjustment in salaries of employees of the Bank and its subsidiaries starting from 1 January 2013, as well as bonus payments and extra staff hiring in some of the Bank's subsidiaries.

The Bank's cost-to-income ratio decreased to 31.4% for 12m 2013 vs. 34.4% for 12m 2012 and to 30.3% for 4Q 2013 vs. 36.5% for 4Q 2012 mainly as a result of income growing faster than operating expenses.

Consolidated Statements of Financial Position

Total assets increased by 4.1% vs. YE 2012 mainly as a result of 12.4% growth in the loan portfolio.

Loans to customers grew by 2.8% on a gross and net basis vs. 30 September 2013. Gross loan portfolio growth was attributable to increase in loans across all types of businesses: corporate loans by 1.6%, SME loans by 11.4%, consumer loans by 1.1% and mortgage loans by 1.9%.

30-day and 90-day NPL ratios decreased to 18.2% and 18.0%, respectively, as at 31 December 2013 vs.17.5% and 17.0% respectively, as at 31 December 2012. The decrease in 30-day and 90-day NPL ratios was mainly a result of an increase in the Bank's loan portfolio as well as restructuring and repayment of a number of problem loans. The Bank created IFRS provisions that covered 30-day NPLs by 96.6% and 90-day NPLs by 97.8% as at 31 December 2013.

Term deposits of legal entities increased by 38.7% vs.YE 2012 mainly as a result of an inflow of new FX deposits in the last three quarters of 2013.

Current accounts of legal entities decreased by 33.8% vs. YE 2012 as a result of the partial withdrawal of funds by some of the Bank's corporate clients to finance their on-going business needs, as well as the partial transfer of funds to interest-bearing deposits held with the Bank.

Time deposits of individuals and current accounts of individuals increased by 18.6% and 10.0%, respectively, vs.YE 2012 due to growing volumes of retail banking business.

Debt securities issued decreased by 37.2% vs. YE 2012. On 13 May 2013, the Bank repaid in full one of its Eurobond issues for the outstanding amount of USD 270mln bearing a coupon rate of 7.75% p.a. On 16 October 2013, the Bank made scheduled repayment of another Eurobond issue for the outstanding amount of USD 490.5mln bearing a coupon rate of 9.25%. Repayments of both Eurobond issues were made out of the Bank's own funds utilising the existing liquidity on its balance sheet.

The Bank's debt securities issued mainly consist of two outstanding Eurobond issues for USD 700mln and USD 500mln with bullet maturity in May 2017 and January 2021, respectively, each bearing a coupon rate of 7.25%.

Total equity increased by 15.5% vs. YE 2012 mainly on the back of net profit earned during 12m 2013, partially offset by payment of dividends of KZT 12.2bn to common shareholders and dividends of KZT 2.2bn to preferred shareholders.

Regulatory Tier 1 capital adequacy ratios k1-1 and k1-2 and total capital adequacy ratio k2 were at 9.5%, 11.2% and 18.2%, respectively and 8.4%, 10.2% and 15.4%, respectively, as at 31 December 2012. Basel Tier 1 capital adequacy ratio and total capital adequacy ratio were at 17.2% and 18.5%, respectively, as at 31 December 2013 vs. 16.2% and 18.3%, respectively, as at 31 December 2012.

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Always remember that your decision to be a success is more important than anything else.

Abraham Lincoln

BUSINESS REVIEW

The Bank's core business is focused on retail, corporate and SME banking. Through subsidiary companies, the Bank's services also include pension fund operations, insurance, leasing, asset management and brokerage services.

Retail banking

Retail deposits

The Bank continues to hold leading positions on the market of retail deposits.

In 2013, the market of deposits issued by second-tier banks increased by 15.7% (+ KZT 536 billion), and the number of deposits issued by the Bank grew by 16.5% (+ KZT 116 billion). The Bank remains the leader in absolute growth of retail deposit portfolio among second-tier banks. The Bank's share in deposits issued by second-tier banks is 20.3% (KZT 800 billion), while the Bank's share in tern deposits and current deposits amounts to 18.6% (KZT 635 billion) and 33%, respectively.

At the end of 2013, the Bank signed an agreement on participation in the State Educational Accumulative System with JSC Financial Centre. In accordance with this agreement, the Bank launched a new deposit product called 'Obrazovatelny Deposit' ('Deposit for Education').

In 2013, the Bank provided its customers who receive a salary or pension in the Bank an extra bonus of +0.3% under the Bank's loyalty program when opening any deposit.

Retail lending

As per the results of 2013, the Bank's share of the retail lending market was 13.2% (KZT 400 billion).

In 2013, the retail loan portfolio grew by 21.6% (+ KZT 71 billion).

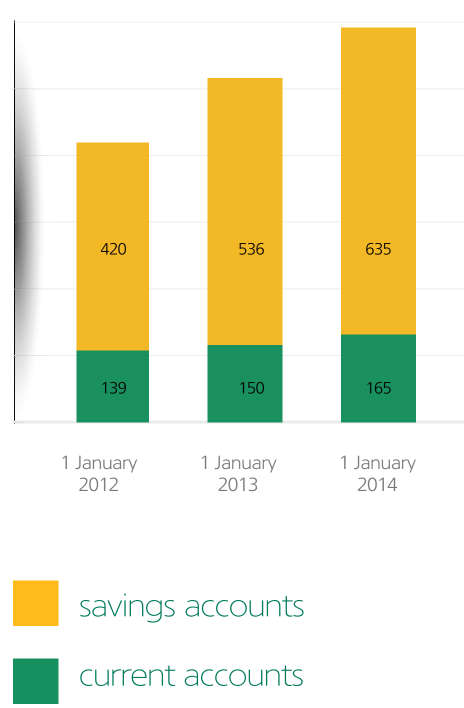
In 2013, the Bank's lending increased by KZT 70.7 billion (42.4%). The total amount of loans provided was KZT 237 billion.

The ratio of non performing loans for more than 60 days decreased by 3.5% to 14.4%.

In 2013, the Bank launched a system for making preliminary decisions for underwriting of mortgages and unsecured loans.

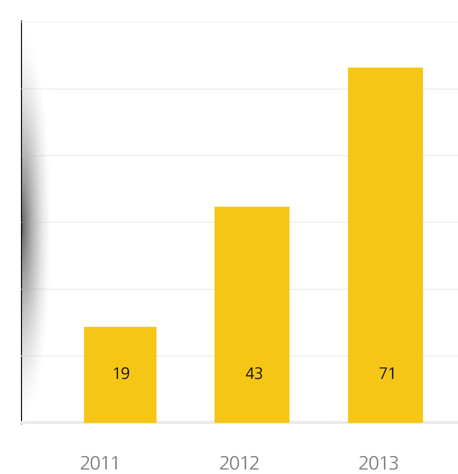
A program to refinance mortgages and secured loans (with an interest rate of 11.5%) is still in effect in the Bank.

Deposits*, KZT billion



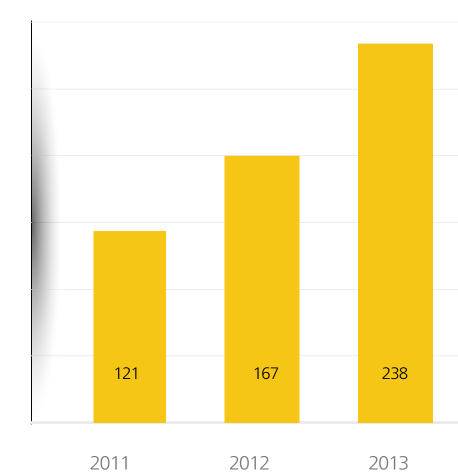
* unconsolidated, Halyk Bank only

Loan growth*, KZT billion



* unconsolidated, Halyk Bank only

Volume of issuance credits, KZT billion



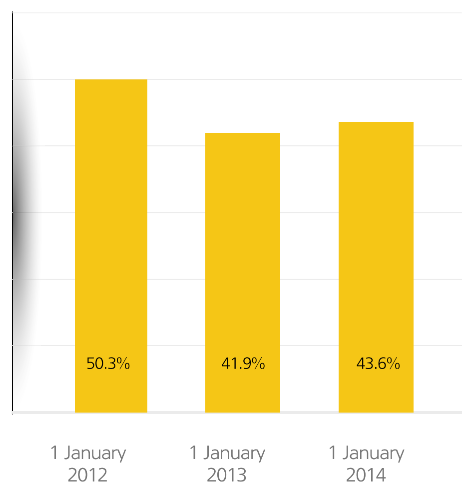
* unconsolidated, Halyk Bank only

Payment cards

As of 1 January 2014, the Bank remained the absolute leader on the banking services market by payment card services in Kazakhstan. As of 1 January 2014, the number of active payment cards issued by second-tier banks was 6.9 million cards. The Bank's market share was 43.6% (over 3 million cards).

The Bank continues to cooperate with three international payment card systems – VISA International, MasterCard Worldwide and UnionPay International. In addition, the Bank has Altyn, its own local card.

Market share of the Bank



* unconsolidated, Halyk Bank only

One of the main strategic services of the Bank is payroll projects. The Bank holds leading positions by number of clients who receive their salary on the Bank's cards. In total, 2.4 million employees of 22,000 companies receive salaries on Halyk Bank's payment cards. The total amount of payroll was KZT 2 trillion (+11%).

To ensure good customer service, the Bank is expanding its payment card network (ATMs, POS terminals, multikiosks) and developing services related to payment cards. In particular, in 2013, the Bank bought 8,800 stationary POS terminals. In addition, the Bank purchased 155 ATMs (+53).

In September, the Bank, in partnership with the Russian company Pay-me, launched a new product, mobile payment terminals, for the first time in Kazakhstan. A mobile POS terminal is a cost-effective and easy-to-use alternative to existing POS terminals that makes it possible to use both chip cards and cards with a magnetic stripe using a smartphone or pad.

In total, the Bank sold about 4,000 devices and connected about 1,500 devices to the Bank's acquiring system.

The Bank still has the country's largest network of self-service devices. As of 1 January 2014, the number of ATMs and payment kiosks was 2,034 and 734, respectively; the number of POS-terminals in sales outlets and points of sale of various goods and services exceeded 9,000. As of 1 January 2014, the share of Halyk Bank in the total number of banking kiosks, POS terminals and ATMs amounted to 18.4%, 24.1% and 22.7%, respectively.

Moreover, in 2013, the Bank, along with LLP KaR-Tel (Beeline Kazakhstan), launched Magic Card, a new co-branded credit card based on the Visa international payment system. This card has a number of advantages. By purchasing a Magic Card, customers will not only be able to use the loan for up to 50 days without interest at points of sale and service, but also to choose one of the bonus packages. By paying for goods or services with a Magic Card in partner companies of Halyk Bonus Club, a holder receives bonuses in percent of the purchase price, which are then credited to the card. A customer can top up any Beeline subscriber's account using accumulated bonuses.

In September, the Bank launched a new card product – the Visa payWave contactless payment card. Halyk Bank's contactless payment cards enable cardholders to make payments for goods and services in trade and service enterprises in a matter of seconds without the traditional contact with a POS-terminal.

Payments

The Bank has long experience in accepting tax, utility bills and other payments from individuals, and it systematically develops IT, telecommunications, terminals and software products. The number of payments is increasing annually. The number of payments increased by 2.8 million operations, i.e., 11.5%, in 2013 compared to 2012 and amounted to 27.8 million payments. The amount of payments increased by KZT 33.7 billion (i.e., 22.4%) in 2013 compared to 2012. The average monthly volume was KZT 15.3 billion.

Social payments

The Bank, being the one of the main pension payment operators in Kazakhstan since 1996, services more than 1.4 million pensioners and benefit recipients. The Bank's share by volume of all payments in Kazakhstan is 54.2%, of which 72% receive pensions and benefits via the Bank's payment cards.

Remote services to individuals

In 2013, the Bank achieved significant success in the development of remote sales channels. In October 2013, the Bank updated its Internet banking system for individuals, which made it possible to increase the number of the system users to 194,725, by more than 180%. For the first time in Kazakhstan, the instant issue of a non-plastic virtual card for online payments in the above-mentioned system was possible. The list of service providers in whose favor it is possible to make a payment via remote channels was expanded to 659, i.e., their number more than doubled. Users of Internet banking made over 1.368 million payments and transfers in 2013. In addition, the Bank's customers got an opportunity to subscribe for Internet banking via ATMs.

In the spring of 2013, the list of service providers available in a mobile application/midlet called 'Halykbank' was expanded; over 50 service providers were connected. In August 2013, it became possible to activate the mobile application/midlet Halykbank in ATMs, and the connection service for the Mobile Banking system was modernized. The number of individuals using Mobile Banking increased by 47% compared to 2012 and amounted to 887,115. Of those, 497,251 are active users.

In 2013, payment kiosks (devices to accept cash payments) were commissioned in the following regions: Astana, Karaganda, Taraz, Shymkent, Ust-Kamenogorsk, Kyzylorda. At the end of the year, the number of payment kiosks amounted to 80. The number of service providers in whose favor one can make a payment increased every month. Now it is possible to pay taxes on vehicles and fines to the traffic police in the online mode via payment kiosks and cash offices in Almaty.

In June, the Bank launched a project named the 'Astana–Shchuchinsk Toll Road.' Stationary kiosks accept payment cards, including contactless ones.

In December, the Bank implemented the first stage of functionality of a specialized solution for ATMs (in terms of transactions made using cards) that enables customers to see all their Bank accounts on ATMs.

Halyk Bonus Club

We continue our work on the development of the Halyk Bonus Club. This program enables holders of the Bank's cards to receive bonuses by paying with a card, and then to use the bonuses accrued to pay for goods/services in the network of trade and service enterprises that are club partners. Currently, the number of sales outlets belonging to Halyk Bonus Club partners amounts to 2,131.

Call centre

The number of calls accepted in the Call Centre increased by 33% vs. the previous year (in total, 3.2 million calls). The number of incoming calls processed by the self-service IVR system increased by 77% and amounted to 34% of total incoming calls. In 2013, the Bank replaced the Call Centre's system and switched to an industrial platform based on Cisco. This makes it possible to further service the growing number of calls to a high standard and to provide new services to customers by phone.

Halyk Bank provides services involving online payments in favor of Bank customers, suppliers of goods and service providers. The average monthly amount of transactions made in favor of such customers using payment cards of international and local payment systems amounted to KZT 430 million; the number of companies connected to this service was 93 at YE 2013.

SME banking

The Bank's SME banking operations include lending, transactional banking services, leasing, insurance, credit cards and trade finance. Although the Bank does not treat its SME business as a separate segment for accounting purposes, the SME business is supervised by a separate dedicated department in the Bank – SME Sales Department.

As of 1 January 2014, the number of the Bank's SME clients was 62,055 entities, including 7,397 borrowers; the number of SME loans was 18,798. The number of SME clients's accounts that generate income[1] is 53,114, including clients that use the Bank's products:

- more than one product – 13,231 clients
- 2 products – 11,255 clients
- at least 3 products – 1,976 clients

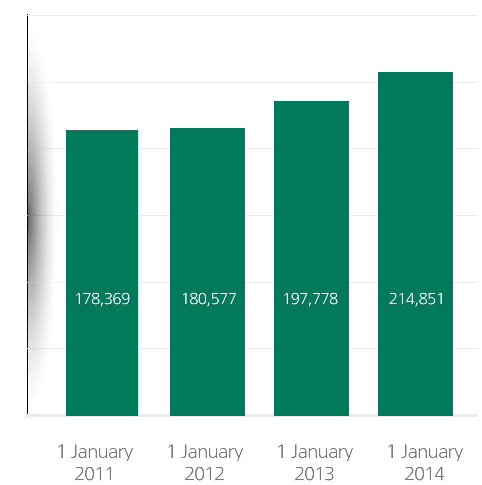
SME lending is characterized by the following trends:

- For medium business, the loan portfolio grew by over 15% vs. the actual indicator of 2012
- For small business, the amount of loans provided for needs of small business entities is gradually increasing every month; the amount of loans granted in 2013 is approximately KZT 22.6 billion, which is 35.5% higher than the amount of loans granted in 2012 (KZT 16.7 billion).
- In general, the portfolio of loans provided to SMEs increased by 8.6% compared to the previous year.

In general, SME lending is characterized by an increase in the amount and number of loans provided during 2013:

- the amount of loans provided increased by 10.4%
- the number of loans provided increased by 8.6%

SME loan portfolio dynamics, KZT mln

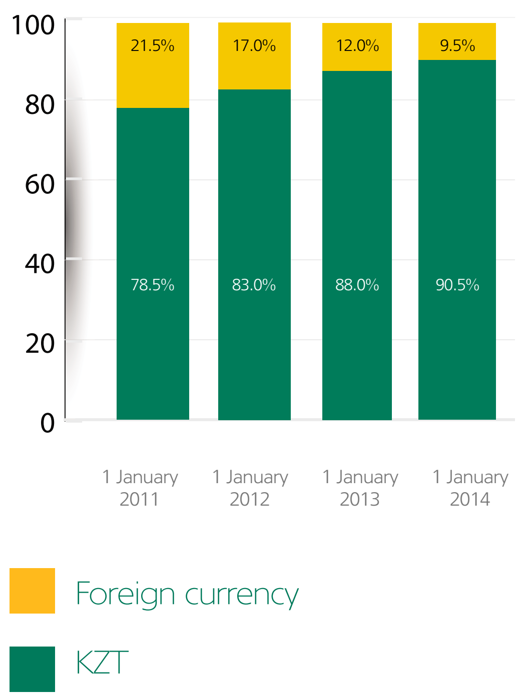


* unconsolidated, Halyk Bank only

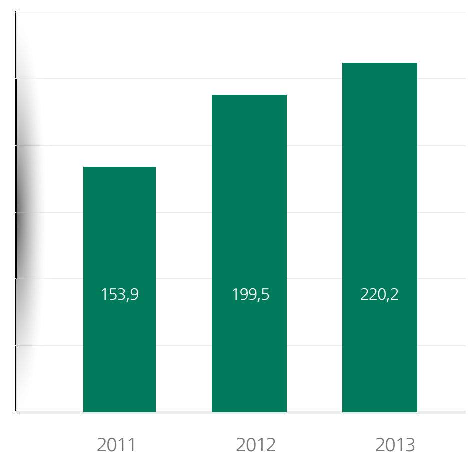
[1] Income from cash settlement services, lending, payroll projects, acquiring, corporate cards

The structure of the SME loan portfolio as of 1 January 2014 is as follows:

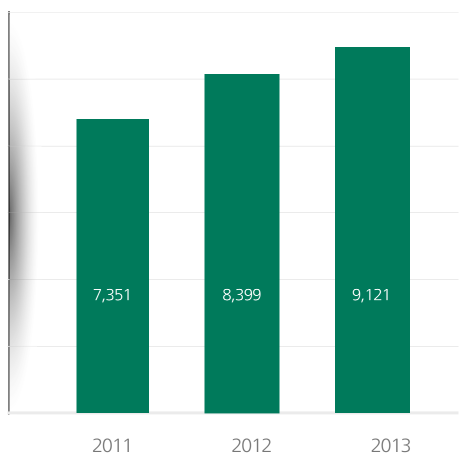
Structure of loan portfolio by currencies*



SME lending dynamics*, KZT bn



Number of SME loans issued*, loans



The Bank continues to participate in governmental programs to support entrepreneurship in Kazakhstan.

Under the Business Road Map 2020 program, the Bank's authorized body approved applications from 563 SME for KZT 75,751 billion. The number of subsidy contracts signed by all the parties (the Bank, the Client and the Fund) was 395.

Based on the results of 2013, JSC DAMU Entrepreneurship Development Fund recognized Halyk Bank of Kazakhstan as Best Bank in two categories: for achieving outstanding success in the implementation of subsidy programs and loan guarantees.

Halyk Bank is a leading bank in the amount of the subsidies approved for participation in the state Business Road Map 2020 program. The Bank accounts above 13%, or more than KZT 7 billion of the mentioned subsidies.

In general, the structure of subsidized projects includes the manufacturing, transport and storage industries most of all, and agricultural projects as well.

Halyk Bank is among the leaders in number of projects and the loan portfolio admitted by the Bank for consideration and approved by the Ministry of Economic Development under the Business Road Map 2020 program.

In 2013, medium and small business enterprises participated in the following government programs as part of initiatives to implement the Kazakhstan Government's Plan of Action Aimed at Supporting Private Business:

1. the 'Damu-Ondiris' private business support program for entities in the manufacturing sector
2. the Program for the Development of One-Company Towns for 2012-2020
3. the program for reasonable placement of funds in second-tier banks and other financial institutions to further provide loans to private enterprises based in Zhanaozen, Mangistau region
4. the Ministry of Agriculture of the Republic of Kazakhstan program 'Financing the interest rate on loans to support agriculture'.

Corporate banking

The Bank's Corporate Banking division offers clients traditional financing, payroll services, cash settlement services, trade finance, and investment banking services (in conjunction with a subsidiary of the Bank). The Bank continues to pay greater attention to the development of remote service technologies in cash settlement services, adding new features to Internet banking. For most corporate customers, the features of the system are fine-tuned and customized to the specific needs of the client. Cash management services have been enhanced by the introduction of an overdraft facility to a group of companies.

The Bank's corporate clients portfolio includes large national enterprises, as well as large and medium-sized companies that hold leading positions in their industries or specific niches in the market. In its scope, corporate banking is one of the Bank's core activities. We support and develop partnerships with corporate clients in various industries, working on acquisition and servicing of top clients.

After starting it in 2011, we continued our efforts to establish and maintain long-term relationships with such clients, strengthen partnership with existing customers and attract large companies to servicing in the Bank. We offer our clients a set of solutions that covers almost the entire range of financial issues faced by large companies of all types. This approach to corporate customers is based on partnership and was chosen to maintain the Bank's image, as well as to meet large companies' demands for customized solutions to certain problems. We carefully examine customers' needs, taking into account their activities and trying to gain a deep understanding of the specifics of their businesses, as well as to improve the structure and content of the products and services provided. As a result this work in 2013, the Bank signed several new cooperation agreements with well-known large foreign companies operating in Kazakhstan that had not opened accounts in Kazakhstan banks.

The Bank is stably maintaining its market share in the financing of domestic companies operating in non-resource sectors. In 2013, our clients operating in the trade sector continued to increase sales volumes. In the reporting year, the portfolio in this sector increased mainly from attracting a regional leader in retail trade, which has good potential for further growth.

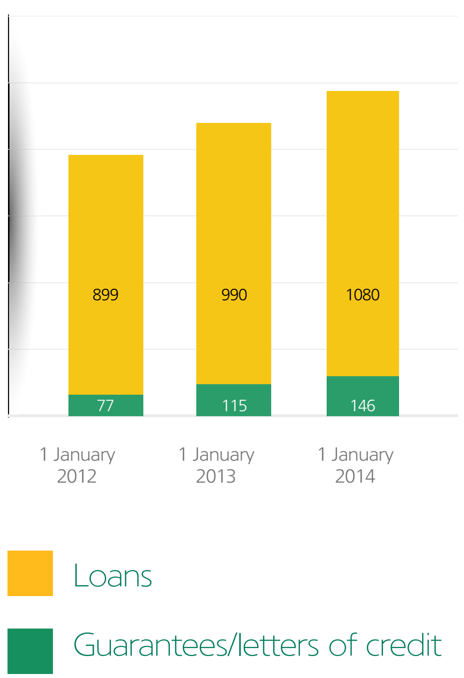
After restarting lending for the construction of commercial real estate in the previous year, the Bank successfully completed a large project in 2013. This real estate object is expected to have full occupancy in the near future. We have great confidence that two large-scale projects will be completed in the current year. Major infrastructure projects in the transport industry are being completed with the participation of our corporate borrowers. It should be noted that the Bank is cautiously continuing to participate in transactions for new building, selecting objects with a competitive concept and engaging reliable developers who have been present on the market for a long time and have a good reputation and a sufficient reserve of strength.

Unfortunately, the low harvest in 2012 and problems with the quality of grain harvested in 2013 had a negative effect on the whole Kazakhstani agricultural sector, including some of the Bank's borrowers. In general, companies in this market today are working on recovery mechanisms, including through instruments of state support.

Many of our clients are already feeling the effect of state support and continue to recover due to participation in such programs as the Business Road Map 2020 program and Post-Crisis Recovery programs. In the reporting period, the number of corporate borrowers participating in various programs increased to 31, while subsidized debt rose to KZT 144 billion. It is planned to increase the number of projects participating in state programs, including the Agribusiness 2020 program, in the current year.

We are also taking individualized measures in relation to troubled borrowers to improve their financial position. In the reporting year, financial rehabilitation measures have yielded good results, as in 2012. In 2013, over KZT 18 billion of troubled/problem loans were repaid. For the first time, the Bank has begun to use the mechanism to clear the balance sheet through its subsidiary company for distressed assets management. In the reporting year, the Bank transferred several corporate projects for a total amount of KZT 4.5 billion to the subsidiary. We will continue to work on the recovery of problem/troubled loans and expect further improvement in portfolio quality in 2014.

Corporate Clients Portfolio Dynamics, KZT billion



In general, the Corporate Business division performed well in 2013. We have retained all major corporate clients, attracted reliable new borrowers and increased the loan portfolio by over 10%. By the end of 2013, the client base of the Bank's Corporate Business division had reached 1,488 corporate customers, including 290 borrowers. In an environment of severe competition, we have maintained our market share in the corporate clients sector by offering the most complete range of services to our clients, using an extensive regional network and maintaining reliable relationships with our clients.

Subsidiaries

Pension market

JSC Halyk Pension Fund

In January 2013, the head of state announced the necessity for reform of the accumulative pension system in Kazakhstan by creating the UPF and transferring the accounts under management of all private pension funds to it.

Order of the National Bank of the Republic of Kazakhstan No. 356 dated 24 September 2013 approved a schedule for the acceptance and transfer of pension assets and liabilities of accumulative pension funds under pension provision agreements to the SAPF. According to this schedule, Halyk Pension Fund will complete the transfer of its pension assets by 26 June 2014.

As of 31 December 2013, Halyk Pension Fund had 2.4 million customers and pension assets under management, which is equal to 33% of total pension assets under the management of the pension system of Kazakhstan, according to statistics published by the Committee for the Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan. In other words, Halyk Pension Fund is the largest private pension fund in Kazakhstan. Halyk Pension Fund had total equity of KZT 21,203 billion and net income of KZT 6,089 billion for 2013.

Insurance

Kazakhinstrakh and *JSC Halyk-Life*

The Bank's insurance subsidiary, Kazakhinstrakh is a non-life insurance company providing a full package of insurance services to all types of legal entities and individuals across a broad range of industry sectors.

As of 1 January 2014, Kazakhinstrakh was one of the largest insurance companies in Kazakhstan with an 8.6% market share in net premiums, according to statistics published by the Committee for the Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan.

As of 31 December 2013, Kazakhinstrakh had total assets of KZT 37,671 billion, net income for 2013 was KZT 2,932 billion. As of 31 December 2013, Kazakhinstrakh had 235 sales outlets.

The Bank's life insurance subsidiary, JSC Halyk Life (Halyk Life) offers various types of personal insurance products, including life, annuity and casualty insurance products. As of 31 December 2013, Halyk Life had total assets of KZT 16,872 million. For 2013, Halyk Life had net income of KZT 218 million. In 2013, Halyk Life opened two new branches, in Semey and Petropavlovsk. As of 1 January 2014, the market share of Halyk Life in insurance premiums was 3.4%, according to statistics published by the Committee for the Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan.

Leasing market

JSC Halyk Leasing

In 2013, JSC Halyk Leasing financed Kazakhstan projects for KZT 1,184 million and Russian projects for RUR 257 million (KZT 1,227 million).

At present, JSC Halyk Leasing operates in Russia through its branch in Chelyabinsk and offices in Moscow and Yekaterinburg. As of 31 December 2013, JSC Halyk Leasing had total assets of KZT 7,015 million.

Investment banking

JSC Halyk Finance

Halyk Finance provides a full range of investment banking and asset management services, including sales and trading (with market-making on the KASE), investment portfolio management, consulting and underwriting, M&A advisory, debt restructuring and research. As of 31 December 2013, Halyk Finance had total assets of KZT 22,457 million. Halyk Finance's net income in 2013 was KZT 1,957 million.

As of 31 December 2013, the total portfolio of securities of clients who signed with Halyk Finance brokerage service agreements was KZT 109 billion.

Halyk Finance is the market leader by the number of listed instruments (47), including 15 new instruments. In 2013, Halyk Finance was assigned market-maker status on the following instruments: bonds of JSC ATF Bank, JSC NC KazMunayGas, JSC Development Bank of Kazakhstan, LLP Eastcomtrans, JSC Samruk Energo, LLP Zhaikmunai, SB JSC Home Credit and Finance Bank, Jupiter Energy Ltd., JSC Eurasian Bank, JSC Kazakhstan Engineering National Company, Eurasian Development Bank, preferred shares of JSC KazTransCom.

In January 2014, Halyk Finance topped Cbonds' ranking of arrangers of Eurobond issues in Kazakhstan and Cbonds' ranking of investment banks underwriting corporate bonds in Kazakhstan, based on 2013 results.

According to the Cbonds agency's information, in 2013, Halyk Finance made 8 corporate bond placements for the aggregate amount of KZT 66.8 billion, corresponding to 46.9% of the total amount of bonds placed on the primary market through the KASE, meaning leading market position.

Telecommunication business

JSC Kazteleport

JSC Kazteleport provides a wide range of telecommunication services for automation of the activity of Halyk Bank and its subsidiaries, processing services and services to route authorization requests between banks connected to JSC Kazteleport through an H2H channel. JSC Kazteleport is the main operator in Kazakhstan, providing connection channels to the Kazakhstan Interbank Settlement Centre, KASE and the First Credit Bureau.

Moreover, in 2013, JSC Kazteleport provided new services:

- data processing centre services using JSC Kazteleport equipment
- preparatory work to start maintaining APS and Delta equipment for the Bank
- development of an IP telephony services project for the Group
- maintenance of the Colvir RS banking system (JSC Halyk Bank Georgia and JSC NBK-Bank)
- organization of work to provide services such as connection and maintenance of the Bank's POS terminals

As of 31 December 2013, JSC Kazteleport had total assets of KZT 1,029 million. JSC Kazteleport's net income in 2013 was KZT 246 million.

Distressed assets management

LLP Halyk Project

According to Resolution No. 308 of the National Bank of Kazakhstan dated 21 September 2012, Halyk Bank has been given Permit No. 1 dated 4 October 2012 for the establishment of a subsidiary to manage distressed assets – LLP Halyk Project (Halyk Project).

Halyk Project was established in accordance with the Concept on Improving the Quality of Second-Tier Bank Assets approved by a resolution of Kazakhstan's Council for Financial Stability and the Financial Market Development.

On 12 October 2012, Halyk Project was registered with the authorized body of the Ministry of Justice of Kazakhstan and constitutive documents were received. Halyk Bank was the first among second-tier banks of Kazakhstan to receive the regulator's permission to establish a subsidiary to manage doubtful and loss assets.

In January 2014, a trading mall was commissioned in Almaty as part of the measures to recover the Bank's distressed assets taken by Halyk Project. This is the subsidiary's debut project, aimed at improving the quality of the Bank's loan portfolio. In 2013, Halyk Project carried out work to redesign and reconstruct the trading mall, a foreclosed property, in order to further rent out the sales premises and allocate the proceeds for repayment of the debt to the Bank. In December 2013, repair work was completed and the property was commissioned.

As part of the measures to clean up the Bank's loan portfolio of the distressed assets, projects for over USD 40 million have been transferred since the establishment of Halyk Project.

Cash collection services

LLP Halyk Inkassatsiya

LLP Halyk Inkassatsiya (Halyk Inkassatsiya) provides collection services for cash, coins and valuables. The company is positioned in Halyk Group as a subsidiary providing services independently, but its activity is closely related to the Bank's activity providing cash to sales channels of the Bank – the retail bank that is the financial and consolidating centre of Halyk Group.

Halyk Inkassatsiya is the market leader in various aspects of cash collection activity in Kazakhstan.

As of 31 December 2013, Halyk Inkassatsiya had total assets of KZT 2,179 million. Halyk Inkassatsiya's net income for 2013 was KZT 987 million. In 2013, three new outlets were opened (the Karasay outlet in the town of Kaskelen, Yenbekshykazakh outlet of in the town of Esik and Kazaly outlet in Aiteke Bi settlement). As of 31 December 2013, the branch network of Halyk Inkassatsiya included a City cash collection division (Almaty city), 18 branches and 37 outlets.

Foreign banking subsidiaries

The Bank provides banking services in Russia, Kyrgyzstan and Georgia through its banking subsidiaries on the territories of these countries.

OJSC Halyk Bank Kyrgyzstan

OJSC Halyk Bank Kyrgyzstan is a commercial bank incorporated in Kyrgyzstan that positions itself as a universal bank. As of 31 December 2013, OJSC Halyk Bank Kyrgyzstan had total assets of SOM 2,742 million (KZT 8,615 million). In 2013, assets increased by SOM 571 million (KZT 1,541 million). Total equity was SOM 945 million (KZT 2,959 million). For 2013, OJSC Halyk Bank Kyrgyzstan had net income of SOM 83 million (KZT 262 million).

OJSC Halyk Bank Kyrgyzstan is thirteenth by assets and eleventh by loan portfolio among banks of the Kyrgyz Republic.

OJSC NBK Bank

OJSC NBK Bank is a regional Russian bank with its head office located in Moscow and one regional office in the Chelyabinsk industrial region. As of 31 December 2013, OJSC NBK Bank had total assets of RUR 3,302 million (KZT 15,274 million), and total equity of RUR 1,150 million (KZT 5,247 million). In 2013, the gross loan portfolio increased by 43% vs. 2012. As of 31 December 2013, it amounted to RUR 1,597 million (KZT 7,470 million).

JSC Halyk Bank Georgia

JSC Halyk Bank Georgia is a commercial bank incorporated in Georgia with a focus on corporate and SME banking. As of 31 December 2013, JSC Halyk Bank Georgia had total assets of GEL 124 million (KZT 10,934 million) and the gross loan portfolio amounted to GEL 82 million (KZT 7,256 million). In 2013, JSC Halyk Bank Georgia's authorized capital increased by USD 10 million. As a result, total equity grew by GEL 24 million (KZT 1,491 million) to GEL 42 million (KZT 3,602 million). For 2013, JSC Halyk Bank Georgia had net income of GEL 1.4 million (KZT 73 million). The significant event in 2013 was the opening by JSC Halyk Bank Georgia of the new Didube branch in the district of Tbilisi of the same name, close to Railway Station Square, on the territory of one of the busiest shopping centres in the capital of Georgia.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

The only way of finding the limits of the possible is by going beyond them into the impossible.

Arthur C. Clarke

RISK MANAGEMENT

The Bank's risk management policy is focused on creating an integrated risk management system in line with the scope and scale of the Bank's activity and the risk profile accepted by the Bank, as well as on supporting its business development requirements. The Bank is persistently developing its risk management system and implementing measures to improve its risk identification methods, as well as risk management, assessment and control.

Credit risk management

The Group controls credit risk exposure by establishing limits of the maximum exposure to a single borrower / group of related borrowers, industrial (and geographical) segments, and lending programs (Small and Medium Business and Retail Business).

For the purposes of integrated credit risk assessment of corporate borrowers, the Bank applies an internal rating model based on quantitative (financial ratios of the borrower) and qualitative indicators, including the borrowers' business assessment, industry and management quality.

To assess its exposure to adverse changes in foreign and domestic macroeconomic conditions and determine the effect of stress scenarios (the level of provisions, the migration of credit ratings, the ratio of non-performing loans), the Bank applies stress tests to its loan portfolio on a regular basis, including annual bottom-up stress tests required by the Regulator.

As an instrument of effective risk control and monitoring in the retail and SME segments, the Bank relies on the approach based on comprehensive and systematic monitoring of lending programs, which includes the analysis of loan portfolio quality and financing parameters, as well as the adjustment of lending models to current changes in the competitive/social and economic environment or in the exposure to specific groups of borrowers.

Taking into account the high growth in customer crediting in Kazakhstan throughout 2013, the risk management unit conducted an extensive analysis of changes in the level of the retail debt burden and monitored key retail lending parameters. As a result, the Bank revised the terms of lending for certain classes of borrowers.

The system of making lending decisions in the Bank is based on the delegation of certain powers by the Board to appropriate collective bodies and the setting of credit limits for each body. For corporate borrowers, loan applications are reviewed by the Head Office Credit Committee. Loan applications which exceed the limits set for the Head Office Credit Committee, as well as transactions with related parties, require further approval by the Board of Directors. For SME borrowers, lending powers are delegated to Credit Committees in the braches and the Credit Committee of the branch network, while retail banking decisions are delegated to the Center for Decision-Making and the Retail Credit Committee of the Head Bank (hereinafter referred to as "DMC"). Standard loans under unsecured retail lending programs are approved automatically after being reviewed by the program module, while applications for non-standard unsecured lending are subject to credit approval by the DMC.

In 2013, as part of the development of the DMC, the Bank automated the procedures for making lending decisions. As a result, it strengthened control over the DMC and reduced operational risks while accelerating the decision-making process.

To reduce the risk of power concentration and improve the objectivity of lending limits, the Bank implemented a limit setting and revision methodology for SME loans in the branches. The methodology is based on the balanced qualitative and quantitative analysis of branch operations, including the development potential of the region, the experience of key managers and the quality of the loan portfolio of the branch.

Credit committees of subsidiary banks are also authorized to make lending decisions within specific limits. Loan applications exceeding the limits of subsidiary banks are referred to an appropriate body of the Bank. The Bank monitors the independent decision-making limits and the authority of the credit committees in subsidiary banks on a regular basis and revises the limits, if necessary.

The Bank places high emphasis on the development of the risk management system in the Group, which is focused on the monitoring, detection, and elimination of weaknesses in the existing risk management procedures and internal controls, as well as on the professional development of personnel in its subsidiaries and branches.

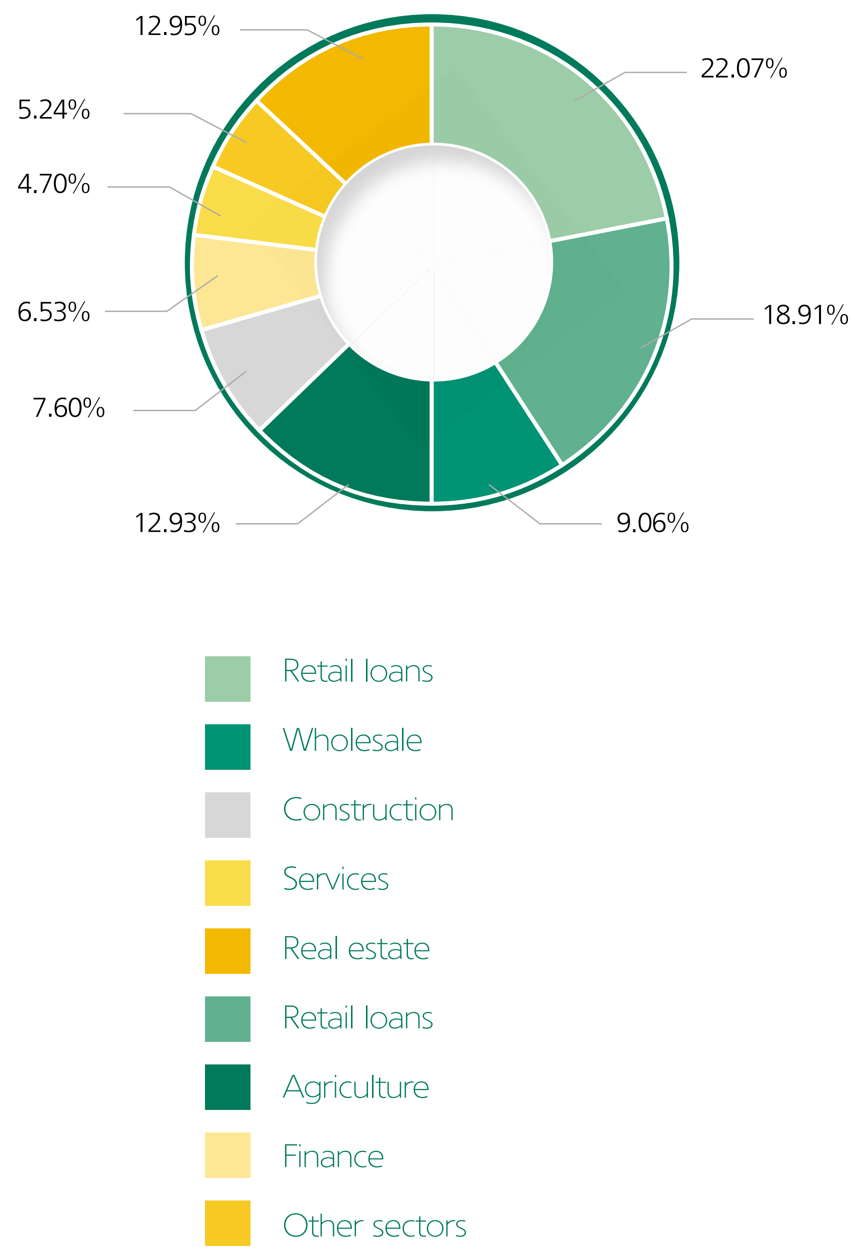
In 2013, the Bank consistently worked to improve the quality of its loan portfolio which had deteriorated during the 2007-2009 crisis. The Bank strengthened its monitoring of deterioraiting loans, on the loan portfolio level and by individual borrowers. The implementation of measures approved for this loan category was monitored on a regular basis. The Bank vigorously improved its reporting system and early warning methods, including the preparation of non-performing loan forecasts used to plan further actions to maintain and improve the loan portfolio quality. The Bank applied loan workout and borrower solvency restoration methods stipulated in the government-developed Post-Crisis Recovery Program (Rehabilitation of Competitive Businesses) and the Business Road Map – 2020. In 2012, following a number of legislative amendments, the banks were allowed to establish subsidiaries with extended abilities for the management of distressed bank assets. Using the opportunity provided by the Government, the Bank established Halyk Project LLP, a subsidiary to manage its doubtful and loss loans. Halyk Bank was the first Kazakhstan bank to obtain the consent of the National Bank of Kazakhstan to incorporate such a company. The use of a specialized subsidiary for the rehabilitation of distressed assets will help to improve the quality of the Bank's loan portfolio. In 2013, Halyk Project LLP approved the allocation of KZT 7.5 billion for the purchase of loans to 5 borrowers from the Bank and allocated funds for the acquisition and renovation of real estate which had been mortgaged to the Bank and later foreclosed by the Bank.

In 2013, the loan portfolio demonstrated balanced growth across various sectors of the economy and by corporate customers due to the ongoing lending to new and existing high-quality borrowers.

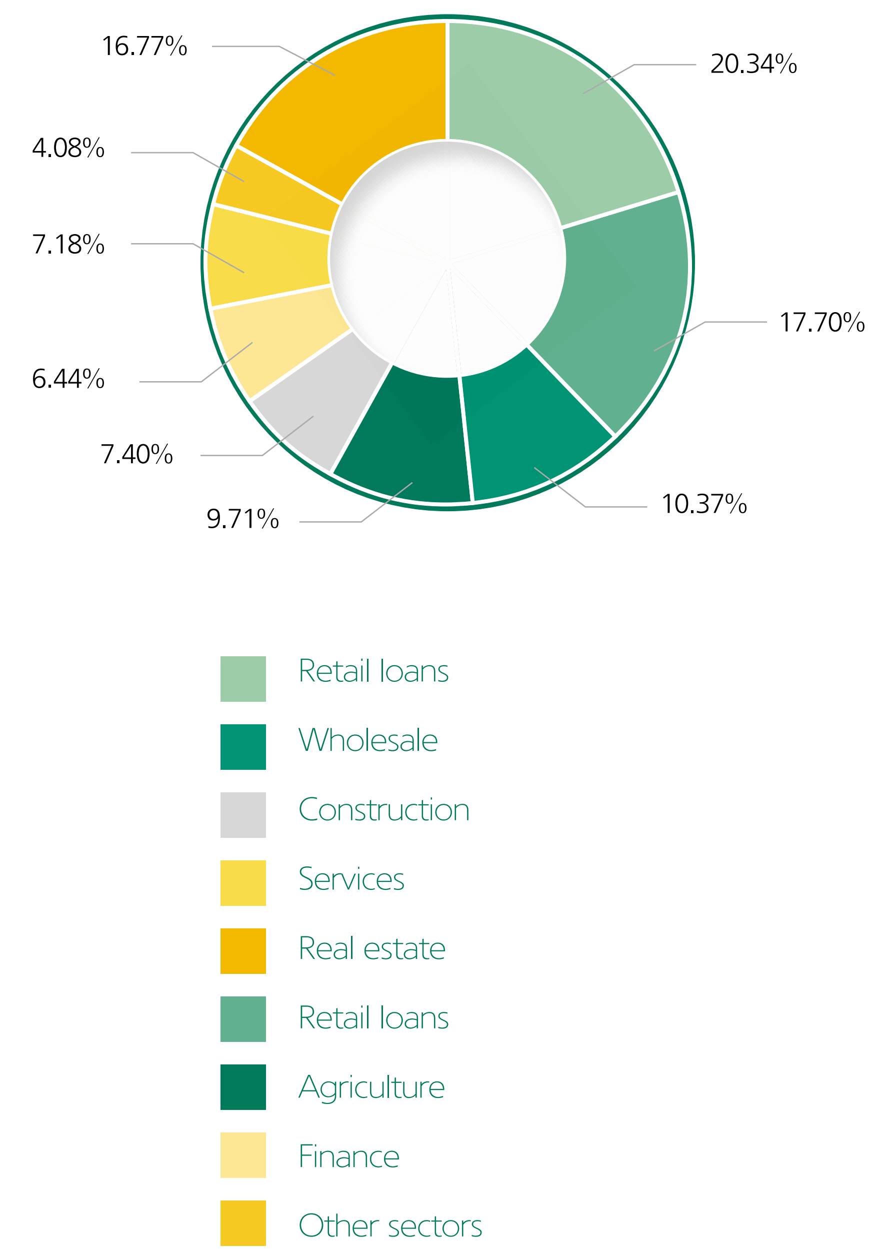
As at 31 December 2012, retail loans represented a significant share of the loan portfolio (22.07%), with consumer and mortgage loans accounting for 16.14% and 5.93%, respectively. In terms of industry breakdown, the largest segments were wholesale trade (18.91%), services (12.93%), construction sector (9.06%), and real estate (7.60%).

Loan portfolio breakdown by industry, %

31 December 2013



31 December 2012



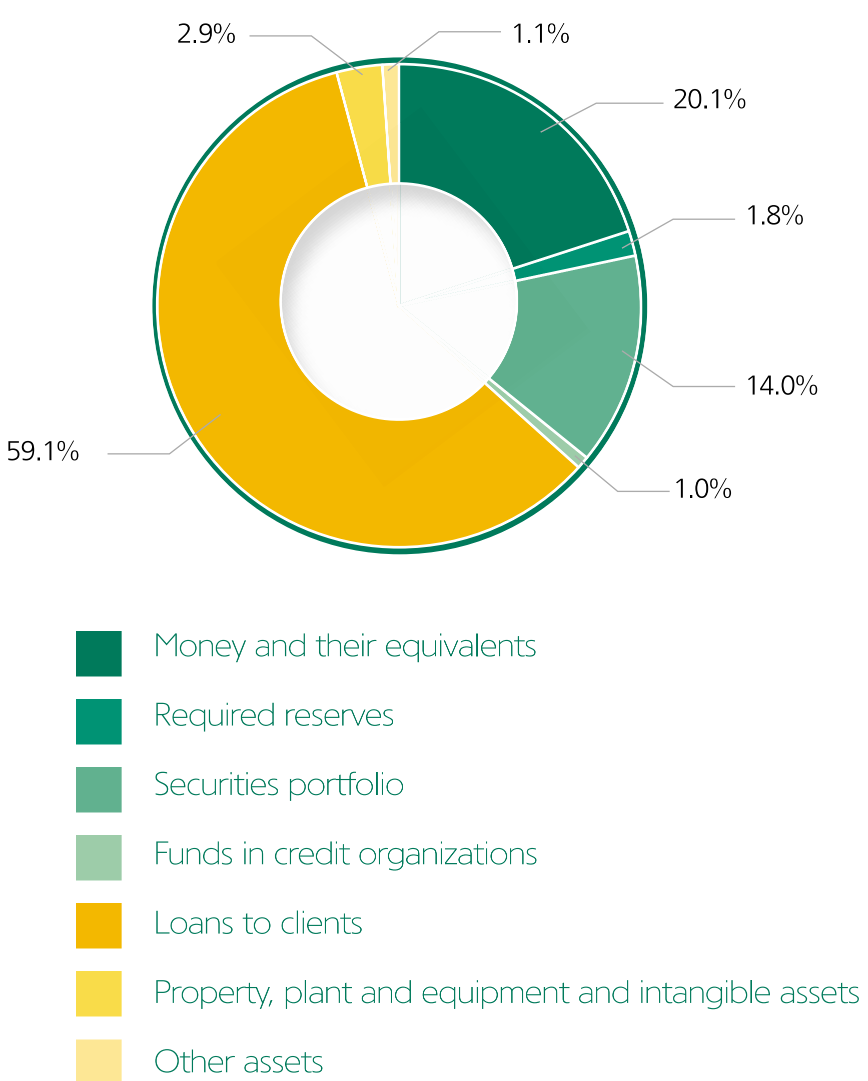
Asset/liability management

In order to create an optimal structure of bank assets providing a balanced approach to managing the risk-return ratio, the Bank invests in internal and external assets diversified by banking products, industry, currency and maturity.

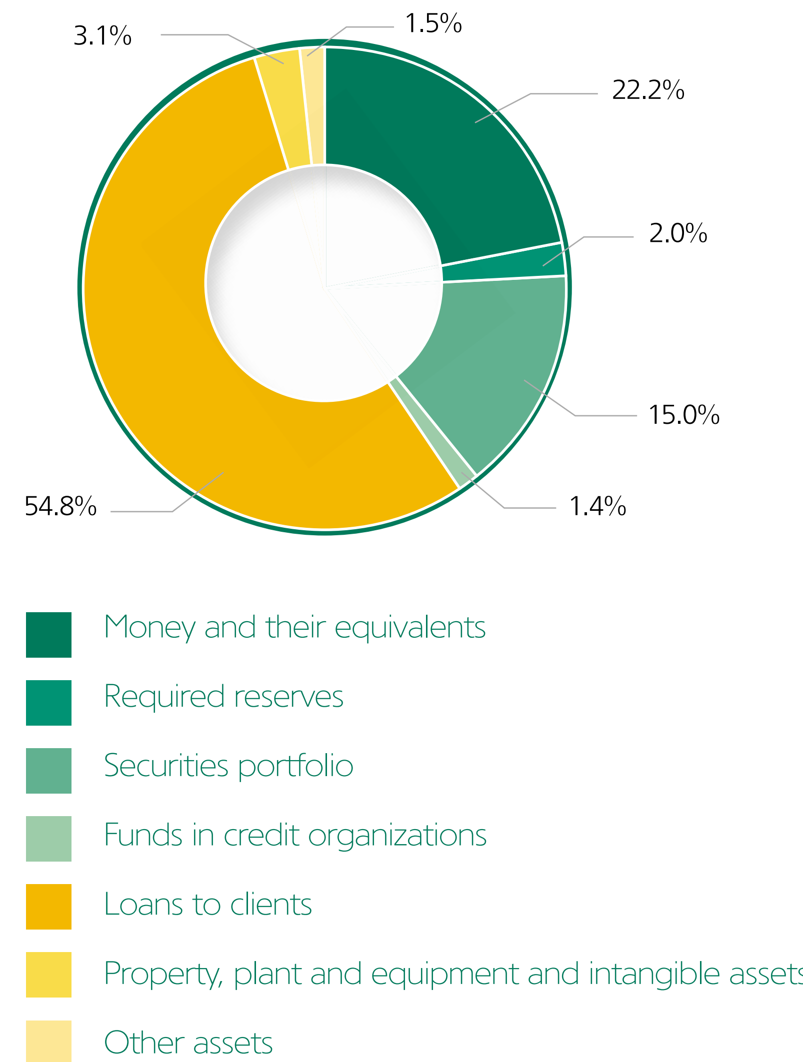
In 2013, the structure of the Bank's assets changed insignificantly and was as follows:

Asset structure, %

31 December 2013



31 December 2012



In 2013, total assets of the Bank increased by 4.1% mainly due to the growth of its net loan portfolio by KZT 163.037 billion (+12.4%) in absolute terms. As a result, the loan portfolio remained the largest item of the Bank's assets: as of 31 December 2013 it accounted for 59.1% vs. 54.8% in 2012.

In 2013, other assets decreased mainly due to the decrease in cash and amounts due from other banks (-6.95%) and investments in securities (-2.63%).

The changes in the asset structure resulted from the Bank's efforts to optimize the amount and investment of its available funds. The temporarily free funds were invested in the most liquid assets, in particular, short-term deposits (in USD and EUR) with top-rated foreign banks and securities of top-rated foreign issuers. The high quality and acceptable duration of its securities portfolio allowed the Bank to maintain a quick access to liquid funds, if necessary, through the sale of securities and/or sale and repurchase transactions. The Bank adhered to a conservative policy with respect to investments in the interbank market by depositing temporarily free funds for shorter periods and within the approved limits. In 2013, the majority of interbank deposits had terms of up to one year.

At the end of 2013, the Bank had correspondent Nostro accounts with 21 banks and maintained correspondent Loro accounts for 54 banks and financial institutions, which enabled the Bank to make client and proprietary payments in the national and foreign currencies in a timely and highly efficient manner.

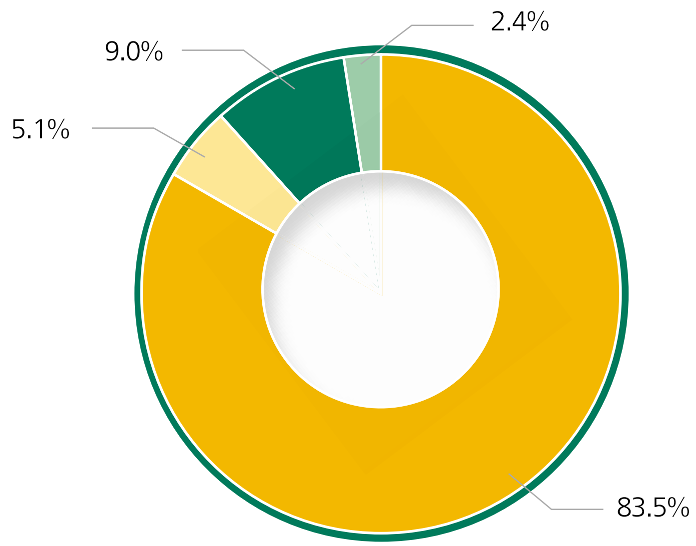
The Bank regularly checked current limits set for counterparty-banks for consistency with its risk appetite. Whenever the Bank identified any negative factors affecting the operations of its counterparty-banks and/or their countries of operation, relevant adjustments were made immediately to reduce the amount and term of such limits.

For liquidity management purposes, the Bank maintained a stable and diversified structure of liabilities, which consisted of borrowings and deposits with fixed maturities and liabilities payable on demand.

The breakdown of the Bank's liabilities in 2012 and 2013 is presented below:

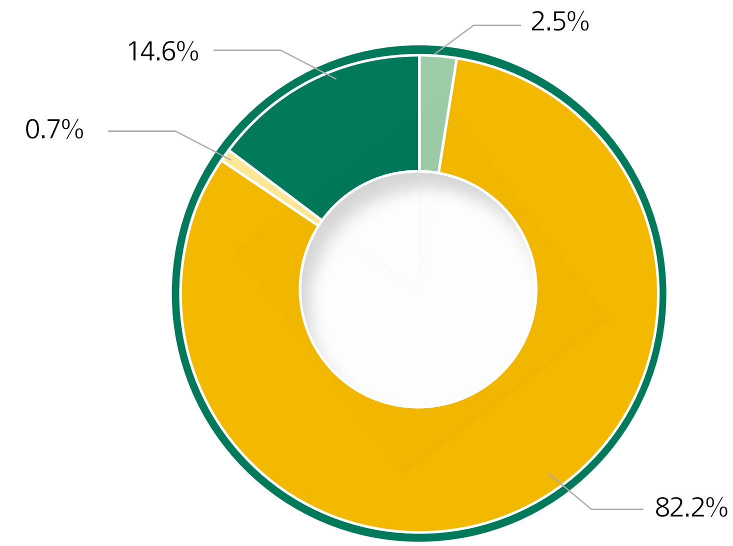
Breakdown of liabilities, %

31 December 2013



- Funds of clients
- Funds of credit organizations
- Issued debt securities
- Other liabilities

31 December 2012



- Funds of clients
- Funds of credit organizations
- Issued debt securities
- Other liabilities

In 2013, the main changes in the structure of liabilities were caused by debt securities issued. In particular, in May 2013, the Bank fully repaid a USD 270 million Eurobond loan with a coupon rate of 7.75% per annum. In October 2013, the Bank repaid a USD 500 million Eurobond loan issued in April 2008. The Bank paid the principal and the coupon in accordance with the repayment schedule out of its own funds.

In 2013, the main sources of funding included corporate and retail deposits and current accounts. At the end of 2013, amounts due to customers increased by KZT 67.47 billion (+3.97%) in absolute terms and remained the largest liability item accounting for 83.6% of total liabilities in 2013 vs. 82.2% in 2012.

However, the structure of the deposit base changed significantly as the share of deposits in the total customer funds increased. In particular, term deposits grew by 27.13%, while current accounts decreased by 25.07%. On the whole, these changes affected the cost of funding for the Bank but made it possible to maintain the same level of internal funding.

In 2013, retail deposits increased by KZT 116.21 billion (+16.74%), while corporate accounts decreased by KZT 48.74 billion (-4.85%). These changes reduced the concentration of major sources of funding and, consequently, the liquidity risk.

The Bank's focus on raising funds in the domestic market helped it to maintain the leading positions in the customer account market. For example, the Bank is the market leader in terms of retail deposits with a market share of 20.26% as of 1 January 2014 (20.10% as of the end of 2012).

To assess its exposure to liquidity risk, the Bank conducts regular stress tests showing the impact of the run-off of customers with the highest concentration on the Bank's liquidity position, as well as annual bottom-up stress tests as required by the Regulator.

Market risk management

During 2013, the Bank followed a conservative policy on currency position management, maintaining neutral positions in all currencies, except for the position in US dollars.

In 2013, the breakdown of assets by currency changed insignificantly. Despite a market deficit of national currency in 2013, the Bank was able not merely to preserve the assets in local currency, but also to increase them slightly (by 5.9%) through efficient business operations and risk management. Thus, foreign currency assets accounted for 43.2% of total financial assets, while the share of KZT loans decreased from 73.2% to 65.7%.

The Bank identifies the following sources of interest rate risk: interest rate risk on securities portfolios and interest rate risk resulting from the mismatch of maturities (interest rate re-pricing) of assets and liabilities sensitive to interest rate changes (risk of interest rate changes). The Bank manages the risks of changes in interest rates and market risk by managing its interest rate position and maintaining a positive interest margin.

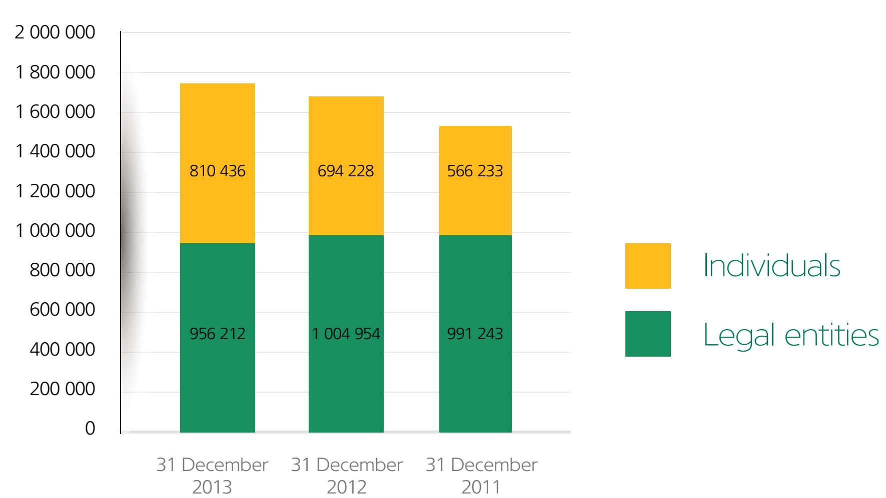
Internal limits which restrict the level of market risk (currency, interest rate, price risks) include the Stop-loss limit, Expected Shortfall, DVBP, and are monitored on a daily basis. The limits are regularly reviewed for relevance and correlation with market conditions and the risk appetite of the Bank.

Operational risk management

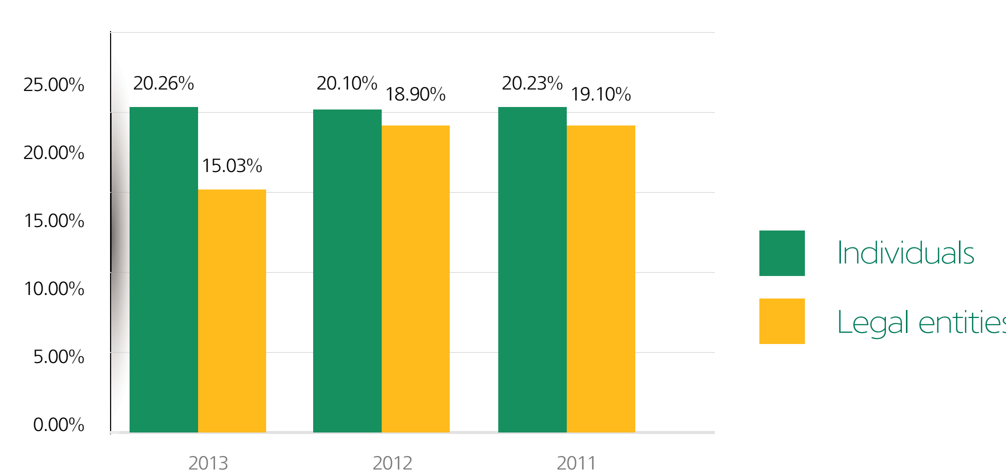
In the normal course of its business, the Bank is exposed to operational risk. The operational risk is defined as the risk of losses resulting from inadequate internal processes, systems, human factor or external events. Operational risk management is implemented at all levels of the Bank. The operational risk management unit within the risk management function of the Bank has developed and applied a variety of operational risk management tools, such as:

- Self-assessment of risks - the tool used to identify and minimize operational risks through pilot projects in

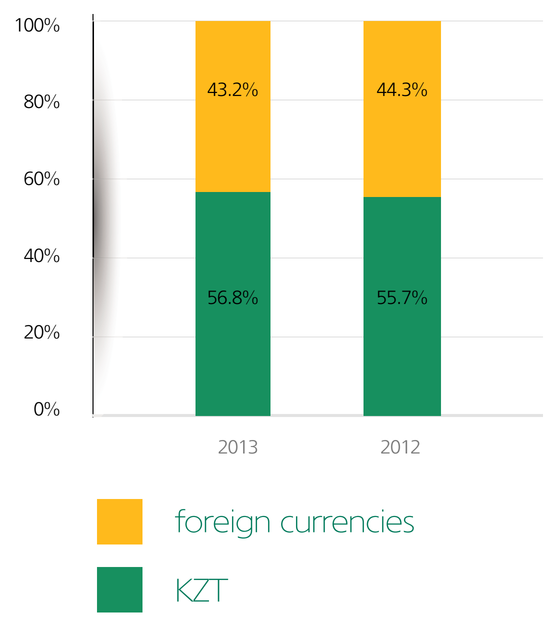
Amounts due to customers, KZT billion



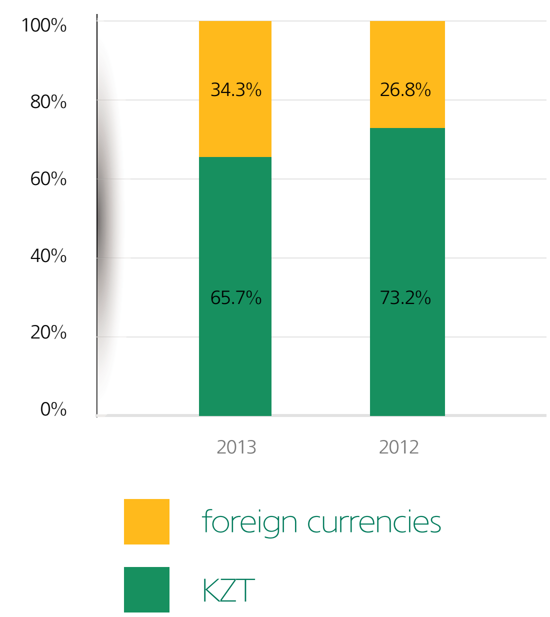
Market share by deposits, %



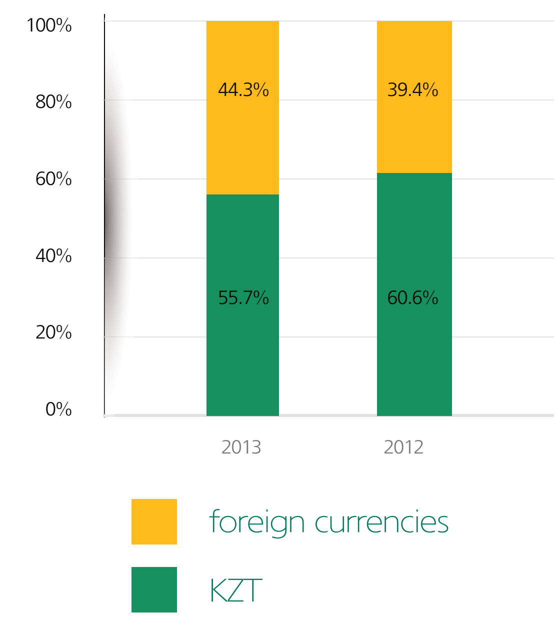
Breakdown of assets by currency, %



Breakdown of net loans by currency, %



Amounts due to customers of the Bank by currencies, %



the most important and relevant business processes/departments, as well as comprehensive projects covering all divisions and including the mapping of risks for the Bank. In 2013, the risk self-assessment project was rolled out to provincial/regional branches of the Bank and the key divisions of the Head Bank. In addition, the project was implemented in one of the subsidiaries. The Bank also analyzed the operations of two structural units in the IT Department. As a result, appropriate risks mitigating measures have been developed in order to improve the efficiency of controls over the most significant risks;

- The Bank performs operational risk assessment when launching new products/services, systems and business processes, or implementing major changes thereto, and also in case of significant changes in the organizational structure. ORAP is a fully functional and widely used tool, it covers the most significant areas of the Bank's operations. In 2013, the above projects covered such business areas as remote banking, retail lending, treasury operations, retail deposits, etc.;

- The Bank collects and analyses operational risk events on a regular basis. These events are registered and classified as appropriate in a special database. Collected information is used for the generation of management reports on operational risks to support the analysis of approval of corrective actions to minimize overall operating losses;

- The Bank is also developing an operational risk-management tool - Key Risk Indicators (KRI). KRIs and their levels are subject to periodic review/updating and represent an integral part of management reports on operational risks;

As part of its business continuity strategy, the Bank tests its business continuity and disaster recovery plan on a regular basis. In 2013, the Bank tested the transition of its critical IT-systems to a backup server in accordance with an approved schedule.

Capital management

In 2013, the Bank continued to manage its capital so as to ensure the business continuity of all Group companies and the optimization of its debt-to-equity ratio. In the reporting period, the Bank ensured compliance with capital requirements set by regulatory standards and Basel Accords.

From 2015 to 2019, banks are expected to implement a gradual capital reform under Basel III, driven by higher capital adequacy requirements for banks. Basel III capital adequacy regime is risk-based and implies a reform of the banks' capital. The Bank believes that the transition to new standards will not require an additional capitalization of the Bank.

To assess its exposure to the risk of adverse changes in the macroeconomic situation, the Bank runs regular stress tests to test the sensitivity of capital adequacy ratios to changes in various macroeconomic factors, including annual bottom-up stress tests required by the Regulator.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

The best ideas in the world amount to nothing if you do not have the right people to execute them.

Edward C. Johnson III

SOCIAL REPORT

Halyk Bank is the leading financial group of the Republic of Kazakhstan. We understand that the Bank cannot develop its business successfully and comprehensively in isolation from the society, that's why our success is directly connected with the development of the society and the country. We are engaged in sponsorship and charity projects aimed at supporting, improving the life and facilitating the development of different groups of population and the country as a whole. By promoting the development of medicine, education, sport and culture, assisting with ecological issues and supporting disadvantaged groups we make a contribution to the future of our country.

Halyk Bank puts a special emphasis on sponsorship and charity. Accordingly, in April 2012, the Bank established the Social Responsibility Committee of Halyk Bank under the Board of Directors which controls and evaluates corporate social responsibility policies. The Committee is an advisory body of the Bank's Board of Directors. Proposals developed by the Committee are of advisory nature. The Committee monitors the compliance of the Bank's operations with legal requirements to corporate social responsibility, prepares recommendations to the Board of Directors for decisions on issues within the Committee's jurisdiction. Since its election, the Committee has had four meetings to hear reports and approve action plans for the next year.

In the last eleven years the Bank has identified the main areas of its social policy: to provide support to disadvantages social groups (orphaned children, disabled persons, veterans, children with disabilities). We have been following the above policy and understand that it supports the main social responsibility principles of the largest financial institution which is working to strengthen the welfare and prosperity of Kazakh society.

Main projects:

1) Narodnaya Liga (Halyk League)

Halyk League is effective since 2005. It is a social sport project to promote healthy lifestyle and support an active basketball movement which involves children from orphanages. The project promotes the love for sports and the aspiration to victory and helps to organize children's pastime. In view of the growing level of team training and increased desire of children to participate in the Hope Cup Basketball Championship of the Republic of Kazakhstan, in 2012 the Championship was reorganized into the official Basketball Championship of the Republic of Kazakhstan among orphanages and educational orphanages with the support of the National Basketball Federation of Kazakhstan.

In April 2013, the Bank successfully organized the second leg of the 2012-2013 Championship. The first leg of the 2013-2014 Championship took place in November. The Championship is organized with the support of the National Basketball Federation of the Republic of Kazakhstan. Eighteen orphanages participated in the project; more than 500 children from orphanages are being trained annually. Over the 8 years of the project, the Bank invested over KZT 202.8 million into it. Thus, in 2013, the Bank allocated KZT 37.3 million for the project.

(the Hope Cup Championship)

2) Narodniye Studenty (Halyk Students) – a project for graduates of sponsored orphanages

Another large social project, which Halyk Bank continued to sponsor in 2013. was the Halyk Students Program launched in September 2007. This special charity program was designed for children of sponsored orphanages from different regions of Kazakhstan. The program provides children of sponsored orphanages with the opportunity to get higher education and receive scholarship named after Mr. Kozhakhan Abenov established by Halyk Bank.

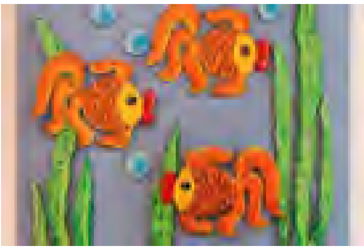
On August 2013, the Bank organized the third traditional meeting with graduates of Kazakhstan universities – former participants of the Halyk Students Program. Some of the graduates had already joined the Bank. They have a unique opportunity of career growth in Halyk Bank and other Halyk Group companies. The Halyk Students Program helped 31 children of sponsored orphanages to get university education, and 12 project graduates were employed by the Bank. Currently, 14 children participate in the program.

The Bank has invested more than KZT 45 million into the Halyk Students Program.

3) Orphanages sponsorship projects

The Bank, through its branches, provides assistance to 35 orphanages and boarding schools across the republic. Regular assistance includes the improvement of material and technical conditions: the purchase of furniture, equipment, clothes, office supplies; the organization of holidays, sports activities and educational events.

In order to promote the creative initiative of children from sponsored orphanages, the Bank introduced a Children's Arts page on its corporate web site. Halyk Bank assists sponsored orphanages with selling handcraft items made by children and purchasing materials for lessons.



(children's art, Janyia Unit)

In the autumn of 2013, the pupils of the Special (Correctional) Boarding School No. 2 for children with locomotor disability took part in the International Youth Festival in Mersin (Turkey) with the support of the Bank. The festival aims at preserving and enhancing national traditions, arts and culture development, strengthening and expanding the creative and spiritual relationships of the younger generation around the world. The participation in the Festival introduced the children to the art and culture of Turkey, helped them to broaden their relationships and feel as full-fledged members of society.

4) Support to Ayala Charity Fund projects

Halyk Bank has been the partner of Ayala Charity Fund since 2008.

Since 2011, all clients and employees of Halyk Bank have been able to transfer their donations to the account of Ayala Charity Fund through the Internet banking system for retail clients.

The Bank signed a memorandum on cooperation with the charity fund in December 2012. The main objective thereof was the cooperation in the implementation of the Fund's social projects to support children's medical and educational institutions in Kazakhstan.

Since then the Bank participated in several large-scale projects of Ayala Fund, namely:

a) *Health Starts From Birth* – a project to supply phototherapy equipment for the treatment of neonatal icterus in maternity hospitals and maternity units of central district hospitals in Almaty region.

b) *'I Also Want to Live'* – a project to develop children's cardio-surgery in Kazakhstan. Under the project, the Syzganov National Surgery Research Center was provided with medical equipment for the surgical wing and the intensive care unit.

c) *'Breathe, Baby'* – a project to supply medical equipment for intensive care units in maternity hospitals and perinatal centers across Kazakhstan.

d) *'Breathe the Life'* – a project to supply medical equipment for the Akmolinsk regional children's hospital and the Uralsk Regional children's multi-field hospital.

In May 2013, Ayala Fund and Dara Fund, with the support of Halyk Bank, organized the Day of Smiles – a holiday event for inmates of Almaty children's homes and boarding schools on the International Children's Day. The Bank leased the Fantasy World Amusement Park for the project, and all the rides were absolutely free of charge. Children enjoyed free lunches and ice creams and were entertained by animators.

(Day of Smiles, the Fantasy World amusement park)

In the autumn of 2013, Ayala Charity Fund organized BKS (British-Kazakh Society) Charity Races in three cities – Almaty, Astana and London. The races were sponsored by Halyk Bank. The money raised was allocated to the *Breathe, Baby* project.

On the eve of the new 2014 year, Halyk Bank together with Ayala Charity Fund organized another charity event - A Letter to Santa Claus - in the lobby of the Head Bank.

Under the project, a New Year tree was decorated with envelopes containing letters from children. In addition, a letter box was installed. Head Bank employees collected toys, clothes, books, and money for a total of KZT 336,600 and sent them to children's homes and boarding schools.

In total, the Bank has allocated KZT 360 million to Ayala Fund projects.

5) Support to Sabi Charity Fund projects

In 2012, the Bank signed a five-year memorandum on cooperation with Sabi Charity Fund to assist the Fund with social projects to support children's medical and educational institutions of Kazakhstan.

The project objective is the construction of a children's village for family based care in one of the regions of Kazakhstan.

The Bank has invested a total of KZT 296 million into the Fund's projects. In 2013, the Bank allocated KZT 148 million.

6) Victory Marathon

Victory Marathon is a traditional event organized by Halyk Bank on the Victory Day. Under this social project, Halyk Bank annually provides charitable assistance to key veteran organizations in Almaty. Provincial and regional branches of the Bank arrange food baskets for the Great Patriotic War veterans who are the customers of the Bank.

Over the last five years, the Bank has donated KZT 48.2 million to the Great Patriotic War veterans and veteran organizations under this annual event. In 2013, veteran organizations of Almaty and Astana received more than KZT 5,4 million in charity aid. The amount includes KZT 3.9 million spent by regional branches on food baskets for the Great Patriotic War veterans, who are depositors of the Bank.

7) Events dedicated to the anniversary of Halyk Bank:

In 2013, Halyk Bank celebrated the 90th anniversary of profitable growth and reliability. The Bank organized a number of promotional and sponsorship events full of joy and happiness in many cities of Kazakhstan.

1) In connection with the anniversary, the Bank, together with the World Class fitness chain, organized the Dare To Be the First charity marathon in Almaty attended by nearly 5 thousand Almatynians. The Bank spent KZT 15 million on the marathon.

2) Halyk Gift project. Under the project, the Bank purchased and installed certified modern sports and recreational complexes made in Russia in 21 cities of Kazakhstan. In addition, the Bank installed a bus stop complex in Temirtau. Festivities to celebrate the donation of sports and recreational grounds to cities and towns of Kazakhstan involved Akimats (local administrations), artists and local people. The Bank allocated over KZT 60 million for this project.

8) Other projects:

Halyk Bank has been actively involved in projects to promote physical culture and sports.

- Since 2011, the Bank has been sponsoring the Gymnastic Federation of Kazakhstan. The Bank has donated more than KZT 35 million to support the Federation. In 2013, the Bank provided financial assistance for a total of KZT 15 million.
- In 2013, the Bank signed an agreement with Kairat Almaty Football Club on charitable assistance of KZT 60 million in order to promote healthy lifestyle and popularize Kazakhstan football. Kairat played successfully for Almaty in the Kazakhstan Premier League and finished third, winning the bronze medal among the teams from all regions of the Republic.
- Since 2012, the Bank has been supporting Special Olympics Kazakhstan, a public sports association. In two years, the Bank allocated KZT 1.5 million as financial aid. In 2013 alone, the Bank provided KZT 1 million to finance a futsal competition for 300 children with special needs in the East Kazakhstan Province.
- In the spring of 2013, the Bank provided KZT 200 thousand as charitable aid for the Investigative Committee of the Ministry of Internal Affairs of Kazakhstan to finance the publication of the book *Қазақстан ішкі істер органдырының алдын ала тергеу қызметіне - 50 жыл* and awards for veterans and the best investigators.
- Halyk Bank sponsored an issue of The Yunost ('Youth') Magazine on the friendship and fraternal unity of Kazakhstan and Russia and long-term diplomatic and geopolitical relations between the two countries. The project involved the Embassy of the Republic of Kazakhstan in the Russian Federation. The Bank allocated RUB 350 thousand for the project.
- The Bank places high emphasis on the development of culture. In 2013, Halyk Bank acted as the general sponsor of the new theatrical season at the Astana Opera Theatre and allocated EUR 350 thousand for this purpose. In the new theatre season, the Theatre presented ballet and opera productions staged by world-class stage directors, artists and choreographers, as well as chamber concerts and music festivals. The grand opening of the Astana Opera Theatre was held on October 21, 2013. The Opera and the Twenty-First Century International Conference was held on October 22, 2013. On February 5, 2014, a charity symphony concert for inmates of Almaty children's homes was sponsored by Halyk Bank. The concert

in Almaty was held on the stage of Kazakhconcert as part of the Astana Opera road tour. For the first time in Almaty, the symphony orchestra of the Astana Opera presented *Peter and the Wolf*, the famous musical fairy tale by the great composer Sergei Prokofiev, to the young audience in the Kazakh language.

Inmates of children's homes and boarding schools No. 4, 6, 7, 9, 10, 17, and the Home of Hope attended the charity concert organized with a significant assistance of such charities as Ayala Fund, Sabi Fund and Eldani Fund.

- The Bank did not forget Bobek Charity Fund which received KZT 12 million in financial aid.
- During the year, the Bank organized various events on public holidays of Nauryz, the Children's Day, the Knowledge Day, and the New Year's Day. Their success was brought by the large-heartedness and kindness of Halyk Bank employees who helped to collect children's clothes, books, toys and cash. The money raised was used to purchase the necessities for children's institutions of Almaty and the Almaty region.

HR system of Halyk Bank

The HR system of the Bank is governed by the Labor Code of the Republic of Kazakhstan, the Kazakhstan Tax Code, and the Kazakhstan Law On Banks and Banking Activities in the Republic of Kazakhstan.

In the period from 2007 to 2012, the Bank systematically and consistently optimized and automated its business processes. As a result, the Bank was able to reduce staff numbers by 9% and improve its operating efficiency.

Headcount of business-areas, yearend	2007	2008	2009	2010	2011	2012	2013	Difference 2013/2007	
Branches	8,253	8,306	7,792	7,725	7,470	7,394	7,395	-10%	-858
Head Office	1,554	1,602	1,522	1,463	1,491	1,496	1,534	-1%	-20
Total	**9,806**	**9,907**	**9,314**	**9,188**	**8,962**	**8,890**	**8,928**	**-9%**	**-878**
Difference	687	101	-594	-126	-226	-72	38		
% Branches	5%	1%	-6%	-1%	-3%	-1%	0%		
% Head Offices	23%	3%	-5%	-3.9%	2%	0.3%	2.5%		
Total	**8%**	**1%**	**-6%**	**-1%**	**-2%**	**-1%**	**0.4%**		

In 2013, the optimization and automation of business processes continued with the development of HR procedures at the Personal Portal launched in 2011. During the year, the Bank automated such processes as the confirmation of trial period completion, prolongation of employment contracts, and vacation schedule approvals. New functions were added to enable the review of reports by division managers and track the status of employee requests.

Also in 2013, the Bank implemented software supporting standard procedures for the provision of IT access to front line employees. The first stage of the project covers city offices of the Bank.

Staff recruitment is governed by the approved Staff Search and Recruitment Policy of the Bank. To increase the efficiency and quality of staff recruitment, the Bank is constantly looking for new and updating the existing internationally recognized personality tests and individual questionnaires.

The Bank has an active professional development and motivation program for key employees. In accordance with the program, the most experienced employees are included in the Talent Pool ready to meet the Bank's requirements for executive personnel and quickly fill other key positions in the Bank's units, as well as to improve the quality staff required for the attainment of the Bank's strategic goals. Members of the Talent Pool are entitled to the co-financing of MBA and Master degree programs by the Bank. In 2013, 341 employees of the Bank were included in the Talent Pool, and 55% of vacancies were filled from the pool.

Staff motivation and loyalty

The Bank has developed a system of employee motivation to reward employees for their achievements, which includes the following:

1. Regular systematic salary revisions to reflect changes in the labor market.

2. Bonus payments for annual performance based on performance reviews.

3. Monthly performance-based bonuses for front office employees.

4. Benefits and compensations:

    - Different types of insurance – health, life insurance;
    - Financial assistance in connection with personal events;
    - Additional paid vacation in connection with personal events;
    - Seniority bonuses;
    - Compensations for employment/transfer to other regional offices of the Bank and its subsidiaries;
    - Sport and recreation activities for employees. Gyms, organization of different sport championships, organization of a republican sports contest;
    - Employee achievement recognition program;
    - Support for unemployed retirees of the Bank, holiday events, and financial assistance in connection with holidays and personal events;
    - Organization of corporate activities on Nauryz, March 8, family summer outings, National Currency (Tenge) Day, the New Year's night;
    - Initiative development program;
    - Parking spaces senior offices of the Bank;
    - Benefits for employees who are on maternity leaves.
    - Regular introduction days for new recruits.

5. To improve staff loyalty, the Bank has developed and implemented an action plan to promote the business strategy and corporate values of the Bank,. The plan includes regular meetings of senior officers and employees of the Bank to explain strategy, as well as various contests.

6. Continuous communication of the Bank's operations, achievements, strategy and values to employees via meetings, virtual data rooms, conference calls, information sessions with the Chief Executive Officer and personal addresses by senior Bank officers.

7. To ensure continuous communication with employees, the Bank administers an internal web site (Halyk Info) and issues a quarterly internal corporate newspaper (Halyk Janalyk).

8. The Bank holds a variety of contests to build up the team spirit and corporate morale of its employees.

9. Throughout the year, the Bank holds charitable events for orphans and children with disabilities, Great Patriotic War veterans, labor veterans, and other disadvantaged people.

10. The Bank has developed and implemented a non-financial recognition plan aimed at building up the corporate morale and loyalty of the Bank employees.

11. To mark its 90th anniversary, the Bank organized a number of festive events, contests and competitions for its employees.

12. The internal client satisfaction survey is conducted on a quarterly basis to study employee satisfaction.

Personnel Development

In the area of professional development and training, the Bank is focused on corporate training of Halyk Group employees to implement the system of cross-selling the full range of Halyk Group services, client-oriented operations and high-quality professional growth of employees and middle management staff.

To implement a systematic approach to training and personnel development, the Personnel Development Department of the Bank has been offering professional business coaches and professors of banking and finance disciplines, as well as training facilities (including specialized computer classes) in the head office and branches of the Bank since 2006.

The Personnel Development Department is responsible for systematic personnel training, including the examination of professional knowledge, the development of training programs adapted to specific technologies and practices of the Bank; carrying out the programs to develop business skills and improve banking and financial knowledge across all Bank branches.

The system of remote training is available in the corporate IT network of the Bank which allows to enroll any employees of city, suburban and regional branches into trainings and development programs.

Each corporate training area is based on a staged approach, learning material is structured by information complexity and depth of detail. The approach ensures a continuous improvement of professional knowledge and practical skills.

Separate sets of learning materials and programs have been produced for the professional development of personnel across all business areas, as well as for key personnel categories within each business area.

The Bank provides obligatory training and certification for certain personnel categories as required by applicable regulations. Every year employees are trained to obtain qualification certificates and licenses to conclude, execute, and register transaction with securities; manage securities portfolio; provide valuation services (valuation of movable assets and real estate, valuation of intellectual property, business valuation). Employees are trained in professional services areas, professional certification and MBA programs, and programs related to the implementation of new technologies. If necessary, the Bank can arrange the training of employees in other divisions. Bank employees often participate in local and international forums, congresses and conferences.

Corporate trainings are provided in the following key areas:

- Basic skills for line managers;
- Sales and efficient client service skills;
- Trainings on products offered by the Bank and its subsidiaries;
- Internal policies and standards of the Bank;
- Financial analysis.

In addition, Bank employees with work experience of more than 6 months are entitled to external training and professional certification in Kazakhstan, CIS and foreign countries with all training, travel and accommodation expenses covered by the Bank.

In 2013, 276 employees of the Bank participated in external training and professional certification programs in Kazakhstan, while 9,737 employees took part in corporate professional development programs.

CORPORATE GOVERNANCE STATEMENT

UK Corporate Governance Code Compliance

As a foreign company with global depository receipts admitted to the Official List of the UK Listing Authority, the Bank is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council – the independent regulator of the United Kingdom – in May 2010.

The Bank considers the UK Corporate Governance Code a guideline for further development of corporate governance.

The existing Corporate Governance Code of the Bank differs from the UK Corporate Governance Code, as disclosed below. These differences are often caused by requirements of the Kazakhstan Code of Corporate Governance and the legal requirements, as well as rules of the Kazakhstan regulator – the Financial Market and Financial Organizations Oversight Committee of the National Bank of Kazakhstan, and partially by the domestic environment of the Bank's activities.

The Bank's Code of Corporate Governance and the UK Corporate Governance Code

The Bank's Code of Corporate Governance includes several distinctions from the UK Corporate Governance Code. Below are the main differences:

- The Bank's Code of Corporate Governance does not require a regular re-election of the Board. Instead, the scope of the General Meeting covers determining the Board's term of authority.

The General Meeting of 21 April 2011 set a three-year term for the current Board. This approach does not contradict the UK Corporate Governance Code, which stipulates a maximum three-year term for the re-election of Directors.

- The UK Corporate Governance Code provides for the appointment of one of the independent non-executive directors as the senior independent director.

The Bank's Board did not appoint a senior independent director. This issue will be considered in the future.

- The UK Corporate Governance Code provides for meetings of non-executive directors at least annually, in particular, to appraise the chairman's performance.

In 2013, non-executive directors held informal meetings attended also by the corporate secretary for discussion of strategic issues, improvement of the corporate governance processes, the Board's activities and assessing the work of the corporate Secretary.

- The UK Corporate Governance Code makes provision for at least half of the Board, excluding the chairman, to be comprised of independent non-executive directors.

The Bank's Code of Corporate Governance does not directly require this due to Kazakhstan legal restrictions. However, the Board's composition, as appointed by the General Meeting on 21 April 2011, includes four independent non-executive directors out of six (excluding the Chairman).

Kazakhstan Code of Corporate Governance and the Bank's Code of Corporate Governance

The Kazakhstan Code of Corporate Governance means the Code of Corporate Governance approved by the Issuers Board in February 2005 and by the Council of the Association of Financiers of Kazakhstan in March 2005 (with amendments of July 2007). When developing the Kazakhstan Code of Corporate Governance, vast international and Kazakhstan experience was considered. This is the Code that is typical for Kazakhstan companies.

The Bank's Code of Corporate Governance was developed taking into consideration the Kazakhstan Code of Corporate Governance, along with legal requirements, recommendations of the Kazakhstan regulator, ethical norms and other factors and circumstances of the Bank. Therefore, the Bank's Code of Corporate Governance includes more extended provisions compared with the Kazakhstan Code of Corporate Governance, which promotes improvement of corporate governance practice.

In addition, the Bank implements similar corporate governance practices in other companies of the Halyk Group, and believes that this also facilitates improvement and common understanding of corporate governance principles throughout the Group.

The major differences between the Bank's Code of Corporate Governance and the Kazakhstan Code of Corporate Governance are:

- Added restrictive criteria for candidates for the Board of Directors and the Management in accordance with recommendations of the Kazakhstan regulator intended to raise the quality of the Bank bodies and prevention of conflicts of interests;
- Added principles of responsibility with respect to the Directors and the Management;
- Descriptive organization of the Board's and the Management's activities with clear segregation of duties;
- Principles for consideration in determining the Directors' and the Management's remuneration described.

The Bank's Code of Corporate Governance can be found on our corporate website www.halykbank.kz.

Corporate governance events in 2013

- Change in the Board's composition
- New Development Strategy for Halyk Group for 2013-2015

Corporate Governance Structure

Halyk Bank adheres to the following principles of corporate governance:

- ensuring the real possibility for shareholders to execute their rights in managing the Bank;
- giving shareholders real opportunities to take part in distributing the net profits of the Bank (obtaining dividends);
- ensuring timely and full disclosure of reliable information to shareholders regarding the financial positions

of the Bank, economic indicators, performance results and management structure for the purpose of ensuring sound decisions of the Bank shareholders and investors;

- ensuring the equality of all categories of Bank shareholders;
- ensuring maximum transparency in the activities of Bank officials;
- ensuring strategic management of the Bank by the Board and efficient control over the activities of the executive body, as well as the accountability of the Directors to the shareholders;
- ensuring the Management's ability to duly carry out the effective routine management of the Bank, as well as the Management's accountability to the Board and the shareholders;
- common ethical norms in the Bank;
- ensuring an efficient system of internal control in the Bank, and its unprejudiced assessment.

The Board of Directors has a number of Committees: Strategic Planning Committee, Audit Committee, Nominations and Remunerations Committee, Social Responsibilities Committee. For a detailed report on these Committees' performance, please proceed to the respective subsection below.

Also, in order to regularly assess the adequacy of the Bank's strategy in the current circumstances, the Board established the Strategic Planning Committee, which meets semi-annually to discuss the most important changes in markets and consider Bank initiatives in various sectors. The detailed report of the Strategic Planning Committee is provided in the respective subsection below.

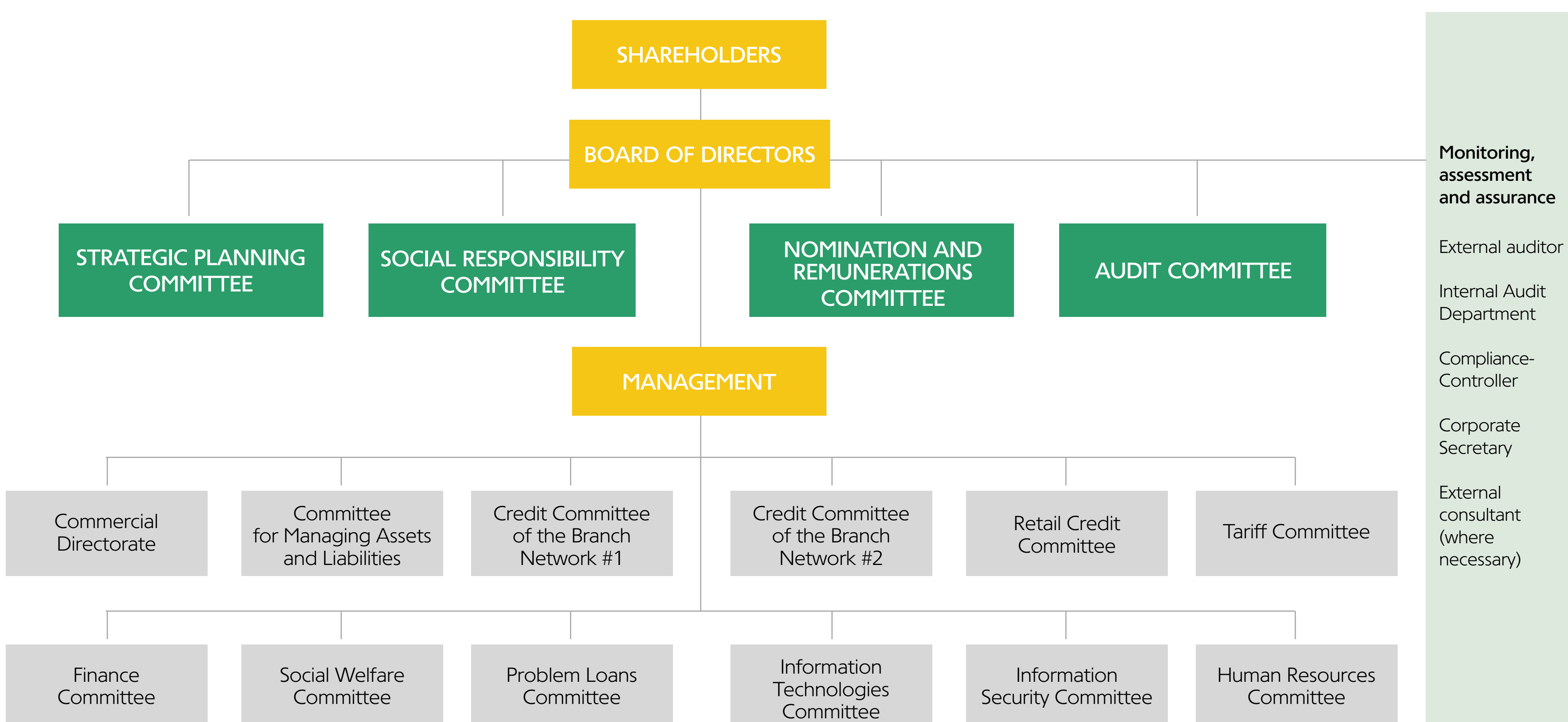
The Management has a number of working bodies – directorates, committees and working groups. This allows it to consider large issues in detail in separate segments. Where necessary and if required by the law, the decisions made by the working bodies are brought to the Management or the Board of Directors for approval.

In order to implement corporate governance best practice, the Board is assisted by internal and external auditors, a compliance controller (who is at the same time the chief risk officer), corporate secretary, etc.

For instance, the Bank carries out internal auditing, risk management, compliance control services (the Bank's activities in these areas are described in more detail in the subsection "Risk Management and Internal Control" below), as well as having the institution of corporate secretary, who regulates issues of conflicts of interests, among other things.

The Bank uses the services of Big4 audit firms for audit of the financial statements of Halyk Group. In 2013 this function was carried out by Deloitte.

The figure shows the structure of accountability of corporate governance.



Functions between the Board and the Management are allocated in accordance with the Kazakhstan laws. For instance, the Board is responsible for the following important issues:

- determination of long-term priority areas of Bank activity, ensuring the conditions necessary to maintain an adequate level and quality of financial and labour resources in the Bank
- preliminary approval of annual financial reports
- establishment and maintenance of control procedures over Management performance, assessment of strategy implementation
- establishment of a transparent and efficient system of criteria and procedures for nomination of Management members and employees reporting to the Board, determination of their remuneration
- ensuring effective risk management and internal control systems
- establishment of a system to uncover and resolve conflicts of interests
- decisions on concluding large transactions and contracts with associated parties
- decisions on acquiring ten or more percent of shares (participation) in other legal entities
- ensuring a continuous dialogue with the shareholders of the Bank

The Management manages the day-to-day operations of the Bank, including:

- implementation of the strategic decisions made by the Board
- development of draft strategic documents for consideration by the Board
- determination of limits for loans, guarantees and bails that do not constitute large transactions;
- appointment of directors to Bank branches
- interaction with subsidiaries, branches and representative offices of the Bank
- implementation of internal control and risk management mechanisms in accordance with the strategy adopted by the Board
- approval of the structure and the personnel of the Bank

Structure of the Board of Directors

In 2011, the Annual General Meeting approved the composition of the Board of 7 persons.

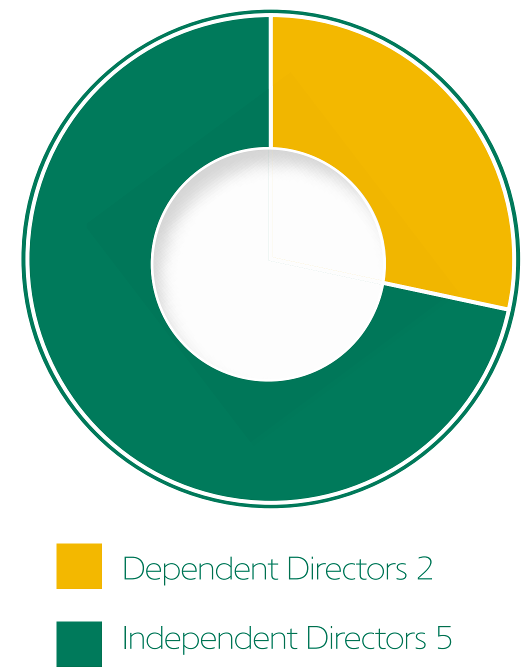
In July 2013, Mr. K.K. Damytov exited the Board of Directors on his own initiative.

As of yearend 2013, the composition of the Board was as follows:

Composition of the Board	
Alexander Pavlov	Chairman, Independent non-executive director
Ulf Wokurka	Strategic Planning Committee Chairman, Independent non-executive director
Arman Dunaev	Independent non-executive director
Frank Kuijlaars	Nominations and Remunerations Committee Chairman, Chairman of Social Responsibilities Committee, Independent non-executive director
Zhomart Nurabayev	Director, Representative of JSC Holding Group ALMEX
Christof Ruehl	Audit Committee Chairman, Independent non-executive director
Umut Shayakhmetova	Chief Executive Officer
Total	**7 Directors**

When determining independence of the Directors, the Board used the criteria set by the Kazakhstan law.

Composition of the Board



Skills and Experience of the Directors

Halyk Bank seeks the best balance of experience, skills and vision in its Directors. The presence of a variety of views when discussing issues allows the Board to exercise its duties and represent the interests of shareholders most effectively.

Independent Directors contribute international experience, strategic vision, insights into the largest industries where the Bank operates, corporate governance and risk management.

At the same time, all Directors possess knowledge of banking activities, finance in general, and human resources management, including issues of remunerations.

Below is summarized information on skills and experience of the Board:

Skills and Experience of Directors	
Banking	6 Directors
Oil & gas and mining	4 Directors
Other industries	5 Directors
Finance	7 Directors
Leadership	7 Directors
Risk management	4 Directors
Global experience	5 Directors
Strategic vision	7 Directors
Corporate governance	7 Directors
Human resources management	7 Directors
Total numbers of Directors	**7 Directors**

Structure of the Management Board

In 2013, the Management did not undergo any changes. The composition of the Management is as follows:

Composition of the Management	
Umut Shayakhmetova	CEO
Marat Almenov	Deputy CEO *Retail banking*
Dauren Karabayev	Deputy CEO *International activities, Treasury and Subsidiaries*
Aliya Karpykova	Deputy CEO *Finance, Accounting and Property*
Saule Kishkimbayeva	Deputy CEO *Corporate banking*
Stanislav Kosobokov	Deputy CEO *SME banking*
Askar Smagulov	Deputy CEO *Operations and information technologies*
Kozhamurat Uskimbayev	Deputy CEO *Security and problem loans*
Total	**8 members of the Management Board**

The Board's Performance

In general, the Board of Directors and the Committees thereof perform in accordance with the plans for respective periods.

In 2013, the Board of Directors held four in-person meetings, where 42 items were considered, and 366 absentee votes were held with 554 items considered.

At the in-person meetings, the Board discussed the most important strategic issues, such as:

- Strategy for development of the Group for 2013-2015;
- Implementation of the Group's Strategy for 2010-2012;
- The largest projects of the Bank;
- 2012 financial statements (preliminary approval) and quarterly performance reports of the Management;
- Information on the scheduled comprehensive audit conducted by FMFC of the Bank's activity as of 1 February 2013;
- Stress-testing loan portfolios;
- Approaches to tariffs policy;
- Quality analysis of credit portfolios;
- Issues of internal auditing;
- Analysis of related-party transactions, etc.

Absentee voting was conducted for routine issues that are legally included in the Board's duties, and urgent issues that could not wait until the next ordinary in-person meeting.

The Board is assisted by a professional corporate secretary.

Detailed Reports of Committees

General provisions

The Committees of the Board of Directors are consulting-advisory bodies to the Board. All suggestions of the Committee are recommendations that are made for Board consideration.

The Committees members, under the Kazakhstan law, are Board members and experts. More detailed information on the composition of the Committees is provided below in the subsections on performance of the respective Committees.

All Committees act in accordance with their Statutes.

Audit Committee

The Audit Committee was established in July 2005.

The Committee consists of three Directors who are assigned to the Committee by a majority of Board votes. At least two members of the Committee should be independent non-executive directors. The members of the Committee are:

Christof Ruehl

Chair

Independent non-executive director

Committee members

Alexander Pavlov – independent non-executive director

Arman Dunaev – independent non-executive director

All members of the Committee are independent non-executive directors, knowledgeable and experienced in accounting and tax accounting, internal and external auditing, and risk management.

Functions of the Committee

The Committee assists the Board on issues of completeness and authenticity of financial reports, compliance of the Bank and subsidiaries with legal requirements and internal documents (compliance control), selection and independence of the external auditor, adequacy and efficiency of internal control and risk management systems, as well as coordination of internal audit activities.

Performance of the Committee

In 2013 the Committee held three in-person meetings (8 items considered) and 58 absentee votes (85 items considered).

To ensure the completeness and reliability of financial statements, the Committee considered interim (quarterly) reports of the external auditor and management letters to the Bank and subsidiaries in this respect, and approved and introduced 2012 annual financial statements for consideration by the Board.

As part of this work, the Committee, among other things, discussed principles of critical accounting judgments, policies and procedures with the external auditor and the financial unit of the Bank.

The Committee also considered information on the implementation of the plan for the implementation of the recommendations of the independent auditor LLP Deloitte based on the audit for financial year 2012 as of 1 October 2013.

In 2013, the internal audits were undertaken in a number of divisions of the Bank and also subsidiaries, reports thereafter were considered by the Committee. Also, the Committee regularly reviews reports on implementation of internal audit recommendations by the Management of the Bank and by subsidiaries.

When considering the work plan for internal audits for the next year and the long-term working plan for 2015-2017, the Committee assessed the resources of the internal audit department. The Committee discussed a number of issues with the Internal Audit Director separately from the executive body. In particular, the Committee convinced that the internal audit was granted access to all necessary information.

In 2013, the Committee reviewed quarterly reports on quality of the loan portfolios prepared by the risk-management team.

The Committee also considered information on the scheduled comprehensive audit of the Bank by the Financial Market and Financial Organizations Committee as of February, 01, 2013. The Management was recommended to approve a plan for measures to eliminate violations uncovered during the audit and was informed of the implementation of the plan.

The Committee also approved a number of methodological regulations for internal audit and risk-management services for further confirmation by the Board.

Nominations and Remunerations Committee

The Nominations and Remunerations Committee was established in September 2007.

The Committee consists of three Directors who are assigned to the Committee by a majority of Board votes. At least two members of the Committee should be independent non-executive directors. The members of the Committee are:

Frank Kuijlaars

Chair

Independent non-executive director

Committee members

Alexander Pavlov – independent nonexecutive director

Umut Shayakhmetova – chief executive officer

The majority of the Committee is independent non-executive directors; all Committee members have extensive experience in human resources management, including issues of remunerations.

Functions of the Committee

The Committee gives recommendations to the Board on candidates for the Board, the Management and the boards of subsidiaries on the remunerations system for Board members and the Management and salaries of boards and executive bodies of subsidiaries.

Performance of the Committee

In 2013, the Committee had seven absentee votes (11 items considered) and one in-person meeting.

Recommendations were made to the Board on the system of compensation for the Chairman, members of the Board and the Management, Internal Audit Department and Corporate Secretary, as well as managers of the Bank's subsidiaries.

The Board was also given recommendations on changes in the Board's composition (the departure of Mr. K.K. Damitov and introduction of Mr. A.G. Dunaev), and the CEO from January 2014 (the introduction of Mr. A. I. Ibragimov), on the election of the quantitative and personnel structure of Board of Directors of OJSC NBK-Bank. The Committee also considered the personnel reserve for Executive positions for 2013.

Strategic Planning Committee

The Strategic Planning Committee was established in April 2012.

Ulf Wokurka

Chair

Independent non-executive director

Committee members

Alexander Pavlov – independent non-executive director

Arman Dunayev – independent non-executive director

Frank Kuijlaars – independent non-executive director

Zhomart Nurabayev – director

Christof Ruehl – independent non-executive director

Umut Shayakhmetova – chief executive officer

Dauren Karabayev – member of the Management Board, expert (silent member)

Functions of the Committee

The Committee provides assistance to the Board in matters of the Halyk Group's Strategy, analysis of strategy implementation reports and monitoring of the external environment and its impact on the strategic plans of the Group.

Performance of the Committee

In 2013, the Committee had three in-person meetings (five items considered).

The Committee considered the results of implementation of the previous Halyk Group Strategy for 2010-2012 for 2012. Analysis showed satisfactory results in achieving the goals set.

The Committee considered the results of implementation of the Halyk Group Corporate Strategy for 2013-2015 for the H1 2013. It was recommended to augment work in two subsidiaries of the Bank.

The Committee will also analyze changes in the external environment (regulatory, economic, financial, etc.) and assess their impact on the Group's Strategy.

Social Responsibility Committee

The Social Responsibility Committee was established in April 2012.

The Committee consists of three members of the Board of Directors and one expert, a Management member supervising issues of sponsorship and charity.

All Committee members, apart from the expert, are independent non-executive directors.

Frank Kuijlaars

Chief

Independent non-executive director

Committee members

Ulf Wokurka – independent non-executive director

Christof Ruehl – independent non-executive director

Stanislav Kosobokov – Management member, expert (silent member)

Functions of the Committee

The Committee assists the Board on issues of Bank policy in corporate social responsibility and sustainable development, Bank compliance with legislative requirements in corporate social responsibility, potential risks in the area of corporate social responsibility and minimization thereof, preparation and publication of the report on corporate social responsibility, and preliminary consideration of the social expenses budget for the respective period.

Performance of the Committee

In 2013, the Committee had two in-person meetings (three items considered).

The Committee approved plans for 2014 to optimize corporate social responsibility performance. The Bank's draft budget for sponsorship and charity for 2014 was also adopted.

The Committee resolved to make the following recommendation to the Management:

- Prepare information on social projects of second-tier banks of the Republic of Kazakhstan;
- Continue publishing the Social Report in the Annual Report of the Bank;
- Provide information to the mass media on a regular basis on the Bank's social projects;
- Provide the results of a public opinion survey on the level of public perception of the Bank as a socially responsible financial institution;
- Provide the results of marketing studies on the level Bank customer loyalty and employee compliance with service standards;

The Committee also considered and acknowledged the 2013 Corporate Social Report of the Bank.

Minority Shareholders Relations

The Bank is continually improving its system of minority shareholder relationships, which allows a shareholder to ask a question and receive the necessary consultation by a convenient way (a written response and/or email).

The structure of communications from minority shareholders and their wishes are regularly analyzed, followed by improvement of existing channels where necessary, or introduction of new ones. The Bank informs shareholders of all substantial news and planned events via the Bank's website and the websites of stock exchanges.

Results of 2013:

- The Bank undertook the arrangement and convocation of the Annual General Shareholders' Meeting on 15 May 2013, at which eight resolutions were passed on issues under consideration, including information about shareholder responses to actions of the Bank and its officials;
- We also arranged and held the Extraordinary General Shareholders' Meeting on 10 September 2013, where two resolutions were passed on issues under consideration;
- Where necessary, employees of the Head Bank provide consultations to employees of the branches on shareholder relations and to Bank shareholders on queries about accrued dividends, changes in banking, and other details;
- In May 2013, the Bank paid dividends on preferred shares and convertible preferred shares to shareholders as of yearend 2012 in the amount of KZT 11.20 per preferred share and convertible preferred share. The total amount of dividends on such shares, including income tax, was KZT 2.2 billion. Payment was made to 53 shareholders;
- In June 2013, after a four-year interval due to the general economic crisis, the Bank paid dividends on common shares – as of yearend 2013 in the amount of KZT 1.12 per share, in keeping with the Bank's Dividend Policy. The total amount of dividends on common shares of the Bank was

KZT 12.221 billion. The Bank paid dividends in the amount of KZT 12.198 billion which is 99.8% of the accrued amount as of 1 January 2014. The remaining amount of dividends was not paid due to the absence of shareholders' current accounts and contact details;

- We continue to make payments of dividends for 1998-2007 – in 2013, we paid earlier accrued dividends on common shares to 92 shareholders, including 7 heirs, for a total of KZT 112,200;
- In January 2013, we made social welfare benefit payments to 554 individuals shareholders for a total of KZT 3.13 billion;
- In November 2013, social welfare benefits were paid to certain types of individuals shareholders – due to celebration of the 65th anniversary of Victory in the Great Patriotic War, which had accrued since 2010, upon submission of respective documents by shareholders. In 2013, social welfare benefits were paid to 32 shareholders for a total of KZT 0.5 million;
- We considered 35 inquiries from shareholders regarding dividend payments, social welfare benefits, the share buy-back procedure and other issues of the Bank's performance, as well as explanations of securities law provisions.;

Dividend Policy

Shareholders' rights to dividends and the procedure for the payment thereof are stipulated by the Bank's Charter and the Code of Corporate Governance approved by General Meetings.

In September 2012, the Board of Directors approved the Dividend Policy of Halyk Bank according to which 15-50% of the total net income for the reporting year goes to dividend payments on common shares. This resolution was passed with consideration for the strategic plans of the Bank for 2013-2015 regarding payment of dividends on common shares for a long-term period and the creation of a clear and transparent mechanism for dividend payment and because of the need for a separate, flexible internal regulatory document.

The main purpose of the Dividend Policy of the Bank is to set a transparent mechanism for dividend payment, considering the following limitations:

- maintaining (retaining) the international credit ratings of the Bank;
- the maximal size of dividends on preferred shares;
- growth of the Bank's RWA in mid-term perspective and its corresponding need for capital;
- average sector indicators for capitalization of Kazakhstan and regional banks;
- compliance with covenants;

Concerning existing limitations to payment of dividends on common shares (covenants), the following can be pointed out from the Eurobond Prospectus:

- not over 50% of net profits (as determined by audited IFRS statements) for the period for which the payment is made;
- not more frequently than once per calendar year;
- payment of dividends is restricted if the Bank is in default, or such payment may lead to a default on the Bank's liabilities;

The documents are posted on the corporate website of the Bank at www.halykbank.kz.

Shareholders owning common, preferred and convertible preferred shares are entitled to dividends. The periodicity of dividend payment and the size of the dividend per preferred share are set by the Charter and the Prospectus of the Bank.

In accordance with the Bank's Charter, dividends on common shares may be paid to shareholders annually from the net profits. The decision on dividend payment and the size thereof is made by the General Meeting on the suggestion of the Board.

Dividends paid for the previous financial years were as follows:

	2013 (for FY 2012)	2012 (for FY 2011)	2011 (for FY 2010)
Dividend paid per one preferred share, (convertible and non- convertible), KZT	11.20	13.44	14.08
Dividend paid per one common shares, KZT	1.12	-	-

Directors Awareness and Training

New members of the Board are provided with an introductory package with basic information about the history and current positions of the Bank and Halyk Group, organizational chart of the Bank, responsibilities of a Director and the main reports from the consolidated financial statements as of the most recent reporting date.

Members of the Board are also provided information about the main changes in the banking law.

The Bank intends to further develop and improve the knowledge of Board members.

Risk Management and Internal Control

Roles and responsibilities

For risk management and internal controls, functions within the Bank are delegated as follows:

- The Board of Directors carries out strategic governance on internal control and risk management, approves and periodically revises risk management policies. The Audit Committee is the working body of the Board for risk management and internal controls.

- The Board also considers the large transactions of Bank, transactions where the Bank has an interest, and related party transactions, including with respect to absence of preferential conditions.

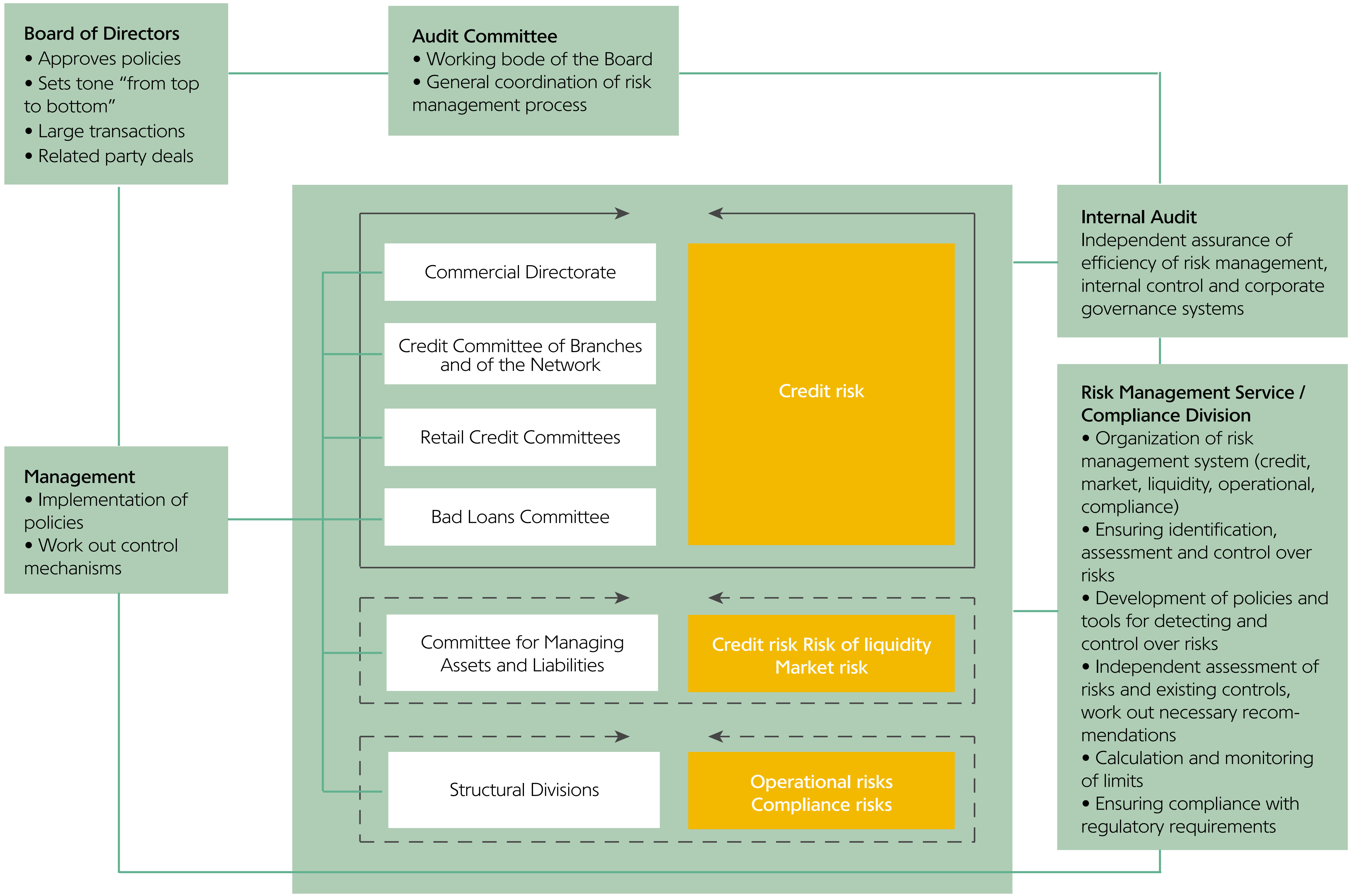
- Management is the body responsible for the implementation of risk management policies. The Bank has the following key committees, reporting to Management, that carry out various risk-management and control functions: credit committees (Commercial Directorate (Credit Committee of the Head Bank), Credit Committee of the Branch Network, Retail Credit Committee, Bad Loans Committee), Committee for Managing Assets and Liabilities (CMAL).

- Structural divisions of the Bank are directly responsible for identification and assessment of inherent risks, adequacy of controls and business continuity.

- Independent risk management and compliance services are responsible for organization of the risk management system, which ensures identification, assessment, control and monitoring of credit, operational, market and compliance risks, and liquidity risks. Risk management and compliance functions are headed by the Chief Risk Officer – Compliance Controller who reports to the Chief Executive Officer and is entitled to report directly to the Board of Directors.

- The internal audit service (Department) provides independent and objective guarantees and consultations aimed at the improvement of Halyk Group's performance. The internal audit service helps to achieve the goals set before the Group using a systematized and consistent approach to the assessment and improvement of the efficiency of processes for risk management, control and corporate governance.

- The diagram below shows the most active bodies and committees of the Bank that participate in the processes of risk management and internal control.


Board of Directors
• Approves policies
• Sets tone "from top to bottom"
• Large transactions
• Related party deals
Audit Committee
• Working bode of the Board
• General coordination of risk management process
Internal Audit
Independent assurance of efficiency of risk management, internal control and corporate governance systems
Management
• Implementation of policies
• Work out control mechanisms
Commercial Directorate
Credit Committee of Branches and of the Network
Retail Credit Committees
Bad Loans Committee
Credit risk
Committee for Managing Assets and Liabilities
Credit risk Risk of liquidity Market risk
Structural Divisions
Operational risks Compliance risks
Risk Management Service / Compliance Division
• Organization of risk management system (credit, market, liquidity, operational, compliance)
• Ensuring identification, assessment and control over risks
• Development of policies and tools for detecting and control over risks
• Independent assessment of risks and existing controls, work out necessary recom-mendations
• Calculation and monitoring of limits
• Ensuring compliance with regulatory requirements

'Three lines of defense' risk management

Risk management in the Bank is based on the 'three lines of defense' system. The first line includes the top management and structural divisions, the second – committees/risk management teams and Compliance, the third – internal audit.

- The first line of defense represents the controls developed to ensure correct day-to-day operations by various business divisions of the Bank. The controls are developed by the business divisions and are an integral part of business processes. Clearly delineated controls presume their adequate level for risk minimization and compliance with internal regulations, as well as compliance with external, regulatory requirements. Management and monitoring of the controls is carried out by the divisions themselves, which implies the ability of the business divisions to detect risks, weaknesses of business processes and possible unforecasted events, and to react to them in a timely manner.
- The second line of defense is represented by committees for risks management, and the risk management team and Compliance. The committees and the risk management team are responsible for managing risks within the set risk appetite. The main chain loop of the second line of defense is the risk management team. To ensure an adequate level of control, the risk management team determines procedures for the assessment of risks (credit, financial, operational), and risk monitoring. The risk management team carries out regular independent monitoring of risks, develops control tools for efficient risk management on the level of the first line of defense and, along with the Compliance Division, assists the business divisions with compliance with regulatory requirements in the respective areas.
- The third line of defense represents the function of independent assurance of the internal control efficiency. The third line of defense is represented by the internal audit function. The internal audit carries our checks of the internal control system based on the audit plan that is, in turn, based on the risks level inherent to the operation of a division. The audit plan covers both the first and the second lines of defense, ensuring an assessment of the efficiency of the overall internal control system in the Bank.

The Bank acknowledges that it is impossible to totally exclude the risks inherent to banking operations. However, the Bank is assured that the system of risk management implemented allows significant minimization of them.

Code of Conduct

The Bank builds relations with employees and clients according to the principles of law, mutual respect and trust.

In 2013, the Bank approved Rules of Corporate Ethics intended to:

1) secure the mission, values, principles and standards of business ethics and behavior;

2) develop a uniform corporate culture based on high ethical standards and an atmosphere of trust, mutual respect and decency;

3) increase and maintain trust in the Bank from shareholders, clients, business partners, public authorities, the public and other stakeholders; strengthen its reputation as an open and honest player on the financial market;

4) assist in effective interaction with stakeholders;

5) prevent violations of the current law of the Republic of Kazakhstan by employees of the Bank.

These rules cover the professional behavior of officials and employees of the Bank in the discharge of their duties, in relationships with each other, with shareholders, clients, business partners, public authorities, society and other stakeholders entering into relations with the Bank.

Bank executives seek to set a personal example of commitment to the Bank. They allocate time for the creation of a candidate pool for the Bank, consulting and coaching, gathering employees into the team united by a common mission, values and principles.

Each employee will maintain the image and business reputation of the Bank on a high level.

Internal audit

To ensure the independence and objectivity of the internal audit, the Internal Audit Department functionally reports to the Board of Directors. Working interaction with the Directors is carried out via the Audit Committee.

Selection of objects to be included in the audit plan is made in accordance with international standards and the requirements of the Kazakhstan regulator based on risk assessment. The work plan of the Internal Audit Department is considered by the Audit Committee and approved by the Board of the Bank. Where necessary, unscheduled (out-of-plan) audits may be undertaken.

The Internal Audit Department performs audits and consultations. Assessment of the efficiency of internal control, risk management and corporate governance systems is made during audits.

The results of audits and consultations and corresponding recommendations are presented to the Management, Audit Committee and Board of Directors of the Bank.

The Internal Audit Department reports to the Audit Committee and the Board about implementation of the action plans.

The Internal Audit Department also presents to the Audit Committee and the Board of Directors as required by the regulator and the international standards of professional internal audit practice of the Institute of Internal Auditors.

The Department periodically passes an external evaluation of compliance with the International Internal Audit Standards developed by the Institute of Internal Auditors.

Nomination and Contracting of Directors (general information on procedures)

Directors, when nominated, are subject to approval by the Kazakhstan regulator in accordance with the Rules for Granting Assent to the Appointment (Election) of Managing Persons of Financial Institutions, Bank and Insurance Holdings.

The conclusion of contracts with Directors is done in accordance with the Regulations for Remunerations and Reimbursements of Management Personnel and Formation of Reserve of Bonus Awards for work in the Bank.

The decision on payments and setting of individual amounts of remunerations of Directors (apart from the Chairman and the Chief Executive Officer) is made by the Chairman based on recommendations of the Board's Nominations and Remunerations Committee.

Contracts with Directors, setting individual amounts, periodicity and conditions for payment of remunerations and withholding of respective taxes in accordance with Kazakhstan law, (apart from that of the Chief Executive Officer) are concluded by the Chief Executive Officer on behalf of the Bank.

Insurance of fiduciary liability

The Board of Directors and the Management understand the risks arising from incorrect or mistaken management decisions or actions.

To safeguard shareholders from potential damage from such events, the Bank insures the liability of its Directors and officials.

RESPONSIBILITY STATEMENT

We herewith confirm that, to the best of our knowledge:

- the consolidated financial statements in this annual report are prepared in accordance with International Financial Reporting Standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of Halyk Bank and its subsidiaries included in the consolidation taken as a whole; and

- the annual report includes a fair review of the development and performance of the business and the position of Halyk Bank and its subsidiaries included in the consolidation taken as a whole and the principal risks and uncertainties Halyk Bank faces.

Umut Shayakhmetova

Chief Executive Officer

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

"You will go a long-way in business if you train yourself to be able to appraise figures almost as rapidly and as shrewdly as a good judge of character can sum up his fellow man."

Henri Deterding

DEVELOPMENT PROSPECTS

The Main Priorities of Strategic Development of Halyk Group for 2013-2015

Halyk Bank and its subsidiaries ("Halyk Group") is the leading universal financial services group of Kazakhstan with significant potential for development in the majority of financial market segments in both banking and associated services. Stable financial performance, a significant and stable client base, wide range of financial products including cross selling, extensive infrastructure, along with a business reputation associated mainly with the perfect confidence of all types of clients, are the key parameters that offer a competitive advantage to Halyk Group.

The core of the Group is Halyk Bank, which successfully overcame the recent crisis, renewed and updated processes and significantly strengthened its positions as the best bank in Kazakhstan with the highest international ratings among domestic banks.

The Bank has efficiently used governmental support provided within the anti-crisis program and, due to high performance results, was the first among financial institutions of the country to make early repayment of government funds invested in capital with a return for the government.

This benchmark event was evidence of the successful execution of strategic goals set by the Bank and the Group for 2010-2012 and, on the back of the improvement in the macroeconomic situation in Kazakhstan and expansion of possibilities for conducting of business, is the starting point for the transition to a new stage of development of the Bank and the Group.

The strategic task of the Group for three years will be the retention and strengthening of leading positions in all segments of the financial services market and, as the result, higher growth rates in priority business areas compared to the Bank's main peers.

Key priorities of the Group for three years will be in the following main areas:

Banking activities – "#1 Bank in Kazakhstan"

- *Financial performance* – maximization of the Bank's profit, maintenance of return on equity (ROE) and cost efficiency (cost/income ratio) at the optimal level, stabilization of the net interest margin (NIM), ensuring maximum interest income growth, growth of fee and commission income and gain on foreign exchange operations

- *Growth of shareholder value* – the Bank intends to increase shareholder capital value through maximization of profit, which will ensure targeted business growth rates and strengthening of key positions on the main financial markets. Herewith, the Bank intends to comply with capital requirements set by the regulator and Basel capital guidelines, to ensure business continuity, and to concentrate on capital optimization in order to increase return on equity.

- *Growth of loans to customers* – ensuring growth of loan portfolios and increasing the share of the gross loan portfolio to 70% of the Bank's total assets

- *Improvement of asset quality* – decreasing the share of non-performing loans through restructuring, sale of pledged collateral and debt write-offs; ensuring efficient operations of the Company for management of distressed assets and cooperation with the Problem Loans Fund

- *Development of new products* – promotion of banking and financial non-credit products that extend opportunities for clients and are risk-acceptable, primarily cash management, card business and foreign exchange operations with a quick reaction to set individual conversion rates and tariffs tailored to clients' needs

- *Expansion of sales channels* – a focus on development and expansion of remote sales channels as high tech, efficient and easily scalable processes that allow clients' growing needs for banking services to be better satisfied

- *Dividend policy* – ensuring dividend payments on common shares in the absence of legislative limitations on the payment of dividends and maintenance of international credit ratings and capital adequacy ratios not below market levels

- *High ratings* – maintenance of the best international ratings among domestic Kazakhstan banks to promote the corporate image and business reputation of the Bank as the most stable financial institution of the Republic of Kazakhstan, reliable for clients and creditors and operating in accordance with international standards that proved the success of its chosen business strategy.

Subsidiaries – "Leading players on their markets"

- *Retention and strengthening of market positions* – achievement of leading positions in all main indicators in the insurance sector, broker-dealer and investment banking services, leasing and cash transportation services, regardless of market growth dynamics and increase of competition

- *Expansion of the range of services* – maximal use of the ability to provide the widest range of financial products/services through the wide branch network, development of services that fully satisfy the needs of major client segments and ensure the growth of profitability

Implementation of the Strategy will require further improvement of the existing business model and successful fulfilment of strategic plans in each business area of the Group. The following tasks were determined for 2013-2015 that, if completed, will provide a basis for the achievement of the goals set by the Strategy:

- Increase of sales volumes and profits generated by both corporate clients and the small and medium enterprises segments by providing competitive terms of financing and services; promotion of new products; provision of a full range of the Group's existing services to customers; attraction of potential customers with a stable financial position

- Retention of leading positions in the retail sector across the main retail products regardless of market growth dynamics and increased competition through an aggressive policy and concentration on payroll projects and credit cards; gaining the leading positions in mortgage lending, improvement of the product line; improvement of service quality and increasing branch network efficiency with a focus on alternative (remote) sales channels

- Retention of the Bank's #1 position in deposits of individuals. Maintenance of an optimal level of free liquidity at not less than 20% of amounts due to customers and other liabilities of the Bank, retention of focus on time deposits and current accounts of corporate clients and individuals in light of volatility on international capital markets

- Retention of leading positions on the payment card market and an increase in market share by number of active cards in circulation, retention of market share in foreign exchange operations

- Active participation in the government programs to expand entrepreneurial business and improve their financial positions in order to support existing customers and their interests, as well as to attract new borrowers

- Geographical expansion of product sales by providing financial products/services through the Bank's wide branch network and its international subsidiaries; expansion through investment in the establishment or acquisition of new subsidiaries outside Kazakhstan

The main tasks of the Group in the area of business development are further improvement of management systems, continuation of comprehensive technological modernization to increase efficiency and profitability of the main operating activities, ensuring the growth of labor productivity and optimization of costs:

- Further development of common corporate governance principles throughout the Group, including issues of transparency and provision of timely and full information to shareholders and the Board of Directors; risk management; internal control and internal audit; ensuring effective interaction with shareholders, including minorities; ensuring uniformity in approaches and procedures across the Group

- Establishment of control over the Group's total risks through the development of an integrated risk management system; improvement of monitoring of existing risks and forecasting of new risks; development of a system of risk formalized assessment

- Improvement of the unified operating model through the establishment of large-scale industrial processes, their unification, standardization and automation; location of these processes in processing peripheral centres to ensure the required level of business continuity in case of force-majeure disaster, as well as to decrease operating expenses

- Realization of measures to establish a process-oriented management system aimed at decreasing production costs, reducing the duration of the client servicing cycle and elimination of excess structural parts, detection and elimination of zones of irresponsibility or overlapping of responsibilities and elimination of excess operations and breaks in information and technological chains

- Implementation and development of modern information technologies, modernization and fine tuning of the main banking transactional systems to meet requirements of the Group's clients, development of CRM, internet banking, the card system and the internal database; automation of key business processes to reduce the time for document processing, reduction of errors; ensuring the transparency of procedures and creation on this basis of a single information environment for the Group that ensures reliability, feasibility and continuous operation of all systems and applications

- Development of the Group's personnel, including improvement of the system of motivation and remuneration, development of corporate values, decrease of staff turnover, work with the personnel reserve to fill the Bank's key positions with highly qualified professionals, management of headcount (optimization and reallocation of staff), further specialization of employees for greater labor efficiency, training of personnel focusing on the Group's strategic tasks

Mission and values

Mission of the Group

The Mission of the Group will remain to provide services in all segments of the financial market (banking, insurance, pension, securities, leasing) in Kazakhstan and a number of other countries according to international standards, thus ensuring the retention, efficient allocation and growth of clients' and shareholders' funds.

Values of the Group

Client orientation: The Group understands the needs of its clients and commits to using all its resources to offer clients the most efficient solutions to help them achieve and even exceed their goals.

Reliability: The Group will rigorously comply with the general principles and norms of international law, legislation of Kazakhstan, and legislation of other countries where the Group operates, internal provisions and regulations of the Group. The Group will strive toward international standards of corporate governance and follow a policy of maximum openness and transparency for its shareholders, clients, business partners, government authorities and employees. Reliability is the key factor for saving the most valuable asset – the business reputation of the Group.

Leadership: The Group will seek leading positions in serving all groups of clients in all market segments. Managers at all organizational levels will set an example of enthusiasm, energy and devotion to their tasks. Managers will set the direction, encourage innovation and inspire the organization to fulfill the Mission of the Group.

Social responsibility: Orientation toward the needs and interests of all strata of population will be one of the major principles of the Group's activities. The Group will strive to contribute to the development of society and resolution of social issues and to be a responsible corporate citizen.

Integrity: The Group will strive toward impeccably honest business operations in all areas, always and everywhere. The Group will adhere to principles of transparency in internal processes, building mutually respectful and trusting relationships with clients, encouraging an honest attitude in employees towards business and compliance with corporate ethics.

Professionalism: The Group will strive toward the highest professional standards and be receptive to innovation and new ideas. The main goal is to honestly and timely carry out client service professionally, which will ensure strong and long-lasting relationships with them.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

The Difficult is that which can be done immediately;
the Impossible that which takes a little longer.

George Santayana

2013 CONSOLIDATED FINANCIAL STATEMENTS

JSC HALYK BANK

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JSC HALYK BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2013, 2012 and 2011, and the results of its operations, cash flows and changes in equity of the Group for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the years ended 31 December 2013, 2012 and 2011 were approved by the Management Board on 14 March 2014.

On behalf of the Management Board:

Umut B. Shayakhmetova **Chairperson of the Board**	**Pavel A. Cheussov** **Chief Accountant**
14 March 2014 Almaty, Kazakhstan	14 March 2014 Almaty, Kazakhstan

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Halyk Bank:

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and its subsidiaries (collectively – "the Group"), which comprise the consolidated statements of financial position as at 31 December 2013, 2012 and 2011, the consolidated statements of profit or loss, the consolidated statements of other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Halyk Bank and its subsidiaries as at 31 December 2013, 2012 and 2011, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice
No. 78586, Australia

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan
Number 0000015, type MFU-2, given by
the Ministry of Finance of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
Auditor - performer
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate No. 0082
dated 13 June 1994
General Director
Deloitte, LLP

14 March 2014
Almaty, Kazakhstan

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013, 2012 AND 2011

(Millions of Kazakhstani Tenge)

	Notes	31 December 2013	31 December 2012	31 December 2011
ASSETS				
Cash and cash equivalents	5	486,313	533,499	519,608
Obligatory reserves	6	44,276	49,037	52,916
Financial assets at fair value through profit or loss	7, 35	1,334	1,271	3,752
Amounts due from credit institutions	8	25,808	32,799	21,096
Available-for-sale investment securities	9, 35	350,552	334,362	305,890
Investments held to maturity	10, 35	-	25,766	78,854
Precious metals		16,857	1,646	1,710
Loans to customers	11, 35	1,482,245	1,319,208	1,184,240
Property and equipment	12	63,614	65,005	63,515
Assets held for sale	13	2,912	7,434	9,500
Goodwill		3,085	3,085	3,085
Intangible assets		5,617	5,594	5,914
Insurance assets	14	13,379	14,923	13,550
Other assets	15	10,422	14,369	10,300
TOTAL ASSETS		2,506,414	2,407,998	2,273,930
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	16, 35	1,766,648	1,699,182	1,557,476
Amounts due to credit institutions	17, 35	107,395	15,202	41,634
Financial liabilities at fair value through profit or loss	7	69	439	2,547
Debt securities issued	18	189,515	301,919	311,068
Provisions	19	4,163	4,385	3,388
Deferred tax liability	20	4,520	7,907	8,593
Insurance liabilities	14	29,715	25,201	23,028
Other liabilities	21	12,210	14,124	15,869
Total liabilities		2,114,235	2,068,359	1,963,603

	Notes	31 December 2013	31 December 2012	31 December 2011
EQUITY				
Share capital	22	143,695	143,695	143,695
Share premium reserve		1,415	1,496	1,156
Treasury shares		(77,534)	(81,028)	(39,960)
Retained earnings and other reserves	22	323,670	273,835	204,240
		391,246	337,998	309,131
Non-controlling interest		933	1,641	1,196
Total equity		392,179	339,639	310,327
TOTAL LIABILITIES AND EQUITY		2,506,414	2,407,998	2,273,930

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

14 March 2014
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 97 to 165 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	24, 35	182,563	160,994	166,166
Interest expense	24, 35	(75,932)	(69,934)	(78,894)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	24	106,631	91,060	87,272
Impairment charge	19	(26,021)	(15,362)	(39,155)
NET INTEREST INCOME		80,610	75,698	48,117
Fee and commission income	25	51,406	51,082	40,822
Fee and commission expense	25	(7,139)	(5,991)	(5,568)
Fees and commissions, net		44,267	45,091	35,254
Net gain from financial assets and liabilities at fair value through profit or loss	26	261	169	428
Net realized gain from available-for-sale investment securities		1,884	1,626	84
Net gain on foreign exchange operations	27	9,261	9,053	9,185
Insurance underwriting income	28	19,411	17,764	14,971
Share in net loss of associate		-	(1)	(4)
Other income		1,780	2,935	1,393
OTHER NON-INTEREST INCOME		32,597	31,546	26,057
Operating expenses	29	(54,820)	(51,811)	(46,331)
Impairment loss of assets held for sale	13	-	(2,100)	-
Recoveries of provisions/(provisions)	19	210	(962)	479
Losses incurred from management of pension assets	21	-	-	(5,163)
Insurance claims incurred, net of reinsurance	14, 28	(13,933)	(12,733)	(10,394)
NON-INTEREST EXPENSES		(68,543)	(67,606)	(61,409)
INCOME BEFORE INCOME TAX EXPENSE		88,931	84,729	48,019
Income tax expense	20	(16,522)	(14,768)	(8,511)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
NET INCOME		72,409	69,961	39,508
Attributable to:				
Non-controlling interest		272	444	117
Preferred shareholders		1,234	1,680	9,566
Common shareholders		70,903	67,837	29,825
		72,409	69,961	39,508
Basic earnings per share (in Kazakhstani Tenge)	30	6.41	5.93	3.12*
Diluted earnings per share (in Kazakhstani Tenge)	30	5.50	4.99	2.21*

*** As restated for share split – see Note 22**

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

14 March 2014
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 97 to 165 form an integral part of these consolidated financial statements.

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Net income	72,409	69,961	39,508
Other comprehensive income/(loss), net of tax			
Items that will not to be subsequently reclassified to profit or loss:			
Loss resulting on revaluation of property and equipment (2013, 2012, 2011 – net of tax – KZT 127 million, Nil, KZT 235 million)	(518)	(240)	(1,318)
Items that may be subsequently reclassified to profit or loss:			
(Loss)/gain on revaluation of available-for-sale investment securities (2013, 2012, 2011 – net of tax –KZT Nil)	(6,996)	7,059	(108)
Difference between carrying amount and fair value of investments held-to-maturity at the reclassification date (2013, 2012, 2011 – net of tax – KZT 443 million, Nil, Nil)	1,744	-	-
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2013, 2012, 2011 – net of tax – KZT Nil)	(1,884)	(1,626)	(84)
Reclassification adjustment relating to available-for-sale investment securities impaired during the year (2013, 2012, 2011 – net of tax – KZT Nil)	-	(99)	(114)
Exchange differences on translating foreign operations (2013, 2012, 2011 – net of tax – KZT Nil)	(520)	(101)	(137)
Other comprehensive (loss)/income for the year	(8,174)	4,993	(1,761)
Total comprehensive income for the year	64,235	74,954	37,747
Attributable to:			
Non-controlling interest	263	445	100
Preferred shareholders	1,094	1,801	9,142
Common shareholders	62,878	72,708	28,505
	64,235	74,954	37,747

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

14 March 2014
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 97 to 165 form an integral part of these consolidated financial statements.

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares								
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Common shares	Preferred shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2012	83,571	46,891	13,233	1,496	(39,974)	(41,054)	1,122	8,926	14,754	249,033	337,998	1,641	339,639
Net income	-	-	-	-	-	-	-	-	-	72,137	72,137	272	72,409
Other comprehensive loss	-	-	-	-	-	-	(520)	(7,136)	(509)	-	(8,165)	(9)	(8,174)
Total comprehensive (loss)/income	-	-	-	-	-	-	(520)	(7,136)	(509)	72,137	63,972	263	64,235
Treasury shares purchased	-	-	-	(423)	(11)	-	-	-	-	-	(434)	-	(434)
Treasury shares sold	-	-	-	342	11	3,494	-	-	-	-	3,847	-	3,847
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(2,197)	(2,197)	-	(2,197)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(12,215)	(12,215)		(12,215)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(971)	(971)
Difference on exit from subsidiary	-	-	-	-	-	-	-	-	-	275	275		275
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(437)	437	-	-	-
31 December 2013	83,571	46,891	13,233	1,415	(39,974)	(37,560)	602	1,790	13,808	307,470	391,246	933	392,179

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares								
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Common shares	Preferred shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2011	83,571	46,891	13,233	1,156	(39,960)	-	1,223	3,593	15,487	183,937	309,131	1,196	310,327
Net income	-	-	-	-	-	-	-	-	-	69,517	69,517	444	69,961
Other comprehensive (loss)/ income	-	-	-	-	-	-	(101)	5,333	(240)	-	4,992	1	4,993
Total comprehensive (loss)/ income	-	-	-	-	-	-	(101)	5,333	(240)	69,517	74,509	445	74,954
Treasury shares purchased	-	-	-	(227)	(45)	(41,054)	-	-	-	-	(41,326)	-	(41,326)
Treasury shares sold	-	-	-	567	31	-	-	-	-	-	598	-	598
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(4,914)	(4,914)	-	(4,914)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(493)	493	-	-	-
31 December 2012	83,571	46,891	13,233	1,496	(39,974)	(41,054)	1,122	8,926	14,754	249,033	337,998	1,641	339,639

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(Millions of Kazakhstani Tenge)

	Share capital											
	Common Shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Treasury shares (Common shares)	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2010	83,571	46,891	13,233	1,352	(93)	1,360	3,882	16,975	149,527	316,698	1,186	317,884
Net income	-	-	-	-	-	-	-	-	39,391	39,391	117	39,508
Other comprehensive loss	-	-	-	-	-	(137)	(289)	(1,318)	-	(1,744)	(17)	(1,761)
Total comprehensive (loss)/income	-	-	-	-	-	(137)	(289)	(1,318)	39,391	37,647	100	37,747
Treasury shares purchased	-	-	-	(215)	(39,901)	-	-	-	-	(40,116)	-	(40,116)
Treasury shares sold	-	-	-	19	34	-	-	-	-	53	-	53
Dividends – preferred shares	-	-	-	-	-	-	-	-	(5,151)	(5,151)	-	(5,151)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(90)	(90)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	(170)	170	-	-	-
31 December 2011	83,571	46,891	13,233	1,156	(39,960)	1,223	3,593	15,487	183,937	309,131	1,196	310,327

* These amounts are included within Retained earnings and other reserves in the consolidated statement of financial position.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

14 March 2014
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 97 to 165 form an integral part of these consolidated financial statements.

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received from financial assets at fair value through profit or loss	36	26	20
Interest received from cash equivalents and amounts due from credit institutions	3,686	2,799	2,006
Interest received on available-for-sale investment securities	16,320	14,342	12,969
Interest received on investments held to maturity	2,464	1,518	1,352
Interest received from loans to customers	140,159	135,305	137,658
Interest paid on amounts due to customers	(54,190)	(46,146)	(50,158)
Interest paid on amounts due to credit institutions	(865)	(633)	(920)
Interest paid on debt securities issued	(22,280)	(24,743)	(23,494)
Fee and commission received	52,331	49,203	42,127
Fee and commission paid	(7,139)	(5,991)	(5,568)
Insurance underwriting income received	32,500	27,711	27,955
Ceded reinsurance share paid	(15,066)	(9,525)	(13,067)
Other income received	8,550	10,202	9,135
Operating expenses paid	(49,004)	(45,643)	(38,923)
Insurance claims paid	(8,706)	(10,867)	(7,804)
Reimbursement of losses received from reinsurers	459	942	146
Cash flows from operating activities before changes in net operating assets	99,255	98,500	93,434
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Obligatory reserves	4,761	3,879	(25,633)
Financial assets at fair value through profit or loss	65	2,011	2,084
Amounts due from credit institutions	7,123	(12,097)	(185)
Precious metals	(17,488)	281	216
Loans to customers	(153,973)	(139,588)	(124,675)
Insurance assets	2,258	(2,240)	(3,084)
Other assets	3,915	(3,330)	10,279
Increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit or loss	(378)	(2,109)	(361)
Amounts due to customers	54,108	138,303	138,085
Amounts due to credit institutions	91,584	(26,715)	(29,809)
Insurance liabilities	93	(219)	3,537
Other liabilities	(1,017)	(2,725)	587

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Cash inflow from operating activities before income tax	90,306	53,951	64,475
Income tax paid	(20,016)	(11,836)	(8,021)
Net cash inflow from operating activities	70,290	42,115	56,454
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase and prepayments for property and equipment and intangible assets	(6,269)	(8,453)	(9,392)
Proceeds on sale of property and equipment	290	85	37
Proceeds on sale of available-for-sale investment securities	122,240	129,146	333,533
Purchase of available-for-sale investment securities	(125,356)	(149,171)	(363,272)
Proceeds from maturity of investments held to maturity	2,599	114,429	603,662
Proceeds from sale of investments held to maturity	10,541	-	-
Purchase of investments held to maturity	(1,609)	(59,531)	(506,970)
Net cash inflow from investing activities	2,436	26,505	57,598

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds on sale of treasury shares		3,847	598	53
Purchase of treasury shares		(434)	(41,326)	(40,116)
Dividends paid – preferred shares		(2,197)	(4,914)	(5,151)
Dividends paid – common shares		(12,215)	-	-
Dividends paid – subsidiaries		(971)	-	(90)
Proceeds on debt securities issued		-	-	71,585
Redemption and repurchase of debt securities issued		(116,136)	(13,111)	(17,179)
Net cash (outflow)/inflow from financing activities		(128,106)	(58,753)	9,102
Effect of changes in foreign exchange rate on cash and cash equivalents		8,194	4,024	3,556
Net change in cash and cash equivalents		(47,186)	13,891	126,710
CASH AND CASH EQUIVALENTS, beginning of the year	5	533,499	519,608	392,898
CASH AND CASH EQUIVALENTS, end of the year	5	486,313	533,499	519,608

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

14 March 2014
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 97 to 165 form an integral part of these consolidated financial statements.

JSC HALYK BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(Millions of Kazakhstani Tenge)

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank ("the Bank") and its subsidiaries (collectively, "the Group") provide retail and corporate banking services principally in Kazakhstan, Russia, Kyrgyzstan and Georgia, and pension asset management and insurance services in Kazakhstan. The primary state registration of the Bank with the authorities of justice of Kazakhstan was made on 20 January 1994. The Bank operates under the license No. 10 for carrying out of banking and other operations and activities on the securities market, renewed by the Committee for Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan ("FMSC" – previously known as Agency for Regulation and Supervision of Financial Market and Financial Organizations of the Republic of Kazakhstan) on 6 August 2008. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Deposit Insurance Fund.

The Bank's primary business includes originating loans and guarantees, attracting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations and rendering other banking services to its customers. In addition, the Bank acts as the agent of the Government of the Republic of Kazakhstan in channelling various budgetary payments and pensions through its nationwide branch network.

Trust activities

In the normal course of its business, the Group enters into agreements with customers to manage the customers' assets with limited decision making rights and in accordance with specific criteria established by the customers. The Group may only be liable for losses or actions aimed at appropriation of the customers' funds if such funds or securities are not returned to the customer. The maximum potential financial risk of the Group on any date is equal to the volume of the customers' funds, net of any unrealized income/loss on the customer's position. The balance of the customers' funds under the management of the Group, as at 31 December 2013 is KZT 1,234 billion (31 December 2012 – KZT 1,060 billion; 31 December 2011 – KZT 878 billion).

Legal proceedings

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

Operating environment

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

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

The Bank has a primary listing with Kazakhstan Stock Exchange ("KASE"). In addition, the Bank's Eurobonds issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank has also allocated Global Depository Receipts ("GDRs") through a listing on the London Stock Exchange.

In 2009, JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna"), an entity controlled by the Government of the Republic of Kazakhstan, acquired 259,064,909 common shares of the Bank for KZT 26,951 million and 196,232,499 non-convertible preferred shares of the Bank for KZT 33,049 million.

In 2011, the Bank acquired from JSC Almex Holding Group (hereafter – "the parent") a call option to purchase 213,000,000 of the Bank's common shares from Samruk-Kazyna at a fixed strike price of KZT 126.8 per share for KZT 12,867 million and immediately exercised the option and repurchased 213,000,000 of its own common shares from Samruk-Kazyna for KZT 27,008 million (see Note 22).

In 2012, the Bank acquired from the parent a call option to purchase 196,232,499 of the Bank's preferred shares from Samruk-Kazyna at a fixed strike price of KZT 179.94 per share for KZT 7,114 million with maturity of the option in May 2014. In June 2012 the Bank partially exercised the option and repurchased 190,000,000 of its own preferred shares from Samruk-Kazyna for KZT 26,991 million.

On 5 July 2012, the Bank repurchased 40,000,000 of its own preferred shares from Samruk-Kazyna at a price of KZT 180.21 per share for KZT 7,208 million. As a result, the Group has recorded KZT 41,054 million as a cost of acquired treasury shares (see Note 22). After the repurchase, Samruk-Kazyna continues owning 6,232,499 preferred shares of the Bank.

The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2013, 2012 and 2011, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 December 2013	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	10.6%
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan *	758,082,743	6.8%	661,367,710	6.1%	96,715,033	49.5%
GDR	2,093,909,040	18.9%	2,093,909,040	19.2%	-	-
Other	228,090,752	2.0%	150,042,269	1.3%	78,048,483	39.9%
Total shares in circulation (on consolidated basis)	**11,104,231,603**	**100%**	**10,908,700,519**	**100%**	**195,531,084**	**100%**

31 December 2012	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	7,559,973,820	68.2%	7,559,973,820	69.3%	-	-
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan *	758,082,743	6.8%	661,367,710	6.1%	96,715,033	55.1%
GDR	2,510,925,720	22.7%	2,510,925,720	23.0%	-	-
Other	254,416,525	2.3%	175,694,405	1.6%	78,722,120	44.9%
Total shares in circulation (on consolidated basis)	**11,083,398,808**	**100.0%**	**10,907,961,655**	**100.0%**	**175,437,153**	**100.0%**

31 December 2011	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	755,997,382	52.0%	755,997,382	69.4%	-	-
JSC SWF "Samruk-Kazyna"	196,232,499	13.5%	-	-	196,232,499	53.7%
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan *	162,851,804	11.2%	66,136,771	6.1%	96,715,033	26.5%
GDR	250,242,684	17.2%	250,242,684	23.0%	-	-
Other	89,664,870	6.2%	16,961,961	1.6%	72,702,909	19.9%
Total shares in circulation (on consolidated basis)	**1,454,989,239**	**100.0%**	**1,089,338,798**	**100.0%**	**365,650,441**	**100.0%**

* Common and preferred shares owned by JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan are not eliminated as those shares were purchased on clients' funds and are owned by the clients.

On 14 December 2012 the Bank performed share split of its common shares in proportion of one common share to ten common shares as described in Note 22.

As at 31 December 2013, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices and 400 cash settlement units (31 December 2012 – 22, 122, 410, respectively; 31 December 2011 - 22,122 and 445, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 109 V Abai Avenue, Almaty, 050008, Republic of Kazakhstan.

As at 31 December 2013, the number of the Group's full-time equivalent employees was 11,198 (31 December 2012 - 12,149, 31 December 2011 - 11,481).

The consolidated financial statements of the Group for the years ended 31 December 2013, 2012 and 2011 were authorised for issue by the Management Board on 14 March 2014.

2. BASIS OF PRESENTATION

Accounting basis

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

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

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as described in the accounting policies below.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the date of consolidated statement of financial position (current) and more than 12 months after the date of consolidated statement of financial position (non-current) is presented in Note 31.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Bank is KZT. The presentation currency of the consolidated financial statements is KZT.

Consolidated subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiaries	Holding, %			Country	Industry
	31 December 2013	31 December 2012	31 December 2011		
JSC Halyk Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	100	Netherlands	Issue and placement of Eurobonds, attracting of syndicated loans
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	100	Kazakhstan	Broker and dealer activities
LLP Halyk Inkassatsiya	100	100	100	Kazakhstan	Cash collection services
JSC Halyk Life	100	100	100	Kazakhstan	Life insurance
JSC Halyk Capital	N/a*	N/a*	100	Kazakhstan	Broker and dealer activities
LLP NBK-Finance	N/a***	100	100	Russia	Broker and dealer activities
JSC Kazakhinstrakh	100	100	100	Kazakhstan	Insurance
JSC Accumulation Pension fund of Halyk Bank of Kazakhstan ("APF")	96	96	96	Kazakhstan	Pension assets accumulation and management
JSC NBK Bank	100	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking
LLC Halyk Project	100	100	N/a**	Kazakhstan	Management of doubtful and loss assets

* In accordance with Decision of the Board of Directors of the Bank dated 26 December 2011, JSC Halyk Capital was reorganised by merging with JSC Halyk Finance. The actual transfer of assets was performed on 18 January 2012.

**JSC Halyk Bank established new subsidiary – LLC Halyk Project – Subsidiary of Halyk Bank of Kazakhstan for doubtful and loss asset management" with share capital of KZT 15 million. The main activity of LLC Halyk Project is management of property, which was recognized after the default of certain counterparties on loans to customers of the Bank. Registration date is 12 October 2012.

*** In accordance with the Decision of the Board of Directors of the Bank dated 3 July 2013, the Bank exited from partnership in LLP NBK-Finance by transferring its partnership share to a third party. The actual withdrawal was performed on 11 November 2013. As at 11 November 2013, net assets of LLP NBK-Finance have amounted to KZT Nil.

As at 31 December 2013, accumulated non-controlling interest amounted to KZT 933 million and is represented by non-controlling arising on the APF. Total assets of the APF as at 31 December 2013 amounted to KZT 22,107 million, total net assets amounted to KZT 21,190 million and net income earned during the year ended 31 December 2013 amounted to KZT 6,089 million.

On 23 January 2013, the President of the Republic of Kazakhstan N.A. Nazarbayev announced the necessity to establish a single pension fund with subsequent transfer of all pension assets under management of the private accumulative pension funds to the unified pension fund. In accordance with the Decree of Chairman of the National Bank of the Republic of Kazakhstan # 356 dated 24 September 2013 the schedule of transfer of pension assets and liabilities under management to the single accumulated pension fund was approved. In accordance with the Decree, a subsidiary of the Bank ("the APF") will complete the transfer of pension assets and liabilities under management to the single accumulated pension fund prior to 26 June 2014. However, at the date of issue of these consolidated financial statements there is no official decision or intention of the management of the Group to liquidate the APF.

Associates

JSC Processing Center, the associate, provides data processing services in Kazakhstan. It is classified within other assets and accounted for under the equity method:

Holding, %	Share in net loss	Total assets	Total liabilities	Equity	Total revenue
As at 31 December 2013 and for the year then ended*					
-	-	-	-	-	-
As at 31 December 2012 and for the year then ended					
25.14	(4)	11	-	11	1
As at 31 December 2011 and for the year then ended					
25.14	(15)	78	-	78	1

* In accordance with the Decision No.1/2013 dated 9 July 2013 of extraordinary General meeting of shareholders of JSC Processing Center and Certificate of FMSC NBK on annulment of share issues No. A4528 dated 13 September 2013 activity of JSC processing Center is ceased due to its voluntary liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

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

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

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

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

Non-controlling interest

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The non-controlling interest is initially measured at the non-controlling proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity and net income attributable to equity holders of the parent and attributable to non-controlling shareholders' interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the equity holders of the parent.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a Group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months. For purposes of determining cash flows, the obligatory reserve required by the National Bank of Kazakhstan ("NBK") is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the NBK and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange operations.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities are classified as at fair value through profit or loss where the financial asset or financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if:

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

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain from financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Reclassification of financial assets

The Group has reclassified certain non-derivative financial assets out of financial assets at fair through profit or loss category into the available-for-sale investment securities. Effective from 1 July 2009, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held for trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held to maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

During December 2013 the Group has reclassified entire category of investments held to maturity to available-for-sale investment securities as the Group has sold more than an insignificant amount of investments held to maturity before maturity. The Group is prohibited from classifying any financial asset as investments held to maturity during the 2014 and 2015 years. Reclassifications are recorded at fair value at the date of reclassification, with any difference between fair value and carrying value at the reclassification date recognized through the consolidated statement of other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position.

Collateral

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

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the consolidated income statement. Dividends declared are included in "Other income" in the consolidated income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts and premiums are recognized in interest income over the period to maturity using the effective interest method.

During December 2013 the Group has reclassified entire category of investments held to maturity to available-for-sale investment securities as the Group has sold more than an insignificant amount of investments held to maturity before maturity. The Group is prohibited from classifying any financial asset as investments held to maturity during the 2014 and 2015 years. Reclassifications are recorded at fair value at the date of reclassification, with any difference between fair value and carrying value at the reclassification date recognized through the consolidated statement of other comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Repurchase and reverse repurchase agreements and securities lending

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

Repos are treated as secured financing transactions. Securities sold under repos are retained in the consolidated statement of financial position and, in case the transferee has the right, by contract or custom, to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, loans to customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within "Net gain from financial assets and liabilities at fair value through profit and loss" in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in "Net gain from financial assets and liabilities at fair value through profit or loss" in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Group to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future and are customized contracts transacted in the over–the–counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating interest rate in return for paying or receiving, respectively, a fixed interest rate. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. The Group's currency swaps are mostly gross–settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over–the–counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed–upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed–upon value either on or before the expiration of the option.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (see also Note 31).

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Debt securities issued

Debt securities issued represent bonds issued by the Group, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

The factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is disclosed in more detail in Notes 11, 19 and 31.

Available-for-sale investment securities

If an available-for-sale investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. In respect of equity instruments classified as available-for-sale, impairment losses previously recognized in the consolidated income statement are not reversed through the consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. Renegotiated term is evidence of impairment for loans assessed for impairment on an individual basis, for which deterioration of the financial position is observed.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and constructions which are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

	Years
Buildings and constructions	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and constructions is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Assets held for sale

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

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

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Recorded amounts as at the consolidated statement of financial position date represent the Group's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the consolidated income statement net of any recoveries.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in the consolidated income statement. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Equity reserves

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

- Available-for-sale reserve which comprises changes in fair value of available-for-sale investment securities;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- Property revaluation reserve which comprises revaluation reserve of land and building.

Contingencies

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

Trust activities

Assets accepted and liabilities incurred under the trust activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Loan origination fees for loans issued to customers are (together with related direct costs) recognized as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry.

Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognized in the consolidated income statement as net gain or loss on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The market exchange rate at 31 December 2013 was KZT 153.61 to USD 1 (31 December 2012 – KZT 150.74; 31 December 2011 – KZT 148.40).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilizes accounting policies determined by FMSC for insurance companies of Kazakhstan.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the consolidated statement of financial position.

Losses and loss adjustments are charged to income statement as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred in the consolidated income statement.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalized and recorded in the accompanying consolidated statements of financial position within insurance assets. The asset related to deferred acquisition costs is subsequently amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

The incurred but not reported reserve ("IBNR") for motor, hull and liability insurance is actuarially determined and is based upon statistical claim data for the period typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by FMSC. Under this guidance, the IBNR reserve is calculated as using the expected loss ratio for each line of business, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated income statement in the period in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Application of new and revised International Financial Reporting Standards (IFRSs)

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

Standards affecting the financial statements

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

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

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

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

Impact of the application of IFRS 10.

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

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

Impact of the application of IFRS 11.

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

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

Impact of the application of IFRS 12.

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

Amendments to IFRS 7 Financial instruments: Disclosures.

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

In the current year, the Group transferred some financial assets that are not derecognised. The application of the amendments has resulted in more disclosures regarding the transfer of financial assets (see Note 17).

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

The Group has applied the amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the statement of comprehensive income. The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The financial statements have also been amended to analyse income tax on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

IFRS 13 Fair Value Measurement.

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

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

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

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

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

IAS 19 Employee Benefits (revised June 2011)

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

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

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9 Financial Instruments

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

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities[1]

Amendments to IAS 36 Impairment of Assets[1]

Amendments to IAS 39 Financial Instruments: Recognition and Measurement[1]

Amendments to IFRIC 21 Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

IFRS 9 Financial Instruments.

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

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

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

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

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

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities.

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

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

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

- The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

- IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

- The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

- IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

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

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables

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

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables.

Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

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

The carrying amount of the allowance for impairment losses of loans to customers as at 31 December 2013 is KZT 323,311 million (31 December 2012: KZT 302,926 million; 31 December 2011: KZT 291,303 million).

Valuation of financial instruments

As described in Note 34, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 34 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property and equipment carried at revalued amounts

Buildings and construction are measured at revalued amounts. The latest appraisal was in December 2013. The next revaluation is preliminary scheduled for 2014. Details of the valuation techniques used are set out in Note 12.

Taxation

Kazakhstan tax, currency and customs legislations are 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 Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar periods preceding the year of review.

As at 31 December 2013, Management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of incurred but not reported reserves ("IBNR") claims at the reporting date. For certain lines of business, IBNR claims form the majority of the statement of financial position claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Group actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by FMSC, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management's judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable and willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2013	31 December 2012	31 December 2011
Cash on hand	80,752	64,256	61,072
Recorded as loans and receivables in accordance with IAS 39:			
Short-term deposits with Organization for Economic Co-operation and Development countries (the "OECD") based banks	135,253	257,783	217,348
Correspondent accounts with OECD based banks	91,265	70,088	40,680
Correspondent accounts with National Bank of Republic of Kazakhstan (the "NBK")	83,769	114,175	77,952
Overnight deposits with OECD based banks	59,122	-	102,960
Short-term deposits with Kazakhstan banks (loans under reverse repurchase agreements)	32,326	3,510	5,528
Correspondent accounts with non-OECD based banks	2,159	5,194	2,086
Short-term deposits with non-OECD based banks	1,643	3,437	1,982
Overnight deposits with non-OECD based banks	24	55	-
Short-term deposit with NBK	-	15,001	10,000
	486,313	533,499	519,608

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are presented as follows:

	31 December 2013		31 December 2012		31 December 2011	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Short-term deposits with OECD based banks	6.9%	0.1%- 0.2%	-	0.2%-0.6%	1.0%	0.3%
Overnight deposits with OECD based banks	-	0.02% - 0.1%	-	-	-	0.1%-1.0%
Short-term deposits with Kazakhstan banks	-	-	-	-	0.7%-2.0%	-
Short-term deposits with non-OECD based bank	-	1.0% - 4.5%	-	3.0%-8.5%	-	4.4%-8.0%
Overnight deposits with non-OECD based banks	-	2.3%	-	3.8%	-	-
Short-term deposits with NBK	-	-	0.5%	-	0.5%	-

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2013, 2012 and 2011, are presented as follows:

	31 December 2013		31 December 2012		31 December 2011	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	32,279	48,936	3,459	3,721	5,528	5,596
Equity securities of Kazakhstan banks	47	47	51	51	-	-
	32,326	48,983	3,510	3,772	5,528	5,596

As at 31 December 2013, 2012 and 2011, maturities of loans under reverse repurchase agreements are less than 1 month.

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2013	31 December 2012	31 December 2011
Recorded as loans and receivables in accordance with IAS 39:			
Cash and due from banks allocated to obligatory reserves	44,276	49,037	52,916
	44,276	49,037	52,916

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of Kazakhstan, Kyrgyzstan, Georgia and Central Bank of Russian Federation and used for calculation of the minimum reserve requirement. As at 31 December 2013 obligatory reserves of OJSC Halyk Bank Kyrgyzstan, OJSC NBK Bank and JSC Halyk Bank Georgia comprised KZT 583 million (31 December 2012 – KZT 570 million, 31 December 2011 – KZT 383 million).

During 2012 the NBK amended the Regulation on minimum reserve requirements. In accordance with the amendment certain long-term liabilities with maturities greater than 1 year are now not included into the calculation of the minimum reserve level thus resulting in decrease of obligatory reserves. Decrease in obligatory reserves in 2013 relates to the repayment of debt securities and thus decrease in the composition of liabilities for determining the amount of obligatory reserves.

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

Financial assets at fair value through profit or loss comprise:

	31 December 2013	31 December 2012	31 December 2011
Financial assets held for trading:			
Corporate bonds	402	277	103
Derivative financial instruments	391	733	3,304
Bonds of foreign organizations	184	144	125
Bonds of JSC Development Bank of Kazakhstan	139	32	-
Bonds of Kazakhstan banks	119	-	-
Equity securities of Kazakhstan banks	61	-	220
Equity securities of Kazakhstan corporations	20	85	-
Equity securities of foreign organizations	18	-	-
	1,334	1,271	3,752

Financial liabilities at fair value through profit or loss comprise:

	31 December 2013	31 December 2012	31 December 2011
Financial liabilities held for trading:			
Derivative financial instruments	69	439	2,547

Interest rates of financial assets at fair value through profit or loss are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective financial assets:

	31 December 2013	31 December 2012	31 December 2011
Corporate bonds	5.3%	7.6%	9.0%
Bonds of foreign organizations	10.0%	13.8%	13.4%
Bonds of JSC Development Bank of Kazakhstan	5.3%	5.5%	-
Bonds of Kazakhstan banks	12.3%	-	-

Derivative financial instruments comprise:

	31 December 2013			31 December 2012			31 December 2011		
	Notional amount	Fair value		Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability		Asset	Liability
Foreign currency contracts									
Swaps	53,401	122	69	40,321	395	388	35,185	158	105
Forwards	15,116	18	-	32,159	83	51	76,958	3,085	2,442
Options	3,961	251	-	7,231	255	-	4,627	61	-
		391	69		733	439		3,304	2,547

As at 31 December 2013, 2012 and 2011, the Group used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on observable market data.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2013	31 December 2012	31 December 2011
Recorded as loans and receivables in accordance with IAS 39:			
Loans to credit institutions	14,322	15,931	2,286
Term deposits	8,593	15,765	11,499
Deposit pledged as collateral for derivative financial instruments	2,898	1,105	7,313
	25,813	32,801	21,098
Less - Allowance for loan impairment (Note 19)	(5)	(2)	(2)
	25,808	32,799	21,096

Interest rates and maturities of amounts due from credit institutions are presented as follows:

	31 December 2013		31 December 2012		31 December 2011	
	Interest rate, %	Maturity, year	Interest rate,%	Maturity, year	Interest rate,%	Maturity, year
Loans to credit institutions	8.2%-17.0%	2015-2020	8.2%-17.0%	2017	14.5%-17.0%	2015
Term deposits	0.5%-9.0%	2014-2015	0.5%-9.0%	2013-2014	0.5%-12.5%	2012-2014
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2014	0.2%-1.8%	2013	0.2%-1.8%	2012

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2013	31 December 2012	31 December 2011
Treasury bills of the Ministry of Finance of Kazakhstan	98,932	110,878	137,733
Corporate bonds	91,971	88,657	72,099
Bonds of foreign organizations	87,562	84,719	52,764
Treasury bills of the Russian Federation	28,909	11,254	8,156
Bonds of JSC Development Bank of Kazakhstan	19,363	20,839	9,318
Bonds of Kazakhstan banks	13,958	8,349	6,000
Local municipal bonds	4,019	3,997	4,035
Equity securities of Kazakhstan corporations	3,075	2,529	1,394
Equity securities of foreign corporations	1,683	136	-
Treasury bills of Georgia	562	-	-
Treasury bills of the Kyrgyz Republic	340	-	-
Equity securities of Kazakhstan banks	156	188	295
Mutual investment funds shares	22	1,927	2,950
NBK notes	-	889	11,146
	350,552	334,362	305,890

During 2013 the Group reclassified securities from Held-to-Maturity to Available-for-sale category. As at 31 December 2013, the fair value of the investments reclassified to investments available-for-sale amounted to KZT 16,892 million (see Note 10).

As at 31 December 2013, 2012 and 2011, investments available-for-sale included NBK notes, Treasury bills of the Ministry of Finance of Kazakhstan and equity securities of KZT 73,110 million, KZT 3,369 million and KZT 9,474 million, respectively, were pledged under repurchase agreements with the other banks (see Note 17). All repurchase agreements as at 31 December 2013, 2012 and 2011 mature before 8 January 2014, 23 January 2013, and 4 January 2012, respectively.

Interest rates and maturities of available-for-sale investment securities are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 December 2013		31 December 2012		31 December 2011	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	4.9%	2014-2027	4.5%	2013-2027	4.1%	2012-2027
Corporate bonds	7.0%	2014-2021	7.2%	2013-2021	7.1%	2012-2021
Bonds of foreign organizations	3.9%	2014-2021	3.8%	2013-2020	6.6%	2012-2020
Treasury bills of the Russian Federation	2.7%	2015-2018	3.4%	2015-2021	5.5%	2015-2021
Bonds of JSC Development Bank of Kazakhstan	4.9%	2015-2026	5.6%	2015-2026	7.2%	2015-2026
Bonds of Kazakhstan banks	9.3%	2014-2030	8.3%	2013-2022	8.9%	2012-2030
Local municipal bonds	4.9%	2015	4.9%	2015	4.9%	2015
Treasury bills of Georgia	12.8%	2016-2017	-	-	-	-
Treasury bills of the Kyrgyz Republic	8.9%	2014	-	-	-	-
NBK notes	-	-	1.0%	2013	1.2%	2012

On 31 December 2008, the Group reclassified certain debt and equity securities with total fair value of KZT 4,925 million out of financial assets at fair value through profit or loss category into the available-for-sale investment securities. The reclassification was made only for those securities which had a significant decline in volume of transactions in the financial markets as a result of the financial crisis. The Group revised its investment policy in relation to these securities and has the intention and ability to hold these securities for the foreseeable future.

Debt and equity securities which were reclassified are presented in the tables below.

		As at reporting date 31 December 2013	As at reporting date 31 December 2012	As at reclassification date 31 December 2008
Debt securities	Effective interest rate, %	Fair value and carrying amount	Fair value and carrying amount	Fair value and carrying amount
Bonds of JSC Development Bank of Kazakhstan	7.0%	3,120	3,265	2,213
Securities of foreign countries and organizations	9.8%-14.5%	-	-	1,987
		3,120	3,265	4,200

Equity securities	As at reporting date 31 December 2013	As at reporting date 31 December 2012	As at reclassification date 31 December 2008
	Fair value and carrying Amount	Fair value and carrying amount	Fair value and carrying amount
Equity securities of Kazakhstan corporations	54	59	74
Mutual investment funds shares	-	-	651
	54	59	725

The Group sold mutual investment funds shares during the year ended 31 December 2011.

Estimated future cash flows the Group expects to recover from debt securities which were reclassified are presented in the table below.

	As at reclassification date 31 December 2008
Debt securities	
Bonds of JSC Development Bank of Kazakhstan	4,711
	4,711

The net gain/(loss) that would have been recognized in the consolidated income statement if the securities had not been reclassified, is presented in the table below for the years ended 31 December 2013, 2012 and 2011.

Debt securities	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Bonds of JSC Development Bank of Kazakhstan	511	712	199
	511	712	199

Equity securities	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Equity securities of Kazakhstan corporations	2	37	3
Mutual investment funds shares	-	-	(139)
	2	37	(136)

10. INVESTMENTS HELD TO MATURITY

During December 2013 APF sold its investments held to maturity in order to pay dividends announced on 29 November 2013. As a result, on 13 December 2013 when a substantial part of its held-to-maturity investments was sold, the Group classified the remaining investments held-to-maturity to investments available for sale. The gain resulting from the remeasurement from amortized cost to fair value on financial assets reclassified from held-to-maturity to available for sale of KZT 2,187 million was recognized in other comprehensive income net of income tax of KZT 443 million. Gain on disposal of investments held-to-maturity recognized in the statement of profit or loss amounted to KZT 78 million. As at 31 December 2013, the fair value of the investments reclassified to investments available-for-sale amounted to KZT 16,892 million. The Group will not classify any financial assets as investments held to maturity for 2 financial years following the year of reclassification.

Investments held to maturity comprise:

	31 December 2013	31 December 2012	31 December 2011
Treasury bills of the Ministry of Finance of Kazakhstan	-	12,437	9,841
Corporate bonds	-	8,237	7,571
Bonds of Kazakhstan banks	-	3,065	515
Bonds of foreign organizations	-	996	-
Notes of National Bank of Georgia	-	579	877
Treasury bills of Kyrgyz Republic	-	225	190
Notes of National Bank of Kyrgyz Republic	-	222	-
NBK notes	-	5	59,860
	-	25,766	78,854

As at 31 December 2013, 2012 and 2011 investments held to maturity included NBK notes and Treasury bills of the Ministry of Finance of Kazakhstan pledged under repurchase agreements with the other banks amounting to nil, nil and KZT 19,869 million, respectively (Note 17). All repurchase agreements as at 31 December 2011 mature before 12 January 2012.

Interest rates and maturities of investments held to maturity are presented in the table below. Interest rates in the table below are calculated as the weighted average of the effective interest rates for the respective securities.

	31 December 2013		31 December 2012		31 December 2011	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Corporate bonds			12.6%	2015-2020	14.6%	2012-2017
Bonds of Kazakhstan banks	-	-	9.7%	2013-2016	5.6%	2015
Treasury bills of the Ministry of Finance of Kazakhstan	-	-	5.1%	2013-2030	7.2%	2012-2015
Bonds of foreign organizations	-	-	14.6%	2014-2016	-	-
Notes of National Bank of Georgia	-	-	13.2%	2016-2017	14.7%	2012-2016
Treasury bills of Kyrgyz Republic	-	-	14.1%	2013	14.9%	2012
Notes of National bank of Kyrgyz Republic	-	-	2.3%	2013	-	-
NBK notes	-	-	1.5%	2013	1.2%	2012

11. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2013	31 December 2012	31 December 2011
Recorded as loans and receivables in accordance with IAS 39:			
Originated loans to customers	1,803,471	1,619,850	1,471,436
Overdrafts	2,085	2,284	4,107
	1,805,556	1,622,134	1,475,543
Less – Allowance for loan impairment losses (Note 19)	(323,311)	(302,926)	(291,303)
Loans to customers	1,482,245	1,319,208	1,184,240

Average interest rate on loans to customers is calculated as interest income from loans to customers divided by average balances of loans to customers. For the year ended 31 December 2013 average interest rate on loans was 11.7% (for the year ended 31 December 2012 – 12.1%, for the year ended 31 December 2011 – 13.2%).

As at 31 December 2013, the Group had a concentration of loans to the ten largest borrowers of KZT 367,782 million that comprised 20% of the Group's total gross loan portfolio (31 December 2012 – KZT 331,012 million, 20%; 31 December 2011 – KZT 284,771 million, 19%) and 94% of the Group's total equity (31 December 2012 – 97%, 31 December 2011 – 92%).

As at 31 December 2013, an allowance for impairment amounting to KZT 51,189 million was made against these loans (31 December 2012 – KZT 45,966 million, 31 December 2011 – KZT 52,712 million).

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

	31 December 2013	31 December 2012	31 December 2011
Loans collateralized by pledge of real estate or rights thereon	707,582	787,676	674,613
Loans collateralized by guarantees	378,311	296,346	293,406
Consumer loans issued within the framework of payroll projects	273,248	195,422	138,773
Loans collateralized by cash	123,875	47,333	38,001
Loans collateralized by pledge of corporate shares	117,658	96,595	58,755
Loans collateralized by mixed types of collateral	61,113	48,938	137,332
Loans collateralized by pledge of inventories	31,046	17,320	22,757
Loans collateralized by pledge of agricultural products	26,458	72,000	49,490
Loans collateralized by pledge of vehicles	24,747	16,303	26,213
Loans collateralized by pledge of equipment	15,984	20,755	19,467
Unsecured loans*	45,534	23,446	16,736
	1,805,556	1,622,134	1,475,543
Less - Allowance for loan impairment losses (Note 19)	(323,311)	(302,926)	(291,303)
Total loans to customers	1,482,245	1,319,208	1,184,240

Loans are granted to the following sectors:

	31 December 2013	%	31 December 2012	%	31 December 2011	%
Retail loans:						
- consumer loans	291,471	16%	219,809	14%	168,766	11%
- mortgage loans	107,062	6%	110,141	7%	119,199	8%
	398,533		329,950		287,965	
Wholesale trade	341,489	19%	287,126	18%	287,987	19%
Services	233,492	13%	157,560	9%	122,038	8%
Construction	163,615	9%	168,244	10%	168,065	11%
Real estate	137,200	8%	120,038	7%	120,617	8%
Retail trade	117,816	7%	104,408	6%	100,847	7%
Financial services	94,702	5%	66,250	4%	-	-
Agriculture	84,934	5%	116,467	7%	94,155	6%
Transportation	40,145	2%	39,885	3%	44,223	3%
Metallurgy	39,276	2%	36,851	2%	37,023	3%
Mining	38,050	2%	36,143	2%	4,617	0%
Food industry	33,929	2%	37,414	2%	44,787	3%
Hotel industry	31,549	2%	32,668	2%	39,008	3%
Chemical industry	10,604	1%	41,127	3%	9,244	1%
Machinery	7,878	0%	9,416	1%	7,393	1%
Oil and gas	6,005	0%	10,836	1%	37,376	3%
Light industry	4,503	0%	4,553	0%	5,813	0%
Energy	3,403	0%	7,906	1%	56,665	4%
Communication	339	0%	1,642	0%	94	0%
Other	18,094	1%	13,650	1%	7,626	1%
	1,805,556	100%	1,622,134	100%	1,475,543	100%

As at 31 December 2013, the amount of accrued interest on loans comprised KZT 114,178 million (31 December 2012 – KZT 103,278 million, 31 December 2011 – KZT 112,313 million).

12. PROPERTY AND EQUIPMENT

The movements in property and equipment are presented as follows:

	Buildings and construction	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2012	51,813	2,363	21,307	13,793	89,276
Additions	740	327	1,617	2,659	5,343
Disposals	(689)	(157)	(608)	(649)	(2,103)
Transfers	1,038	-	161	(1,199)	-
Revaluation	(636)	-	-	-	(636)
Impairment	(175)	-	-	-	(175)
Translation differences	(188)	(2)	(6)	(8)	(204)
31 December 2013	51,903	2,531	22,471	14,596	91,501
Accumulated depreciation: 31 December 2012	652	1,236	15,715	6,668	24,271
Charge	825	305	2,150	1,565	4,845
Disposals	(202)	(153)	(538)	(321)	(1,214)
Write-off at revaluation	(1)	-	-	-	(1)
Translation differences	(9)	(2)	(1)	(2)	(14)
31 December 2013	1,265	1,386	17,326	7,910	27,887
Net book value: 31 December 2013	50,638	1,145	5,145	6,686	63,614

	Buildings and construction	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2011	47,866	1,882	19,433	15,807	84,988
Additions	4,083	661	1,996	2,274	9,014
Disposals	(334)	(181)	(442)	(2,005)	(2,962)
Transfers	1,976	-	315	(2,291)	-
Revaluation	(1,352)	-	-	-	(1,352)
Impairment	(457)	-	-	-	(457)
Translation differences	31	1	5	8	45
31 December 2012	51,813	2,363	21,307	13,793	89,276
Accumulated depreciation: 31 December 2011	1,175	1,164	13,012	6,122	21,473
Charge	1,645	245	3,233	922	6,045
Disposals	(8)	(180)	(532)	(377)	(1,097)
Write-off at revaluation	(2,170)	-	-	-	(2,170)
Translation differences	10	7	2	1	20
31 December 2012	652	1,236	15,715	6,668	24,271
Net book value: 31 December 2012	51,161	1,127	5,592	7,125	65,005

	Buildings and construction	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost: 31 December 2010	47,036	1,596	17,769	14,333	80,734
Additions	2,421	326	2,164	4,220	9,131
Disposals	(16)	(84)	(503)	(2,754)	(3,357)
Revaluation	(1,610)	-	-	-	(1,610)
Impairment	(1)	-	-	-	(1)
Translation differences	36	44	3	8	91
31 December 2011	47,866	1,882	19,433	15,807	84,988
Accumulated depreciation: 31 December 2010	649	1,010	10,434	4,653	16,746
Charge	579	188	3,066	1,888	5,721
Disposals	-	(79)	(489)	(420)	(988)
Write-off at revaluation	(58)	-	-	-	(58)
Translation differences	5	45	1	1	52
31 December 2011	1,175	1,164	13,012	6,122	21,473
Net book value: 31 December 2011	46,691	718	6,421	9,685	63,515

The Group's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of specific market or property indicators the Group may opt to perform revaluations more regularly.

During the year ended 31 December 2011, the Group identified a deterioration in market conditions for one of the properties due to its location, and as a result decided to revalue it in addition to the normal revaluation cycle, using three approaches, including the income approach, the comparative approach and the cost approach. The property in question had previously been carried at a revalued amount of KZT 2,259 million and as a result of the procedure was revalued at KZT 819 million.

The Group had its buildings and properties revalued during 2013 by an independent appraiser, Business Partner Consult LLP. The independent appraiser used three approaches to identify the fair value of the property and equipment - the income approach with the income capitalization method and the comparative approach, using market information to identify the fair value of buildings and structures under active market conditions, and the cost approach when no active market existed for items subject to revaluation.

As at 31 December 2013, the fair value measurements of the Group's buildings and constructions, are categorized into Level 2 and Level 3, in amount of KZT 49,955 million and KZT 683 million, respectively (description of measurement hierarchy is disclosed in Note 34).

As at 31 December 2013 total amount of fair value of buildings and construction was KZT 50,638 million. As at 31 December 2013 the carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 51,618 million.

13. ASSETS HELD FOR SALE

During 2010 and 2009, after the default of certain counterparties on loans to customers, the Group recognized the property pledged as collateral for the loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated. The type of assets recognized was land, buildings and constructions. The proceeds from disposal were expected to exceed the carrying value of the assets and accordingly no impairment losses have been recognized on these assets during the years 2011 and 2010. In June 2012 the Group performed an independent valuation of its assets held for sale. Based on the result of the valuation the Group recognized an impairment loss of KZT 2,100 million.

Despite the assets being actively marketed for sale, the majority have not been sold within a short timeframe. However, management remains committed to the sale of these assets. As the assets are carried at a price not in excess of the current fair value less costs to sell, they continue to be classified as held for sale at the end of 2013 and 2012.

As at 31 December 2013, the fair value measurement of the Group's assets held for sale is categorized into Level 2 and Level 3, in amount of KZT 2,883 million and KZT 29 million, respectively (description of measurement hierarchy is disclosed in Note 34).

14. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2013	31 December 2012	31 December 2011
Reinsurance premium unearned	7,424	7,065	8,582
Reinsurance amounts recoverable	3,184	5,003	1,744
	10,608	12,068	10,326
Premiums receivable	2,771	2,855	3,224
Insurance assets	13,379	14,923	13,550

Insurance liabilities comprised the following:

	31 December 2013	31 December 2012	31 December 2011
Reserves for insurance claims	16,209	13,108	8,146
Gross unearned insurance premium reserve	10,796	9,908	12,129
	27,005	23,016	20,275
Payables to reinsurers and agents	2,710	2,185	2,753
Insurance liabilities	29,715	25,201	23,028

Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations of the Group at the time of underwriting. The insurance risk is concentrated in the Republic of Kazakhstan.

Underwriting and pricing risk

The Group manages underwriting and pricing risk through the use of underwriting guidelines which detail the class, nature and type of business that may be accepted; pricing policies by product line and by brand; and centralized control of policy wordings and any subsequent changes.

Claims management risk

The risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experienced staff. These, together with a range of detailed policies and procedures ensure that all claims are handled in a timely, appropriate and accurate manner.

Reinsurance risk

Reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure. Acceptable reinsurers are rated A- or better unless specifically authorized.

Reserving risk

Reserving risk relates to both premiums and claims. It is the risk that reserves are assessed incorrectly such that insufficient funds have been remained to pay or handle claims as the amounts fall due. Claims development data provides information on the historical pattern of reserving risk.

Reserves for insurance claims have been established on the basis of information currently available, including potential outstanding loss notifications, and experience with similar claims.

The movements on claims reserves for the years ended 31 December 2013, 2012 and 2011, were as follows:

	2013	2012	2011
Reserves for claims, beginning of the year	13,108	8,146	8,982
Reserves for claims, reinsurance share, beginning of the year	(5,003)	(1,744)	(5,154)
Net reserves for claims, beginning of the year	8,105	6,402	3,828
Plus claims incurred	13,933	12,733	10,394
Less claims paid	(9,014)	(11,030)	(7,820)
Net reserves for claims, end of the year	13,024	8,105	6,402
Reserves for claims, reinsurance share, end of the year	3,185	5,003	1,744
Reserves for claims, end of the year	16,209	13,108	8,146

The movements on unearned insurance premium reserve for the years ended 31 December 2013, 2012 and 2011, were as follows:

	2013	2012	2011
Gross unearned insurance premium reserve, beginning of the year	9,908	12,129	5,550
Unearned insurance premium reserve, reinsurance share, beginning of the year	(7,065)	(8,582)	(2,561)
Net unearned insurance premium reserve, beginning of the year	2,843	3,547	2,989
Change in unearned insurance premium reserve	888	(2,221)	6,579
Change in unearned insurance premium reserve, reinsurance share	(359)	1,517	(6,021)
Change in unearned insurance premium reserve, net	529	(704)	558
Net unearned insurance premium reserve, end of the year	3,372	2,843	3,547
Unearned insurance premium reserve, reinsurance share, end of the year	7,424	7,065	8,582
Gross unearned insurance premium reserve, end of the year	10,796	9,908	12,129

15. OTHER ASSETS

Other assets comprise:

	31 December 2013	31 December 2012	31 December 2011
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Debtors on banking activities	6,293	5,429	2,873
Accrued commission for managing pension assets	1,204	2,239	382
Debtors on non-banking activities	891	1,076	1,217
Accrued other commission income	758	647	625
Other	9	3	9
	9,155	9,394	5,106
Less – Allowance for impairment (Note 19)	(4,413)	(1,576)	(1,125)

	31 December 2013	31 December 2012	31 December 2011
	4,742	7,818	3,981
Other non financial assets:			
Inventory	1,367	1,442	1,552
Corporate income tax prepaid	1,344	1,835	3,133
Prepayments for property and equipment	1,009	1,153	1,260
Investment property	907	-	-
Advances for taxes other than income tax	623	1,222	664
Deferred income tax asset (Note 20)	301	1,091	314
Investments in associates	24	53	67
Other	868	568	429
	6,433	7,364	7,419
Less - Allowance for impairment (Note 19)	(763)	(813)	(1,100)
	5,680	6,551	6,319
	10,422	14,369	10,300

16. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2013	31 December 2012	31 December 2011
Recorded at amortized cost:			
Term deposits:			
Individuals	644,732	543,591	426,219
Legal entities	557,059	401,705	420,648
	1,201,791	945,296	846,867
Current accounts:			
Legal entities	399,153	603,249	570,595
Individuals	165,704	150,637	140,014
	564,857	753,886	710,609
	1,766,648	1,699,182	1,557,476

As at 31 December 2013, the Group's ten largest groups of related customers accounted for approximately 32% of the total amounts due to customers (31 December 2012 – 42%; 31 December 2011 – 51%), where each group of related customers represents customers related to each other within that group.

Some customers of the Group acquire precious metals and hold them on metal accounts with the Group. The Group itself does not actively trade precious metals. As at 31 December 2013, significant amount of precious metals was placed with the Group, which in turn caused the increase in the Group's position on precious metals as at 31 December 2013 to KZT 16,857 million (31 December 2012 – KZT 1,646 million; 31 December 2012 – KZT 1,710 million). This account was closed within 1 month after the reporting date.

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2013	%	31 December 2012	%	31 December 2011	%
Individuals and entrepreneurs	810,436	46%	694,228	41%	566,233	36%
Oil and gas	306,889	17%	312,023	18%	326,157	21%
Other consumer services	148,380	8%	77,579	5%	53,124	3%
Wholesale trade	83,703	5%	107,014	6%	137,855	9%
Transportation	80,322	5%	58,308	3%	126,104	8%
Construction	69,094	4%	68,627	4%	72,824	5%
Financial sector	52,624	3%	123,951	7%	25,064	2%
Government	36,686	2%	78,316	5%	50,531	3%
Insurance and pension funds activity	31,176	2%	11,187	1%	17,058	1%
Education	17,332	1%	13,862	1%	13,110	1%
Metallurgy	13,949	1%	29,862	2%	27,207	2%
Communication	11,376	1%	28,675	2%	4,184	0%
Energy	9,751	0%	12,577	1%	57,679	4%
Healthcare and social services	7,771	0%	8,858	0%	10,511	1%
Other	87,159	5%	74,115	4%	69,835	4%
	1,766,648	100%	1,699,182	100%	1,557,476	100%

17. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2013	31 December 2012	31 December 2011
Recorded at amortized cost:			
Loans and deposits from Kazakhstan banks	81,786	4,784	29,340
Loans and deposits from non-OECD based banks	8,623	944	819
Overnight deposits	8,611	-	-
Loans and deposits from OECD based banks	3,831	5,403	8,717
Correspondent accounts	2,628	2,529	1,752
Loans from other financial institutions	1,916	1,542	1,006
	107,395	15,202	41,634

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2013		31 December 2012		31 December 2011	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Loans and deposits from Kazakhstan banks	0.5%-5.0%	2014	3.0%	2013	0.1%-0.5%	2012
Loans and deposits from non-OECD based banks	0.6%-4.5%	2014	5.5%	2013	2.5%-3.4%	2012-2013
Overnight deposits	0.5%-3.5%	2014	-	-	-	-
Loans and deposits from OECD based banks	1.0%-6.5%	2016-2023	0.8%-6.5%	2013-2023	1.1%-7.7%	2012-2023
Loans from other financial institutions	2.6%-6.0%	2014-2018	2.8%-5.2%	2014-2016	3.0%-3.9%	2012-2014

Fair value of assets pledged (Notes 9, 10) and carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2013, 2012 and 2011, are presented as follows:

	31 December 2013		31 December 2012		31 December 2011	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Treasury bills of the Ministry of Finance of Kazakhstan	73,110	67,804	2,943	2,791	-	-
Equity securities of Kazakhstan banks	-	-	426	300	-	-
NBK notes	-	-	-	-	28,429	27,001
	73,110	67,804	3,369	3,091	28,429	27,001

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2013, 2012 and 2011 are disclosed below:

	Investments available-for-sale (Note 9)	Investments held-to-maturity (Note 10)	Total
As at 31 December 2013:			
Carrying amount of transferred assets	73,110	-	73,110
Carrying amount of associated liabilities	67,804	-	67,804
As at 31 December 2012:			
Carrying amount of transferred assets	3,369	-	3,369
Carrying amount of associated liabilities	3,091	-	3,091
As at 31 December 2011:			
Carrying amount of transferred assets	9,474	19,869	29,829
Carrying amount of associated liabilities	8,998	18,003	27,001

In accordance with the contractual terms of the loans from certain OECD based banks, the Group is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

The Group's management believes that as at 31 December 2013, 2012 and 2011, the Group was in compliance with the covenants of the agreements the Group has with the trustees and holders of the notes.

18. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2013	31 December 2012	31 December 2011
Recorded at amortized cost:			
Subordinated debt securities issued:			
Fixed rate KZT denominated bonds	11,755	11,725	11,754
Reverse inflation indexed KZT denominated bonds	8,489	8,455	8,406
Inflation indexed KZT denominated bonds	3,941	3,926	3,951
Total subordinated debt securities outstanding	24,185	24,106	24,111
Unsubordinated debt securities issued:			
USD denominated bonds	165,330	277,813	276,566
KZT denominated bonds	-	-	10,391
Total unsubordinated debt securities outstanding	165,330	277,813	286,957
Total debt securities outstanding	189,515	301,919	311,068

The coupon rates and maturities of these debt securities issued follow:

	31 December 2013		31 December 2012		31 December 2011	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Subordinated debt securities issued:						
Fixed rate KZT denominated bonds	7.5%-13.0%	2014-2018	7.5%-13.0%	2014-2018	7.5%-13.0%	2014-2018
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016
Inflation indexed KZT denominated bonds	inflation rate plus 1%	2015	inflation rate plus 1%	2015	inflation rate plus 1%	2015
Unsubordinated debt securities issued:						
USD denominated bonds	7.3%	2017-2021	7.3%-9.3%	2013-2021	7.3%-9.3%	2013-2021
KZT denominated bonds	-	-	-	-	12.7%	2012

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Interest on debt securities issued is payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 December 2013, 2012 and 2011, the Group was in compliance with the covenants of the agreements the Group has with trustees and holders of the notes.

19. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

The movements in accumulated impairment of available-for-sale investment securities, the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers	Amounts due from credit institutions	Available-for-sale investment securities	Other assets	Total
31 December 2010	(253,237)	(2)	(1,212)	(1,989)	(256,440)
(Additional provisions recognized)/recoveries	(38,603)	-	114	(666)	(39,155)
Write-offs	1,427	-	-	407	1,834
Foreign exchange differences	(890)	-	-	23	(867)
31 December 2011	(291,303)	(2)	(1,098)	(2,225)	(294,628)
(Additional provisions recognized)/recoveries	(15,023)	(1)	99	(437)	(15,362)
Write-offs	5,500	-	-	271	5,771
Foreign exchange differences	(2,100)	1	-	2	(2,097)
31 December 2012	(302,926)	(2)	(999)	(2,389)	(306,316)
Additional provisions recognized	(22,996)	(3)	(41)	(2,981)	(26,021)
Write-offs	4,819	-	-	159	4,978
Foreign exchange differences	(2,208)	-	-	35	(2,173)
31 December 2013	(323,311)	(5)	(1,040)	(5,176)	(329,532)

Provision represents provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	2013	2012	2011
At the beginning of the year	(4,385)	(3,388)	(3,861)
Provisions	(5,564)	(8,778)	(9,983)
Recoveries of provisions	5,774	7,816	10,462
Foreign exchange differences	12	(35)	(6)
At the end of the year	(4,163)	(4,385)	(3,388)

20. TAXATION

The Bank and its subsidiaries, other than HSBK (Europe) B.V., JSC NBK Bank, OJSC Halyk Bank Kyrgyzstan and JSC Halyk Bank Georgia are subject to taxation in Kazakhstan. HSBK (Europe) B.V. is subject to income tax in the Netherlands. JSC NBK Bank is subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia.

The income tax expense comprises:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Current tax charge	19,435	16,231	7,889
Deferred income tax (benefit)/expense relating to origination and reversal of temporary differences	(2,913)	(1,463)	622
Income tax expense	16,522	14,768	8,511

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2013, 2012 and 2011. Income on state and other qualifying securities is tax exempt. Certain changes were made to the Tax Code of the Republic of Kazakhstan effective starting 1 January 2013. Major of those changes refer to introduction of dynamic provisions and deduction of interest expense. Interest expenses are deductible only to the extent of the amount of the interest repaid while remaining amount of accrued interest expense represents temporary difference.

The tax rates in the Netherlands, the Russian Federation, the Republic of Kyrgyzstan and Georgia are 20%, 20%, 10% and 15%, respectively.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on Kazakhstan statutory rate of 20% with the reported income tax expense is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Income before income tax expense	88,931	84,729	48,019
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	17,786	16,946	9,604
Tax-exempt interest income and other related income on state and other qualifying securities	(3,086)	(3,047)	(1,150)
Tax-exempt income on dividends	(75)	(446)	(925)
Income of subsidiaries taxed at different rates	(55)	(43)	(537)
Tax-exempt interest income on financial lease	(287)	(485)	(162)
Non-deductible expenditures:			
- general and administrative expenses	131	186	113
- other provisions	596	75	157
- charity	112	-	26
Other	1,400	1,582	1,385
Income tax expense	16,522	14,768	8,511

Deferred tax assets and liabilities comprise:

	31 December 2013	31 December 2012	31 December 2011
Tax effect of deductible temporary differences:			
Interest accrued, but not paid	2,788	-	-
Bonuses accrued	1,122	1,069	710
Vacation pay accrual	241	151	198
Fair value of derivatives	82	51	494
Insurance premium reserves	-	917	239
Other	94	557	334
Deferred tax asset	4,327	2,745	1,975
Tax effect of taxable temporary differences:			
Dynamic provisions (2012 and 2011: loans to customers, allowance for impairment provisions)	(3,115)	(5,056)	(5,410)
Property and equipment, accrued depreciation	(4,681)	(4,400)	(4,198)
Fair value of derivatives and investments available-for-sale	(475)	(105)	(646)
Other	(275)	-	-
Deferred tax liability	(8,546)	(9,561)	(10,254)
Net deferred tax liability	(4,219)	(6,816)	(8,279)

The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2013	31 December 2012	31 December 2011
Deferred tax asset (Note 15)	301	1,091	314
Deferred tax liability	(4,520)	(7,907)	(8,593)
Net deferred tax liability	(4,219)	(6,816)	(8,279)

Kazakhstan and other countries where the Group operates currently have a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

Movements in net deferred tax liability:

	2013	2012	2011
Net deferred tax liability at the beginning of the year	6,816	8,279	7,892
Deferred tax (benefit)/expense	(2,913)	(1,463)	622
Deferred tax expense through other comprehensive income on revaluation due to reclassification of investments held to maturity into available-for-sale	443	-	-
Credited to other comprehensive income at the date of property and equipment revaluation	(127)	-	(235)
Net deferred tax liability at the end of the year	4,219	6,816	8,279

Taxation

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

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

In Kazakhstan tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2013	31 December 2012	31 December 2011
Other financial liabilities:			
Salary payable	6,274	6,033	5,106
Creditors on non-banking activities	696	644	351
Payable for general and administrative expenses	608	243	242
Creditors on bank activities	602	1,720	312
Other	68	44	111
Amounts due to customers of pension funds	-	-	5,163
	8,248	8,684	11,285
Other non financial liabilities:			
Current income tax payable	2,257	3,329	232
Taxes payable other than income tax	1,361	1,351	3,171
Other prepayments received	344	760	1,181
	3,962	5,440	4,584
	12,210	14,124	15,869

JSC Accumulated Pension fund of Halyk Bank (the "Pension Fund Management Company") receives two types of fees (Note 25) – 15% for management of pension assets based on the investment income earned or loss incurred on the pension assets during the month and 0.05% earned monthly based on total net assets under administration.

During the third quarter of 2011 due to a significant fall in the market quotations of securities the pension assets portfolio incurred significant unrealized losses, which resulted in recognition of losses incurred from management of pension assets. Those liabilities were offset against income earned during 2012.

22. EQUITY

Authorized, issued and fully paid number of shares as at 31 December 2013, 2012 and 2011, were as follows:

31 December 2013

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(219,817,932)	10,908,700,519
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(194,325,596)	115,533,834
Convertible preferred	80,225,222	-	80,225,222	(227,972)	79,997,250

31 December 2012

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(220,556,796)	10,907,961,655
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(214,146,931)	95,712,499
Convertible preferred	80,225,222	-	80,225,222	(500,568)	79,724,654

31 December 2011

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	2,400,000,000	(1,091,584,040)	1,308,415,960	(219,077,162)	1,089,338,798
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(24,055,613)	285,803,817
Convertible preferred	80,225,222	-	80,225,222	(378,598)	79,846,624

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2010	1,301,511,007	285,887,396	79,930,201	83,478	46,891	13,233
Purchase of treasury shares from Samruk-Kazyna (including the cost of the call option – see Note 1)	(213,000,000)	-	-	(39,875)	-	-
Purchase of treasury shares	(2,606,739)	(84,111)	(83,577)	(26)	-	-
Sale of treasury shares	3,434,530	532	-	34	-	-
31 December 2011	1,089,338,798	285,803,817	79,846,624	43,611	46,891	13,233
Increase in shares (split)	9,820,102,490	-	-			
Purchase of treasury shares from Samruk Kazyna (including the cost of the call option – see Note 1)	-	(190,000,000)	-	-	(41,054)	-
Other purchases of treasury shares	(4,482,640)	(91,364)	(146,970)	(45)	-	-
Sale of treasury shares	3,003,007	46	25,000	31	-	-
31 December 2012	10,907,961,655	95,712,499	79,724,654	43,597	5,837	13,233
Purchase of treasury shares	(9,901,883)	(688,005)	(101,169)	(11)	-	-
Sale of treasury shares	10,640,747	20,509,340	373,765	11	3,494	-
31 December 2013	10,908,700,519	115,533,834	79,997,250	43,597	9,331	13,233

Common shares

In accordance with the Decision made on extraordinary shareholders meeting held 6 December 2012, the Bank increased total amount of shares by performing a split of the common shares in proportion of one common share to ten common shares. The split was performed on 14 December 2012.

At 31 December 2013, the Group held 219,817,932 of the Group's common shares as treasury shares at KZT 39,974 million (31 December 2012 –220,556,796 at KZT 39,974 million; 31 December 2011 – 219,077,162 at KZT 39,960 million).

Each common share is entitled to one vote and dividends.

Preferred shares

In accordance with IAS 32 "Financial Instruments: Presentation", both the non-convertible and convertible preferred shares (together, the "Preferred Shares") are classified as compound instruments. On a return of capital on liquidation, the assets of the Group available for distribution are applied in priority to any payment to the holders of common shares in paying to the holders of the Preferred Shares an amount equal to the nominal capital paid up or credited as paid up.

The terms of the Preferred Shares require that the Group pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on Preferred Shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the Preferred Shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on Preferred Shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the share prospectus and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation as published by the NBK plus one per cent, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation as published by the NBK plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders. The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Dividends paid for the previous financial years were as follows:

	Paid in 2013 for the year ended 31 December 2012	Paid in 2012 for the year ended 31 December 2011	Paid in 2011 for the year ended 31 December 2010
Dividend paid per one preferred share, (convertible and non-convertible), tenge	11.20	13.44	14.08
Dividend paid per one common share	1.12	-	-

Share premium reserve

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

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the share prospectus. This payment is calculated such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

Retained earnings

Up until September 2013 the Group has calculated impairment provisions in accordance with the requirements of the regulator. The difference between an impairment provision accrued in accordance with IFRS and an impairment provision presented in accordance with requirements of the regulator was recorded as a special reserve, which as at 31 December 2012 amounted to KZT 34,594 million and was included into the retained earnings. This reserve is not distributable.

Due to amendments to Legal act of the National Bank of the Republic of Kazakhstan in 2013, the Bank ceased accruing impairment provisions in accordance with the requirements of the Regulator and formed dynamic reserves. Dynamic reserves represent reserves to absorb non-current expected losses on the Bank's loan portfolio during credit shocks should they arise. Dynamic reserves are calculated by multiplying the balance and changes in the balance of the Bank's loans to customers by certain indicators approved by the NBK. As at 31 December 2013, dynamic provisions amounted to KZT 19,568 million and were included into the retained earnings on the consolidated statement of financial position.

23. COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies

The Group's financial commitments and contingencies comprised the following:

	31 December 2013	31 December 2012	31 December 2011
Guarantees issued	156,699	117,730	86,707
Commercial letters of credit	12,093	20,970	13,479
Commitments to extend credit	13,810	16,146	10,716
Financial commitments and contingencies	182,602	154,846	110,902
Less: cash collateral against letters of credit	(6,249)	(12,177)	(4,266)
Less: provisions (Note 19)	(4,163)	(4,385)	(3,388)
Financial commitments and contingencies, net	172,190	138,284	103,248

Guarantees issued represent bank guarantees issued by the Bank by order of its clients, and which are in effect as at the reporting date. As at 31 December 2013, the ten largest guarantees accounted for 83% of the Group's total financial guarantees (31 December 2012 – 78%; 31 December 2011 – 75%) and represented 33% of the Group's total equity (31 December 2012 – 27%; 31 December 2011 – 21%).

Commercial letters of credit represent letters of credit issued by the Bank by order of its clients, and under which as at the reporting date, the payment has not yet been made. As at 31 December 2013, the ten largest unsecured letters of credit accounted for 49% of the Group's total commercial letters of credit (31 December 2012 – 41%; 31 December 2011 – 68%) and represented 1.5% of the Group's total equity (31 December 2012 – 3%; 31 December 2011 – 3%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as at 31 December 2013, 2012 and 2011.

Operating lease commitments

There was no material operating lease commitments under non-cancellable operating leases outstanding as at 31 December 2013, 2012 and 2011.

24. NET INTEREST INCOME

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
- interest income on impaired assets*	89,901	89,986	109,567
- interest income on unimpaired assets	76,591	56,418	42,306
Interest income on available-for-sale investment securities	16,035	14,562	14,274
Interest income on financial assets recorded at fair value through profit or loss	36	28	19
Total interest income	182,563	160,994	166,166
Interest income on loans to customers	160,559	141,036	145,434
Interest income on amounts due from credit institutions and cash and cash equivalents	3,531	2,153	2,644
Interest income on investments held to maturity	2,402	3,215	3,795
Total interest income on financial assets recorded at amortized cost	166,492	146,404	151,873
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held for trading	36	28	19
Total interest income on financial assets at fair value through profit or loss	36	28	19
Interest income on available-for-sale investment securities	16,035	14,562	14,274
Total interest income	182,563	160,994	166,166
Interest expense comprises:			
Interest expense on financial liabilities recorded at amortized cost	(75,932)	(69,934)	(78,894)
Total interest expense	(75,932)	(69,934)	(78,894)
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest expense on amounts due to customers	(53,954)	(44,945)	(51,962)
Interest expense on debt securities issued	(21,038)	(24,370)	(26,044)
Interest expense on amounts due to credit institutions	(940)	(619)	(888)
Total interest expense on financial liabilities recorded at amortized cost	(75,932)	(69,934)	(78,894)
Net interest income before impairment charge	106,631	91,060	87,272

*Interest income on impaired assets includes interest income on impaired individually-assessed loans and interest income on collectively-assessed financial assets.

25. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Bank transfers - settlements	10,260	9,387	8,145
Pension fund and asset management	9,537	15,915	10,756
Cash operations	7,338	5,112	3,785
Payment cards maintenance	6,823	5,434	4,399
Bank transfers – salary projects	5,922	5,456	4,710
Servicing customers' pension payments	4,234	3,705	3,266
Letters of credit and guarantees issued	3,510	2,380	2,752
Maintenance of customer accounts	984	1,175	797
Other	2,798	2,518	2,212
	51,406	51,082	40,822

Fee and commission income from Pension fund and asset management was derived from the following:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Income from administration of pension assets	6,120	5,334	4,284
Investment income from management of pension assets	3,417	10,581	6,472
	9,537	15,915	10,756

Fee and commission expense comprised the following:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Deposit insurance	(3,435)	(2,801)	(2,767)
Payment cards	(1,361)	(1,090)	(841)
Commission paid to collectors	(614)	(685)	(605)
Foreign currency operations	(368)	(243)	(217)
Bank transfers	(260)	(230)	(245)
Other	(1,101)	(942)	(893)
	(7,139)	(5,991)	(5,568)

26. NET GAIN FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Net gain on operations with financial assets and liabilities classified as held for trading:			
Net gain on derivative operations	161	1,452	37
Unrealized net gain/(loss) on trading operations	113	(481)	(222)
Realized (loss)/gain on trading operations	(13)	(802)	613
Total net gain on operations with financial assets and liabilities classified as held for trading	261	169	428

27. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Dealing, net	6,667	7,021	4,652
Translation differences, net	2,594	2,032	4,533
Total net gain on foreign exchange operations	9,261	9,053	9,185

28. INSURANCE UNDERWRITING INCOME

Insurance underwriting income/expense comprised:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Insurance premiums written, gross	34,331	27,952	30,401
Change in unearned insurance premiums, net	(734)	323	(558)
Ceded reinsurance share	(14,186)	(10,511)	(14,872)
	19,411	17,764	14,971
Insurance payments	8,457	10,419	7,513
Insurance reserves	5,033	1,940	2,659
Commissions to agents	443	374	222
	13,933	12,733	10,394
Total insurance income	5,478	5,031	4,577

29. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Salaries and other employee benefits	30,899	29,228	24,297
Depreciation and amortization expenses	5,747	7,036	6,920
Taxes other than income tax	2,443	1,960	2,166
Professional services	1,835	240	242
Repair and maintenance	1,559	1,601	1,342
Security	1,436	1,430	1,404
Rent	1,248	1,244	1,146
Communication	1,238	1,268	1,201
Advertisement	1,138	1,028	812
Information services	941	742	719
Insurance agents fees	717	862	665
Business trip expenses	639	627	574
Stationery and office supplies	599	633	716
Charity	564	423	144
Transportation	525	531	433
Social events	324	103	96
Write-off and impairment of property and equipment and intangible assets	175	457	1
Hospitality expenses	53	69	65
Other	2,740	2,329	3,388
	54,820	51,811	46,331

30. EARNINGS PER SHARE

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

According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 22, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Basic earnings per share			
Net income for the year attributable to equity holders of the parent	72,137	69,517	39,391
Less: Dividends paid on preferred shares	(2,197)	(4,914)	(5,151)
Earnings attributable to common shareholders	69,940	64,603	34,240
Weighted average number of common shares for the purposes of basic earnings per share	10,906,545,755	10,897,316,521	10,960,582,702
Basic earnings per share (in Kazakhstani Tenge)**	6.41	5.93	3.12
Diluted earnings per share			
Earnings used in the calculation of basic earnings per share	69,940	64,603	34,240
Add: Dividends paid on convertible preferred shares	899	1,073	1,130
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders*	N/A	N/A	N/A
Less: Amounts payable to convertible preferred shareholders upon conversion	(10,455)	(10,950)	(10,976)
Earnings used in the calculation of total diluted earnings per share	60,384	54,726	24,394
Weighted average number of common shares for the purposes of basic earnings per share	10,906,545,755	10,897,316,521	10,960,582,702
Shares deemed to be issued:			
Weighted average number of common shares that would be issued for the convertible preferred shares	79,886,934	79,775,610	79,913,151
Weighted average number of common shares for the purposes of diluted earnings per share	10,986,432,689	10,977,092,131	11,040,495,853
Diluted earnings per share (in Kazakhstani Tenge)**	5.50	4.99	2.21

* The calculation of basic and diluted earnings per share includes only earnings attributable to holders of common shares because dividends already paid on preference shares are greater than that would be paid on full distribution of current period earnings.

**Basic and diluted earnings per share for the year ended 31 December 2011 were presented based on the new number of shares resulting from the share split on 14 December 2012 (see Note 22).

As required by KASE rules for listed companies the book value of one share per each class of shares as at 31 December 2013, 2012 and 2011, is disclosed as follows:

	31 December 2013		
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	10,908,700,519	362,761	33.25
Non-convertible preferred	115,533,834	10,510	90.97
Convertible preferred	79,997,250	13,291	166.14
		386,562	

Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
		31 December 2012	
Common	10,907,961,655	313,738	28.76
Non-convertible preferred	95,712,499	7,074	73.91
Convertible preferred	79,724,654	13,233	165.98
		334,045	

Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
		31 December 2011	
Common	1,089,338,798	243,052	223.12
Non-convertible preferred	285,803,817	48,128	168.40
Convertible preferred	79,846,624	13,233	165.73
		304,413	

The amount of equity attributable to non-convertible preferred shares is calculated as the sum of non-convertible shares carrying amount and the share premium reserve attributable to non-convertible preferred shares. The amount of equity attributable to convertible preferred shares is calculated as carrying amount of convertible shares. The amount of equity attributable to common shares is calculated as the difference between the total equity, total net book value of intangible assets, and the amounts attributable to preferred shares.

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

31. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit risk

Credit risk is the risk of loss arising for the Group when counterparty is unable to meet its contractual obligations on time or in full.

The Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for credit risk identification and evaluation and implementation of control and monitoring measures. The Risk Management division directly participates in credit decision-making processes and consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimization measures, controls limits and monitors credit risks, provides relevant reporting to management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

The risk that the counterparty will not meet its obligations is restricted by the limits covering on and off-balance sheet exposure.

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

Structure and authorities of credit committees

Credit committees, ALMC, the Management Board and the Board of Directors are credit authorities responsible for implementation of the Bank's Credit Policy and credit decision-making process.

Head Office Credit Committee (CC)

CC is the committee, the primary goal of which is implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee (BCC, BNCC)

BCC and BNCC are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to the small and medium enterprises customers.

Delegated credit authority limits for BCC and BNCC are established by the Management Board. BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision-making by the BNCC involves consideration of a package of documents, including complex analysis and assessments of the potential borrowers conducted by the Bank's experts.

Retail Branch Credit Committee of the Head Office and Decision Making Center (RCCHO and DMC)

RCCHO and DMC are credit decision authorities, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

DMC comprises of credit underwriters with delegated credit authorities based on four eyes principle. DMC makes credit decisions within their authorities and limits established by the Management Board and RCCHO. RCCHO is authorized to consider loan applications that exceed relevant credit limits or the authorities of the DMC, as well as other matters within the authorities established by the Management Board.

Along with the process of decision-making via the credit decision authorities mentioned above, there is an automated approach of decision-making process for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account risk-profile of the potential borrower and allows minimizing the credit risk exposure in the decision-making process.

Problem loans committee of the Head Office, branches

Are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorized credit authorities of the Bank subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the Authorized credit authorities in accordance with the internal rules and regulations of the subsidiary. Loan applications exceeding the established limits and authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant Credit committee according to the Bank's internal rules and regulations.

ALMC

ALMC is the committee, the primary goal of which is profit maximization and to limit the risks of banking activities related to raising and allocation of funds. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risks management.

ALMC is also responsible for establishing country and counterparty-banks limits. ALMC reports to the Board of Directors.

The Management Board

For loan applications exceeding the authorities of the Head Office Credit Committee, Branch Network Credit Committee, Retail Credit Committee of the Head Office, or exceeding the relevant limits of Branch Network Credit Committee, Retail Credit Committee of the Head Office have to be considered by the Management Board.

The Board of Directors

If the loan applications exceed 5% of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 23). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

	31 December 2013			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	405,561	-	405,561	32,326
Obligatory reserves	44,276	-	44,276	-
Financial assets at fair value through profit or loss (less equity securities)	1,235	-	1,235	-
Amounts due from credit institutions	25,808	-	25,808	-
Available-for-sale investment securities (less equity securities)	345,638	-	345,638	-
Loans to customers	1,482,245	-	1,482,245	1,436,711
Other financial assets	4,742	-	4,742	-
	2,309,505	-	2,309,505	1,469,037
Commitments and contingencies	178,439	-	178,439	6,249

	31 December 2012			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	469,243	-	469,243	3,510
Obligatory reserves	49,037	-	49,037	-
Financial assets at fair value through profit or loss (less equity securities)	1,186	-	1,186	-
Amounts due from credit institutions	32,799	-	32,799	-
Available-for-sale investment securities (less equity securities)	331,509	-	331,509	-
Investments held to maturity	25,766	-	25,766	-
Loans to customers	1,319,208	-	1,319,208	1,295,762
Other financial assets	7,818	-	7,818	-
	2,236,566	-	2,236,566	1,299,272
Commitments and contingencies	150,461	-	150,461	12,177

	31 December 2011			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	458,536	-	458,536	5,528
Obligatory reserves	52,916	-	52,916	-
Financial assets at fair value through profit or loss (less equity securities)	3,752	-	3,752	2,932
Amounts due from credit institutions	21,096	-	21,096	-
Available-for-sale investment securities (less equity securities)	304,201	-	304,201	-
Investments held to maturity	78,854	-	78,854	-
Loans to customers	1,184,240	-	1,184,240	1,167,504
Other financial assets	3,981	-	3,981	-
	2,107,576	-	2,107,576	1,175,964
Commitments and contingencies	107,514	-	107,514	4,266

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group, before any impairment losses:

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2013 Total
Cash equivalents*	10,104	27,246	248,914	117,087	1,856	354	405,561
Obligatory reserves	-	-	-	43,755	-	521	44,276
Financial assets at fair value through profit or loss	-	-	161	714	298	161	1,334
Amounts due from credit institutions	-	-	2,010	15,891	7,678	234	25,813
Available-for-sale investment securities	7,918		29,548	283,998	25,786	4,342	351,592
Other financial assets	-	-	-	-	-	9,155	9,155
Commitments and contingencies	-	-	-	-	-	182,602	182,602

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2012 Total
Cash equivalents*	21,272	180,231	78,188	185,375	1,655	2,522	469,243
Obligatory reserves	-	-	-	49,037	-	-	49,037
Financial assets at fair value through profit or loss	-	-	297	492	222	260	1,271
Amounts due from credit institutions	-	-	309	15,809	16,376	307	32,801
Available-for-sale investment securities	-	20	42,427	249,218	37,041	6,655	335,361
Investments held to maturity	-	5	-	16,346	8,968	447	25,766
Other financial assets	-	-	-	-	-	9,394	9,394
Commitments and contingencies	-	-	-	-	-	154,846	154,846

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2011 Total
Cash equivalents*	109,353	105	246,950	94,255	1,660	6,213	458,536
Obligatory reserves	-	-	-	52,916	-	-	52,916
Financial assets at fair value through profit or loss	21	-	236	3,065	269	161	3,752
Amounts due from credit institutions	-	-	7,145	950	12,852	151	21,098
Available-for-sale investment securities	1,909	-	35,997	218,125	44,038	6,919	306,988
Investments held to maturity	-		-	75,017	667	3,170	78,854
Other financial assets	-	-	-	-	-	5,106	5,106
Commitments and contingencies	-	-	-	-	-	110,902	110,902

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Group, and this classification is verified by the Risk Management function.

The Group is using an internal rating model to classify loans in different risk categories.

After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the Risk management department.

The following classifications are used by the rating model:

• Rating score 1 - superior loan rating, minimal credit risk;

• Rating score 2 - very high quality of loan, very low credit risk;

• Rating score 3 - high quality of loan, low credit risk;

• Rating score 4 - satisfactory quality of loan, insignificant risk;

• Rating score 5 - credit risk can increase at economic variation;

• Rating score 6 - high risk at economic variation;

• Rating score 7 - high risk of default, paying capacity of the borrower depends on favourable economic circumstances;

• Rating score 8 - very high risk of default;

• Rating score 9 - procedure of bankruptcy is initiated but repayments are still made by the borrower;

• Rating score 10 – default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that had been assessed collectively.

Rating score	31 December 2013	31 December 2012	31 December 2011
1	-	-	-
2	-	-	-
3	2,091	33,943	26,950
4	93,919	82,088	71,191
5	408,967	233,258	152,319
6	182,164	334,553	298,812
7	272,550	184,845	223,738
8	116,449	95,017	107,407
9	7,215	30,081	50,077
10	244,146	218,944	182,138
Loans to customers that individually assessed for impairment	1,327,501	1,212,729	1,112,632
Loans to customers that collectively assessed for impairment	478,055	409,405	362,911
	1,805,556	1,622,134	1,475,543
Less – Allowance for loan impairment (Note 19)	(323,311)	(302,926)	(291,303)
Loans to customers	1,482,245	1,319,208	1,184,240

The following table details the carrying value of assets that are impaired and for those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2013 Total
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	25,813	(5)	-	-	-	-	25,808
Available-for-sale investment securities	350,522	-	1,040	(1,040)	-	-	350,552
Loans to customers	776,471	(39,454)	551,030	(226,935)	478,055	(56,922)	1,482,245
Other financial assets	3,490	-	5,665	(4,413)	-	-	4,742

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2012 Total
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	32,801	(2)	-	-	-	-	32,799
Available-for-sale investment securities	334,362	-	999	(999)	-	-	334,362
Investments held to maturity	25,766	-	-	-	-	-	25,766
Loans to customers	654,809	(29,509)	557,920	(217,437)	409,405	(55,980)	1,319,208
Other financial assets	6,580	-	2,814	(1,576)	-	-	7,818

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2011 Total
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	21,084	-	-	-	14	(2)	21,096
Available-for-sale investment securities	305,890	-	1,098	(1,098)	-	-	305,890
Investments held to maturity	78,854	-	-	-	-	-	78,854
Loans to customers	510,241	(27,905)	602,391	(214,503)	362,911	(48,895)	1,184,240
Other financial assets	3,774	-	1,332	(1,125)	-	-	3,981

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations in a due time. The Group's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

Short-term liquidity needs are managed by the Group's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Group analyzes the financial assets and liabilities, and obligatory reserves taking into account payment schedules for loans issued to customers. The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, except for financial assets at fair value through profit or loss which are included in the column "Less than 1 month" as they are available to meet the Group's short-term liquidity needs.

	31 December 2013					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	462,744	23,569	-	-	-	486,313
Obligatory reserves	25,666	3,095	11,145	2,360	2,010	44,276
Financial assets at fair value through profit or loss	1,334	-	-	-	-	1,334
Amounts due from credit institutions	2,784	1,539	5,183	16,297	5	25,808
Available-for-sale investment securities	11,292	20,090	31,346	221,720	66,104	350,552
Loans to customers	176,593	174,538	869,799	217,895	43,420	1,482,245
Other financial assets	4,262	217	64	140	59	4,742
	684,675	223,048	917,537	458,412	111,598	2,395,270
FINANCIAL LIABILITIES:						
Amounts due to customers	954,509	126,847	531,262	121,948	32,082	1,766,648
Amounts due to credit institutions	99,191	2,945	627	1,141	3,491	107,395
Financial liabilities at fair value through profit or loss	69	-	-	-	-	69
Debt securities issued	2,377	-	5,329	109,368	72,441	189,515
Other financial liabilities	6,571	307	1,232	138	-	8,248
	1,062,717	130,099	538,450	232,595	108,014	2,071,875
Net position	(378,042)	92,949	379,087	225,817	3,584	
Accumulated gap	(378,042)	(285,093)	93,994	319,811	323,395	

	31 December 2013					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	290,793	242,706	-	-	-	533,499
Obligatory reserves	28,587	3,298	12,270	2,633	2,249	49,037
Financial assets at fair value through profit or loss	1,271	-	-	-	-	1,271
Amounts due from credit institutions	48	6,557	8,094	17,799	301	32,799
Available-for-sale investment securities	3,125	17,403	57,373	189,484	66,977	334,362
Investments held to maturity	260	157	2,203	18,231	4,915	25,766
Loans to customers	185,647	159,602	627,777	287,899	58,283	1,319,208
Other financial assets	7,011	228	51	177	351	7,818
	516,742	429,951	707,768	516,223	133,076	2,303,760
FINANCIAL LIABILITIES:						
Amounts due to customers	1,032,288	131,690	421,072	85,479	28,653	1,699,182
Amounts due to credit institutions	8,903	26	1,208	1,307	3,758	15,202
Financial liabilities at fair value through profit or loss	366	41	32	-	-	439

	31 December 2013					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Debt securities issued	109	-	116,592	107,847	77,371	301,919
Other financial liabilities	7,269	158	1,092	165	-	8,684
	1,048,935	131,795	539,996	194,798	109,782	2,025,426
Net position	(532,193)	298,036	167,772	321,425	23,294	
Accumulated gap	(532,193)	(234,157)	(66,385)	255,040	278,334	

	31 December 2013					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	304,338	215,270	-	-	-	519,608
Obligatory reserves	29,743	7,119	12,340	2,698	1,016	52,916
Financial assets at fair value through profit or loss	3,752	-	-	-	-	3,752
Amounts due from credit institutions	33	673	13,995	6,395	-	21,096
Available-for-sale investment securities	7,650	14,270	78,579	140,687	64,704	305,890
Investments held to maturity	79	39,935	23,418	13,106	2,316	78,854
Loans to customers	166,974	182,126	591,410	169,950	73,780	1,184,240
Other financial assets	3,510	112	167	115	77	3,981
	516,079	459,505	719,909	332,951	141,893	2,170,337
FINANCIAL LIABILITIES:						
Amounts due to customers	870,078	211,151	366,080	80,035	30,132	1,557,476
Amounts due to credit institutions	31,827	250	1,663	3,859	4,035	41,634
Financial liabilities at fair value through profit or loss	2,547	-	-	-	-	2,547
Debt securities issued	118	10,391	282	133,167	167,110	311,068
Other financial liabilities	5,646	279	5,329	29	2	11,285
	920,216	222,071	373,354	217,094	201,277	1,924,010
Net position	(394,137)	237,434	346,555	115,861	(59,386)	
Accumulated gap	(394,137)	(156,703)	189,852	305,713	246,327	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Group possesses a right to unilaterally call back part of long-term loans provided to customers in ten months period after proper notification would be issued by the Group.

A significant portion of the Group's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, and bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group indicate that these deposits provide a long-term and stable source of funding for the Group. Therefore an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
Amounts due to customers	956,471	132,320	547,930	197,744	53,166	1,887,631
Amounts due to credit institutions	99,286	2,965	637	1,292	5,810	109,990
Debt securities issued	2,377	-	20,332	151,928	84,054	258,691
Other financial liabilities	6,571	307	1,232	138	-	8,248
Guarantees issued	156,699	-	-	-	-	156,699
Commercial letters of credit	12,093	-	-	-	-	12,093
Commitments to extend credit	13,810	-	-	-	-	13,810
	1,247,307	135,592	570,131	351,102	143,030	2,447,162
Derivative financial assets	68,517	-	1,212	-	-	69,729
Derivative financial liabilities	68,446	-	961	-	-	69,407

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2012 Total
Amounts due to customers	1,034,737	138,449	442,552	190,069	50,566	1,856,373
Amounts due to credit institutions	8,911	46	1,260	1,771	6,503	18,491
Debt securities issued	2,837	-	136,139	162,548	90,452	391,976
Other financial liabilities	7,269	158	1,092	165	-	8,684
Guarantees issued	117,730	-	-	-	-	117,730
Commercial letters of credit	20,970	-	-	-	-	20,970
Commitments to extend credit	16,146	-	-	-	-	16,146
	1,208,600	138,653	580,043	354,553	147,521	2,430,370
Derivative financial assets	33,728	4,307	-	-	-	38,036
Derivative financial liabilities	33,619	3,165	-	958	-	37,742

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2011 Total
Amounts due to customers	872,042	217,484	387,796	173,085	54,699	1,705,106
Amounts due to credit institutions	31,829	252	1,703	4,121	7,255	45,160
Debt securities issued	232	20,906	2,312	140,277	167,984	331,711
Other financial liabilities	5,645	279	5,329	32	-	11,285
Guarantees issued	86,707	-	-	-	-	86,707
Commercial letters of credit	13,479	-	-	-	-	13,479
Commitments to extend credit	10,716	-	-	-	-	10,716
	1,020,650	238,921	397,140	317,515	229,938	2,204,164
Derivative financial assets	32,551	-	-	-	-	32,551
Derivative financial liabilities	31,794	-	-	-	-	31,794

Market risk

Market risk is a risk that Group's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Group is exposed to market risks which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimize risk/return, minimize losses in case of adverse events and decrease deviation of factual financial results from the expected one.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review at least on an annual basis and should be monitored continuously.

Interest rate risk

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decrease, interest expense increase or negative impact on equity resulting from adverse changes of market interest rates.

The Group determines two types of interest rate risk:

- Interest rate risk related to securities portfolios changes in fair value of which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rates repricing) mismatch that are sensitive to the interest rates changes (risk of interest rates changes).

ALMC manages interest rate risks and market risks through the management of the Group's position on interest rates to reach positive interest margins. Budgeting and Controlling Department monitors current results of the Group's financial activity, estimates the Group's sensitivity in relation to interest rates changes and influence on the Group's profits.

The Group manages interest rates by determining the Group's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities by 200 basis points.

Sensitivity analysis of interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2013, 2012 and 2011, and the effect of revaluing instruments with fixed rates accounted at fair value. The management of the Group believes income tax not to have substantial effect for the purpose of interest rate risk management.

Impact on income before tax based on asset values as at 31 December 2013, 2012 and 2011:

	31 December 2013		31 December 2012		31 December 2011	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	336	(336)	24	(24)	24	(24)
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	45	(45)	23	(23)	-	-
Net impact on income before tax	381	(381)	47	(47)	24	(24)

The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluation of available-for-sale investment securities with fixed rates.

Impact on equity:

	31 December 2013		31 December 2012		31 December 2011	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	336	(336)	24	(24)	24	(24)
Available-for-sale investment securities	(19,471)	19,471	(19,346)	19,346	(15,350)	15,350
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	45	(45)	23	(23)	-	-
Net impact on equity	(19,090)	19,090	(19,299)	19,299	(15,326)	15,326

Currency Risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Group.

ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rate fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the Group's open currency position with the aim to comply with the requirements of the regulatory authority.

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority.

The Group's exposure to foreign currency exchange rate risk follows:

	31 December 2013			31 December 2012			31 December 2011		
	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total
FINANCIAL ASSETS:									
Cash and cash equivalents	160,380	325,933	486,313	71,763	461,736	533,499	58,108	461,500	519,608
Obligatory reserves	23,693	20,583	44,276	24,324	24,713	49,037	23,531	29,385	52,916
Financial assets at fair value through profit or loss	806	528	1,334	303	968	1,271	399	3,353	3,752
Amounts due from credit institutions	23,293	2,515	25,808	21,205	11,594	32,799	11,526	9,570	21,096
Available-for-sale investment securities	174,393	176,159	350,552	177,232	157,130	334,362	202,142	103,748	305,890
Investments held to maturity	-	-	-	17,233	8,533	25,766	73,459	5,395	78,854
Loans to customers	973,606	508,639	1,482,245	965,552	353,656	1,319,208	763,741	420,499	1,184,240
Other financial assets	4,297	445	4,742	6,571	1,247	7,818	3,585	396	3,981
	1,360,468	1,034,802	2,395,270	1,284,183	1,019,577	2,303,760	1,136,491	1,033,846	2,170,337

	31 December 2013			31 December 2012			31 December 2011		
	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total
FINANCIAL LIABILITIES:									
Amounts due to customers	984,705	781,943	1,766,648	1,030,300	668,882	1,699,182	915,930	641,546	1,557,476
Amounts due to credit institutions	78,607	28,788	107,395	5,382	9,820	15,202	27,811	13,823	41,634
Financial liabilities at fair value through profit or loss	69	-	69	-	439	439	-	2,547	2,547
Debt securities issued	24,184	165,331	189,515	23,977	277,942	301,919	34,502	276,566	311,068
Other financial liabilities	8,051	197	8,248	8,463	221	8,684	11,047	238	11,285
	1,095,616	976,259	2,071,875	1,068,122	957,304	2,025,426	989,290	934,720	1,924,010
Net balance sheet position	264,852	58,543	323,395	216,061	62,273	278,334	147,201	99,126	246,327

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group's USD denominated monetary assets and liabilities.

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Group had significant exposure at 31 December 2013, 2012 and 2011, and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed only in respect to balance sheet items, excluding off-balance sheet items. The actual sensitivity of the Group to fluctuations in exchange rates will be lower than the calculated values due to the fact that off-balance sheet position substantially neutralize the balance sheet position. The management of the Group believes income tax not to have substantial effect for the purpose of currency risk management.

Impact on income before tax based on asset values as at 31 December 2013, 2012 and 2011, calculated using currency rate fluctuations analysis:

	31 December 2013		31 December 2012		31 December 2011	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD
Impact on income before tax	13,493	(13,493)	15,140	(15,140)	19,826	(19,826)

Impact on equity:

	31 December 2013		31 December 2012		31 December 2011	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	-25% KZT/USD	-10% KZT/USD
Impact on equity	13,493	(13,493)	15,140	(15,140)	19,826	(19,826)

Limitations of sensitivity analysis

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

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

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

Price risk

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

To limit price risk the Group determines limits for maximum losses (stop-loss) on each security from trade portfolio to minimize potential losses of trade portfolio.

Price risk assessment is also made on the basis of VaR method through establishment of Expected Shortfall (ES) limits on the level of the expected losses, which the Bank is able to undertake within one day in situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidence interval – 95%;
- The method of measurement – historical simulation.

The Group estimates the price risk at 31 December 2013, 2012 and 2011, to be not material and therefore quantitative information is not disclosed.

32. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are as follows:

- To comply with the capital requirements set by the FMSC;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined by taking into account the above objectives during the process of preparing the annual budget, and is approved by the Management Board and the Board of Directors. The capital adequacy of the Group is controlled according to the principles, methods and coefficients employed by Basel Committee. There have been no changes as to the way the Group measures capital.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interest less accrued dividends, net long position in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt calculated based on remaining maturities and limited to 50% of Tier 1 capital and revaluation reserves.

The risk-weighted assets are measured based on a hierarchy of five risk weighting according to the nature of – and reflecting an estimate of credit, market 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.

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2013, 2012 and 2011. During those three years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2013	31 December 2012	31 December 2011
Composition of regulatory capital			
Tier 1			
Share capital, net of treasury shares	66,161	62,667	103,735
Share premium	1,415	1,496	1,156
Retained earnings and other reserves	323,670	273,835	204,240
Less: property and equipment and available-for-sale investment securities revaluation and translation reserves	(16,200)	(24,802)	(20,303)
Less: goodwill	(3,085)	(3,085)	(3,085)
Non-controlling interest	933	1,641	1,196
Total qualifying tier 1 capital	372,894	311,752	286,939
Tier 2			
Subordinated debt	12,557	16,363	20,940
Property and equipment and available-for-sale investment securities revaluation and translation reserves	16,200	24,802	20,303
Total qualifying tier 2 capital	28,757	41,165	41,243
Less: investments in associates	(24)	(53)	(67)
Total regulatory capital	401,627	352,864	328,115
Risk weighted assets	2,170,709	1,923,978	1,718,905
Tier 1 capital ratio	17.2%	16.2%	16.7%
Total capital adequacy ratio	18.5%	18.3%	19.1%

Basel standards set minimum capital adequacy ratio and tier 1 capital at 8% and 4%, respectively.

33. SEGMENT ANALYSIS

The Group is managed and reported on the basis of two main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

Retail banking offers a range of personal banking, savings and mortgage products and services. Corporate banking offers business banking services principally to small and medium sized companies and commercial loans to larger corporate and commercial customers.

The products and services offered by each segment are:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages to individuals and cash and foreign currency related services.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products to legal entities.

Other – representing capital market services, insurance services, and documentary operations with guarantees issued and commercial letters of credit.

The segment information below is presented on the basis used by the Bank's Chairperson of the Management Board, who is the Group's chief operating decision maker, to evaluate performance, in accordance with IFRS 8. The Management of the Group reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and amounts due to credit institutions and operating expenses other than salaries and other employee benefits.

There were no transactions between business segments during the years ended 31 December 2013, 2012 and 2011. Segment assets and liabilities exclude certain unallocated amounts. Unallocated assets include obligatory reserves, property and equipment and other unallocated assets. Unallocated liabilities include debt securities issued, amounts due to credit institutions and other unallocated liabilities.

Segment information for the main reportable business segments of the Group as at 31 December 2013, 2012 and 2011 and for the years then ended, is set out below:

	Retail banking	Corporate banking	Other	Total
As at 31 December 2013 and for the year then ended				
External revenues	101,141	142,089	23,336	266,566
Total revenues	101,141	142,089	23,336	266,566
Total revenues comprise:				
- Interest income	59,805	122,758	-	182,563
- Fee and commission income	38,790	12,616	-	51,406
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	261	261
- Net realized gains from available-for-sale investment securities	-	-	1,884	1,884
- Net gain on foreign exchange operations	2,546	6,715	-	9,261
- Insurance underwriting income and other income	-	-	21,191	21,191
Total revenues	101,141	142,089	23,336	266,566
- Interest expense on amounts due to customers	(40,440)	(13,514)	-	(53,954)
- Impairment charge	(2,798)	(23,223)	-	(26,021)
- Fee and commission expense	(1,363)	(5,776)	-	(7,139)
- Salaries and other employee benefits	(6,499)	(24,400)	-	(30,899)
- Advertisement expenses	(1,138)	-	-	(1,138)
- Recoveries of other provisions	-	210	-	210
Segment result	48,903	75,386	23,336	147,625
Unallocated costs:				
- Interest expense from debt securities issued and amounts due to credit institutions				(21,978)
- Insurance claims incurred, net of reinsurance				(13,933)

	Retail banking	Corporate banking	Other	Total
- Unallocated operating expenses				(22,783)
				58,694
Income before income tax expense				88,931
Income tax expense				(16,522)
Net income				72,409
Total segment assets	437,301	1,557,065	351,910	2,346,276
Unallocated assets				160,138
Total assets				2,506,414
Total segment liabilities	(810,436)	(956,211)	(4,163)	(1,770,810)
Unallocated liabilities				(343,425)
Total liabilities				2,114,235
Other segment items:				
Capital expenditure (unallocated)				(6,269)
Depreciation and amortization (unallocated)				(5,747)

	Retail banking	Corporate banking	Other	Total
As at 31 December 2012 and for the year then ended				
External revenues	75,052	146,076	22,494	243,622
Total revenues	75,052	146,076	22,494	243,622
Total revenues comprise:				
- Interest income	49,817	111,177	-	160,994
- Fee and commission income	22,802	28,280	-	51,082
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	169	169
- Net realized gains from available-for-sale investment securities	-	-	1,626	1,626
- Net gain on foreign exchange operations	2,433	6,620	-	9,053
- Share in net loss of associates	-	(1)	-	(1)
- Insurance underwriting income and other income	-	-	20,699	20,699
Total revenues	75,052	146,076	22,494	243,622
- Interest expense on amounts due to customers	(32,579)	(12,366)	-	(44,945)
- Impairment charge	(3,428)	(11,934)	-	(15,362)
- Fee and commission expense	(1,106)	(4,885)	-	(5,991)
- Salaries and other employee benefits	(5,926)	(23,302)	-	(29,228)
- Advertisement expenses	(1,028)	-	-	(1,028)
- Other provisions	-	(962)	-	(962)
Segment result	30,985	92,627	22,494	146,106

	Retail banking	Corporate banking	Other	Total
Unallocated costs:				
- Interest expense from debt securities issued and amounts due to credit institutions				(24,989)
- Insurance claims incurred, net of reinsurance				(12,733)
- Unallocated operating expenses				(21,555)
- Impairment loss of non-current assets held for sale				(2,100)
				(61,377)
Income before income tax expense				84,729
Income tax expense				(14,768)
Net income				69,961
Total segment assets	354,887	1,531,189	361,452	2,247,528
Unallocated assets				160,470
Total assets				2,407,998
Total segment liabilities	(694,228)	(1,004,953)	(4,385)	(1,703,566)
Unallocated liabilities				(364,793)
Total liabilities				(2,068,359)
Other segment items:				
Capital expenditure (unallocated)				(8,453)
Depreciation and amortization (unallocated)				(7,036)

	Retail banking	Corporate banking	Other	Total
As at 31 December 2011 and for the year then ended				
External revenues	71,978	144,191	16,876	233,045
Total revenues	71,978	144,191	16,876	233,045
Total revenues comprise:				
- Interest income	42,303	123,863	-	166,166
- Fee and commission income	27,283	13,539	-	40,822
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	428	428
- Net realized gain from available-for-sale investment securities	-	-	84	84
- Net gain on foreign exchange operations	2,392	6,793	-	9,185
- Share in net loss of associate	-	(4)	-	(4)
- Insurance underwriting income and other income	-	-	16,364	16,364
Total revenues	71,978	144,191	16,876	233,045
- Interest expense on amounts due to customers	(32,836)	(19,126)	-	(51,962)
- Impairment charge	(8,173)	(30,982)	-	(39,155)
- Fee and commission expense	(855)	(4,713)	-	(5,568)

	Retail banking	Corporate banking	Other	Total
- Salaries and other employee benefits	(4,576)	(19,721)	-	(24,297)
- Advertisement expenses	(812)	-	-	(812)
- Other provisions	-	479	-	479
- Losses incurred from management of pension assets	(5,163)	-	-	(5,163)
Segment result	19,563	70,128	16,876	106,567
Unallocated costs:				
- Interest expense from debt securities issued and amounts due to credit institutions				(26,932)
- Insurance claims incurred, net of reinsurance				(10,394)
- Unallocated operating expenses				(21,222)
				(58,548)
Income before income tax expense				48,019
Income tax expense				(8,511)
Net income				39,508
Total segment assets	309,982	1,415,345	388,563	2,113,890
Unallocated assets				160,040
Total assets				2,273,930
Total segment liabilities	(566,233)	(991,242)	(3,388)	(1,560,863)
Unallocated liabilities				(402,740)
Total liabilities				(1,963,603)
Other segment items:				
Capital expenditure (unallocated)				(9,392)
Depreciation and amortization (unallocated)				(6,920)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2013, 2012 and 2011, and for the years then ended.

	Kazakhstan	OECD	Non OECD	Total
2013				
Total assets	2,071,205	333,259	101,950	2,506,414
External revenues	256,463	2,995	7,108	266,566
Capital expenditure	(6,269)	-	-	(6,269)
2012				
Total assets	1,947,751	404,924	55,323	2,407,998
External revenues	235,582	4,174	3,866	243,622
Capital expenditure	(8,453)	-	-	(8,453)
2011				
Total assets	1,795,044	434,947	43,939	2,273,930
External revenues	224,935	4,080	4,030	233,045
Capital expenditure	(9,392)	-	-	(9,392)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

34. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unlisted equity securities.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The tables below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2013, 2012 and 2011, before any allowances for impairment losses:

Financial Assets/Liabilities	Fair value at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2013	31 December 2012	31 December 2011				
Non-derivative financial assets at fair value through profit or loss (Note 7)	1,025	779	448	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss excluding options (Note 7)	140	478	3,243	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss - options (Note 7)	251	255	61	Level 2	Binominal model with primary data based on average price without using maximum and minimum values from KASE.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss excluding options (Note 7)	69	439	2,547	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Non-derivative available-for-sale investment securities (Note 9)	348,498	301,304	273,584	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities included in bonds of foreign organizations (Note 9)	931	31,816	30,972	Level 2	Discounted cash flows. Future cash flows discounted using LIBOR adjusted for credit risk of the issuer obtained from available sources	Not applicable	Not applicable
Non-derivative available-for-sale investment securities – unquoted equity securities (Note 9)	1,123	1,242	1,334	Level 3	Valuation model based on internal rating model	Percentage discount	The greater discount - the smaller fair value

There were no transfers between Level 1 and 2 during the years ended 31 December 2013, 2012 and 2011.

	Available-for-sale investment securities Unquoted equity securities (Level 3)
31 December 2010	1,485
Total gains or losses	14
- to profit or loss	1
- in other comprehensive income	13
Redemption/sale	(165)
31 December 2011	1,334
Total gains or losses	(13)

	Available-for-sale investment securities Unquoted equity securities (Level 3)
- to profit or loss	2
- in other comprehensive income	(15)
Redemption/sale	(179)
31 December 2012	1,242
Total gains or losses	(41)
- to profit or loss	(27)
- in other comprehensive income	(14)
Redemption/sale	(78)
31 December 2013	1,123

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

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts due from and to credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2013		31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Amounts due from credit institutions	25,808	27,757	32,799	35,872	21,096	20,390
Loans to customers	1,482,245	1,582,638	1,319,208	1,351,271	1,184,240	1,194,183
Investments held-to-maturity	-	-	25,766	26,031	78,854	72,905
Financial liabilities						
Amounts due to customers	1,766,648	1,763,968	1,699,182	1,689,642	1,557,476	1,537,631
Amounts due to credit institutions	107,395	106,350	15,202	15,984	41,634	43,673
Debt securities issued	189,515	212,827	301,919	331,322	311,068	308,168

The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

35. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The ultimate shareholder of the Group Timur Kulibayev (please see Note 1) held the position of Chairman in Samruk-Kazyna in the period from 12 April 2011 till 26 December 2011. Timur Kulibayev held the position of Chairman of the Board of Directors in subsidiaries of Samruk-Kazyna, including JSC NC KazMunayGas from 21 May 2009 till 12 January 2012 and JSC NC Kazatomprom from 17 October 2008 till 12 January 2012. According to the requirements of IAS 24, applicable for annual reports for periods starting 1 January 2011, the entity is considered as related to the reporting entity if a person, who has control or joint control over reporting entity is considered as member of key management personnel of the entity or a parent of the entity. Accordingly, Samruk-Kazyna together with its subsidiaries were considered as related parties until 26 December 2011, except for JSC NC KazMunayGas and JSC NC Kazatomprom, which were considered as related parties up to and including 12 January 2012.

The transactions and balances with Samruk-Kazyna are disclosed as a separate line in related party transactions disclosure below for the periods in which Samruk-Kazyna was a shareholder of the Group.

The Group had the following transactions outstanding as at 31 December 2013, 2012 and 2011, with related parties:

	31 December 2013		31 December 2012		31 December 2011	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Financial assets at fair value through profit or loss	31	1,334	33	1,271	31	3,752
- Samruk-Kazyna and its subsidiaries	31		33		31	
Available-for-sale investment securities before allowance for impairment	33,218	350,552	61,171	334,362	54,342	305,890
- Samruk-Kazyna and its subsidiaries	33,218		61,171		54,342	
Investments held to maturity	-	-	6,958	25,766	5,138	78,854
- Subsidiaries of Samruk-Kazyna	-		6,958		5,138	
Loans to customers before allowance for impairment losses	6,852	1,805,556	8,221	1,622,134	11,466	1,475,543
- entities with joint control or significant influence over the entity	5,948		6,738		10,195	
- key management personnel of the entity or its parent	-		-		43	
- other related parties	904		1,483		1,228	
Allowance for impairment losses	(216)	(323,311)	(298)	(302,926)	(3,549)	(291,303)
- entities with joint control or significant influence over the entity	(202)		(298)		(3,183)	
- key management personnel of the entity or its parent	(14)		-		(4)	
- other related parties	-		-		(362)	
Amounts due to customers	102,039	1,766,648	56,441	1,699,182	289,227	1,557,476
- the parent	60,184		36,457		22,421	
- entities with joint control or significant influence over the entity	33,546		558		679	
- associates	27		75		152	
- key management personnel of the entity or its parent	2,602		2,057		1,929	
- Samruk-Kazyna and its subsidiaries	477		11,765		240,765	
- other related parties	5,203		5,529		23,281	
Amounts due to credit institutions	141	107,395	54	15,202	202	41,634
- Subsidiaries of Samruk-Kazyna	141		54		202	

Included in the consolidated income statement for the years ended 31 December 2013, 2012 and 2011, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2013		Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	1,966	182,563	2,292	160,994	4,159	166,166
- entities with joint control or significant influence over the entity	749		684		1,052	
- key management personnel of the entity or its parent	-		-		4	
- Subsidiaries of Samruk-Kazyna	1,137		1,466		2,921	
- other related parties	80		142		182	
Interest expense	(2,319)	(75,932)	(2,207)	(69,934)	(8,339)	(78,894)
- the parent	-		(1,410)		(933)	
- entities with joint control or significant influence over the entity	(1,792)		-		(9)	
- key management personnel of the entity or its parent	(111)		(125)		(131)	
-Samruk-Kazyna and its subsidiaries	(346)		(528)		(6,024)	
- other related parties	(70)		(144)		(1,242)	

	Year ended 31 December 2013		Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:	835	30,899	1,335	29,228	842	24,297
- Salaries and other employee benefits	835		1,335		842	

36. SUBSEQUENT EVENTS

On 11 February 2014, the National Bank of the Republic of Kazakhstan (the "NBK") made a decision to reduce intervention in setting the KZT exchange rate. After that the official KZT/USD exchange rate decreased to KZT 184.5 as at 13 February 2014. NBK is planning to set the range of fluctuations between KZT 182-188 per USD. However, there is uncertainty around KZT exchange rate dynamics and NBK future actions, as well as the effect of these factors on the Kazakhstan economy The Management of the Group believes it is taking all necessary measures to support sustainability of the Group under these conditions.

On 26 February 2014, the Bank entered into an agreement with HSBC Bank plc. to acquire 100% of the share capital in SB HSBC Bank Kazakhstan JSC, a wholly owned subsidiary of HSBC Bank plc. The Transaction, which is subject to regulatory approvals and other conditions, is expected to complete during 2014.

Of all pleasures the fruit of labor is the sweetest

Luc Vauvenargues

INFORMATION FOR SHAREHOLDERS

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Web site	*www.halykbank.kz, www.halykbank.kz/ru/about/investors/reports*

Registered with

The Ministry of Justice of the Republic of Kazakhstan

Registered number

3898-1900-AO

Date of re-registration

12 November 2003

Shareholder's Enquires

Holders of common and preferred shares:
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Useful links

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www.afn.kz

National Bank of the Republic of Kazakhstan
www.nationalbank.kz

Kazakhstan Stock Exchange
www.kase.kz

London Stock Exchange
www.londonstockexchange.com

Financial Services Authority
www.fsa.gov.uk