SB JSC HSBC Bank Kazakhstan

Financial Statements
for the year ended 31 December 2013

Contents

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Independent Auditors' Report

To the Board of Directors of SB JSC HSBC Bank Kazakhstan

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Alla Nigay
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate No.536
of 10 January 2003

Ashley Clarke
Audit Partner

KPMG Audit LLC

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

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

20 March 2014

	Note	2013 '000 KZT	2012 '000 KZT
Interest income	4	7,544,283	8,301,916
Interest expense	4	(1,019,217)	(1,322,867)
Net interest income		**6,525,066**	**6,979,049**
Fee and commission income	5	2,722,193	2,474,783
Fee and commission expense	6	(697,691)	(409,859)
Net fee and commission income		**2,024,502**	**2,064,924**
Net gain (loss) on financial instruments at fair value through profit or loss	7	(1,915)	14,163
Net foreign exchange income	8	3,168,947	2,375,579
Other operating income	9	151,133	77,342
Operating income		**11,867,733**	**11,511,057**
Impairment losses	10	(1,529,382)	(948,646)
General administrative expenses	11	(6,216,428)	(6,906,902)
Profit before income tax		**4,121,923**	**3,655,509**
Income tax expense	12	(784,786)	(758,513)
Profit for the year		**3,337,137**	**2,896,996**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		4,633	17,384
Total items that are or may be reclassified subsequently to profit or loss		4,633	17,384
Other comprehensive income for the year, net of income tax		**4,633**	**17,384**
Total comprehensive income for the year		**3,341,770**	**2,914,380**

The financial statements as set out on pages 9 to 65 were approved by Management on 20 March 2014 and were signed on its behalf by:

Lars Reiding
Chairman of the Management Board

Rashid Daurov
Chief Financial Officer

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

	Note	2013 '000 KZT	2012 '000 KZT
ASSETS			
Cash and cash equivalents	13	101,997,616	103,361,602
Financial instruments at fair value through profit or loss	14	27,560	528,940
Loans to customers	15	75,797,467	62,755,265
Documentary settlements	16	2,073,608	718,410
Available-for-sale financial assets			
- Held by the Bank	17	2,427,783	3,735,140
- Pledged under sale and repurchase agreements	17	-	105,230
Current tax asset		200,877	-
Property and equipment	18	808,090	944,642
Intangible assets	19	737,076	776,392
Deferred tax asset	12	224,395	126,209
Other assets	20	2,440,281	1,969,934
Total assets		**186,734,753**	**175,021,764**
LIABILITIES			
Financial instruments at fair value through profit or loss	14	55,263	445,673
Deposits and balances from banks	21	7,237,550	7,351,556
Current accounts and deposits from customers	22	142,005,985	140,547,076
Amounts payable under repurchase agreements		-	100,068
Current tax liability		-	89,072
Other liabilities	23	11,682,366	4,068,650
Total liabilities		**160,981,164**	**152,602,095**
EQUITY	24		
Share capital		7,050,000	7,050,000
Additional paid-in capital		74,485	74,485
Revaluation reserve for available-for-sale financial assets		(277)	(4,910)
Other reserves		2,923,650	2,352,937
Retained earnings		15,705,731	12,947,157
Total equity		**25,753,589**	**22,419,669**
Total liabilities and equity		**186,734,753**	**175,021,764**

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

	2013 '000 KZT	2012 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	7,197,728	8,426,489
Interest payments	(950,618)	(1,327,226)
Fee and commission receipts	2,742,573	2,628,994
Fee and commission payments	(698,403)	(422,755)
Net receipts (payments) from financial instruments at fair value through profit or loss	(21,553)	63,946
Net receipts from foreign exchange	3,299,730	2,275,630
Other income receipts	151,133	84,221
Other general administrative expenses payments	(5,514,136)	(5,974,191)
Recovery of written-off loans to customers	90,948	119,208
(Increase) decrease in operating assets		
Placements with banks	-	139,441
Financial instruments at fair value through profit or loss	-	1,766,179
Loans to customers	(14,329,837)	24,591,750
Documentary settlements	(1,360,675)	493,480
Other assets	97,169	(129,511)
Increase (decrease) in operating liabilities		
Financial instruments at fair value through profit or loss	-	-
Deposits and balances from banks	(84,496)	(3,414,242)
Current accounts and deposits from customers	487,491	12,554,692
Amounts payable under repurchase agreements	(100,000)	(3,969,001)
Other liabilities	4,748,482	2,611,256
Net cash (used in) provided by operating activities before income tax paid	**(4,244,464)**	**40,518,360**
Income tax paid	(1,172,921)	(768,625)
Cash flows from operations	**(5,417,385)**	**39,749,735**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale and redemption of available-for-sale financial assets	6,442,548	24,832,726
Purchases of available-for-sale financial assets	(4,920,857)	(25,524,349)
Purchases of property and equipment and intangible assets	(457,987)	(252,940)
Cash flows used in investing activities	**1,063,704**	**(944,563)**
Net (decrease) increase in cash and cash equivalents	**(4,353,681)**	**38,805,172**
Effect of changes in exchange rates on cash and cash equivalents	2,989,695	158,178
Cash and cash equivalents as at the beginning of the period	103,361,602	64,398,252
Cash and cash equivalents as at the end of the period (Note 13)	**101,997,616**	**103,361,602**

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

’000 KZT	**Share capital**	**Additional paid-in capital**	**Revaluation reserve for available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total equity**
Balance as at 1 January 2012	7,050,000	74,485	(22,294)	1,914,238	10,498,833	19,515,262
Total comprehensive income						
Profit for the year	-	-	-	-	2,896,996	2,896,996
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets	-	-	17,384	-	-	17,384
Total items that are or may be reclassified subsequently to profit or loss	-	-	17,384	-	-	17,384
Total other comprehensive income	-	-	17,384	-	-	17,384
Total comprehensive income for the year	**-**	**-**	**17,384**	**-**	**2,896,996**	**2,914,380**
Share-based payment transactions	-	-	-	-	(9,973)	(9,973)
Transfers to reserves for general banking risks	-	-	-	438,699	(438,699)	-
Balance as at 31 December 2012	**7,050,000**	**74,485**	**(4,910)**	**2,352,937**	**12,947,157**	**22,419,669**
Balance as at 1 January 2013	7,050,000	74,485	(4,910)	2,352,937	12,947,157	22,419,669
Total comprehensive income						
Profit for the year	-	-	-	-	3,337,137	3,337,137
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets	-	-	4,633	-	-	4,633
Total items that are or may be reclassified subsequently to profit or loss	-	-	4,633	-	-	4,633
Total other comprehensive income	-	-	4,633	-	-	3,341,770
Total comprehensive income for the year	**-**	**-**	**4,633**	**-**	**-**	**3,341,770**
Share-based payment transactions	-	-	-	-	(7,850)	(7,850)
Transfers to reserves for general banking risks	-	-	-	570,713	(570,713)	-
Balance as at 31 December 2013	**7,050,000**	**74,485**	**(277)**	**2,923,650**	**15,705,731**	**25,753,589**

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

1 Background

(a) Principal activities

Subsidiary bank joint-stock company HSBC Bank Kazakhstan (“the Bank”) was registered on 29 July 1998 as a closed joint stock company under the laws of the Republic of Kazakhstan on banks and banking activity, on joint stock companies and on foreign investments and was admitted to the National Bank of the Republic of Kazakhstan (“the NBRK”) program for individual deposit insurance in 2000. On 22 December 2003 the Bank was re-registered as a joint stock company under the Law on Joint Stock Companies. The Bank operates based on general banking licence #249 granted on 24 December 2007.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations, custodian operations and transactions with securities and foreign exchange. The activities of the Bank are regulated by the Committee for the control and supervision of the financial market and financial organisations of the National Bank of the Republic of Kazakhstan (the “FMSC”) and the National Bank of the Republic of Kazakhstan (the “NBRK”).

The Bank’s registered office is located at 43 Dostyk ave., 050010 Almaty, Kazakhstan. As at 31 December 2013, there were 4 branches and 2 additional premises of the branches located in Almaty, Astana, Aktau and Atyrau cities (2012: 4 branches and 2 additional premises of the branches located in Almaty, Astana, Aktau and Atyrau cities). The majority of the Bank’s assets and liabilities are located in the Republic of Kazakhstan.

(b) Shareholders

The founder of the Bank was the Hong-Kong and Shanghai Banking Corporation Limited (“HSBC”). In 2002, HSBC Bank Plc, London (“the Parent Bank”), a member of the HSBC Group, became a 100% shareholder of the Bank.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

2 Basis of preparation, continued

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies is described in the following notes:

- loan impairment estimates - note 15
- estimates of fair values of financial instruments – note 33.

(e) Changes in accounting policies and presentation

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

IFRS 13 Fair Value Measurements (see (i))

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (see (ii))

Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (see (iii))

In addition the Bank has made changes in presentation of certain items in the statements of financial position and cash flows, in order to present a clearer view of the Bank's position and has adjusted the 2012 comparative information accordingly. The main change relates to presentation of the minimum reserve deposit with NBRK that was reclassified to cash and cash equivalents from placement with banks.

The following table summarises the adjustments made to the statement of financial position at 31 December 2012, and the statement of cash flows for the year ended 31 December 2012 as a result of the reclassifications made.

Statement of financial position

	31 December 2012		
'000 KZT	**As previously reported**	**Adjustments**	**As restated**
Cash and cash equivalents	98,603,024	4,758,578	103,361,602
Placement with banks	4,758,578	(4,758,578)	-
Documentary settlements	-	718,410	718,410
Other assets	2,688,344	(718,410)	1,969,934
Overall impact on total assets		-	

Statement of cash flows

	For the year ended 31 December 2012		
'000 KZT	**As previously reported**	**Adjustments**	**As restated**
Minimum reserve deposit	(842,073)	842,073	-
Documentary settlements	-	493,480	493,480
Other assets	363,969	(493,480)	(129,511)
Net cash provided by operating activities	**39,676,287**	**842,073**	**40,518,360**

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the prices at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures.* (see note 33).

The change had no significant impact on the measurements of assets and liabilities.

(ii) Presentation of items of other comprehensive income

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

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

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

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

As the Bank is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Bank.

3 Significant accounting policies

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

(a) Foreign currency

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

3 Significant accounting policies, continued

(b) Cash and cash equivalents

Cash and cash equivalents include cash, unrestricted balances (nostro accounts) held with the NBRK and other banks, and placements with banks with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

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

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

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

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

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

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

(ii) Recognition

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

(iii) Measurement

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:
- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments which are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

(iv) Amortised cost

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

An asset or a liability at fair value is measured at mid price with reserves for fair value adjustment on bid-offer spread.

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition, continued

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(x) Offsetting

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

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) Depreciation

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

- leasehold improvements	5 to 10 years
- computer equipment	1 to 5 years
- vehicles	5 years
- office furniture	3 to 5 years
- other equipment	1 to 5 years.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 5 years.

(f) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank’s accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(g) Impairment

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

(ii) Financial assets carried at cost

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(iii) Available-for-sale financial assets

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

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

(iv) Non financial assets

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

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

(h) Provisions

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

(i) Credit related commitments

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

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

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

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

3 Significant accounting policies, continued

(i) Credit related commitments, continued

Loan commitments are not recognised, except for the following:

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

(j) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

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

(k) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

(l) Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in profit or loss using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

3 Significant accounting policies, continued

(l) Income and expense recognition, continued

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

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

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

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

(m) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including the Kazakhstan State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

3 Significant accounting policies, continued

(n) New standards and interpretations not yet adopted

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

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

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4 Net interest income

	2013 '000 KZT	2012 '000 KZT
Interest income		
Loans to customers	7,451,574	7,976,009
Available-for-sale financial assets	76,251	228,560
Cash and cash equivalents	16,458	64,632
Financial instruments at fair value through profit or loss	-	30,887
Placements with banks	-	1,719
Amounts receivable under reverse repurchase agreements	-	109
	7,544,283	**8,301,916**
Interest expense		
Current accounts and deposits from customers	(973,509)	(1,196,653)
Deposits and balances from banks	(26,468)	(63,063)
Amounts payable under repurchase agreements	(19,240)	(63,151)
	(1,019,217)	**(1,322,867)**
	6,525,066	**6,979,049**

Included within various line items under interest income for the year ended 31 December 2013 is a total of KZT 87,762 thousand (2012: KZT 40,065 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2013 '000 KZT	2012 '000 KZT
Remittance services	867,373	749,988
Cards fees	740,250	630,940
Letter of credit issuance	304,742	228,612
Guarantee issuance	225,096	147,054
Custodian services	192,420	461,966
Cash operations	61,392	52,886
Accounts maintenance	47,478	29,002
Trust management	30,734	34,392
Agency fee	1,761	6,349
Other	250,947	133,594
	2,722,193	**2,474,783**

6 Fee and commission expense

	2013 '000 KZT	2012 '000 KZT
Master Card and Visa services	464,817	358,443
Insurance	132,439	-
Remittance services	25,428	20,531
Custodian services	9,735	21,551
Other	65,272	9,334
	697,691	**409,859**

Kazakhstan guarantee deposit insurance fund expense was included into fee and commission expense for the year ended 31 December 2013 and general administrative expenses for the year ended 31 December 2012.

7 Net gain (loss) on financial instruments at fair value through profit or loss

	2013 '000 KZT	2012 '000 KZT
Net realised gains (losses)	(21,553)	63,946
Net unrealised gains (losses)	19,638	(49,783)
	(1,915)	**14,163**

8 Net foreign exchange income

	2013 '000 KZT	2012 '000 KZT
Gain on spot transactions and derivatives	3,299,730	2,275,630
(Loss) gain from revaluation of financial assets and liabilities	(130,783)	99,949
	3,168,947	**2,375,579**

9 Other operating income

	2013 '000 KZT	2012 '000 KZT
Taxes other than on income	52,308	-
Gain on sale of property and equipment	20,194	-
Penalties	-	18,548
Other	78,631	58,794
	151,133	**77,342**

10 Impairment losses

	2013 '000 KZT	2012 '000 KZT
Loans to customers (note 15)	(1,652,374)	(1,105,184)
Recovery of acquired loans	77,576	213,014
Recovery of written-off loans to customers	90,948	119,208
Documentary settlements (note 16)	(5,477)	-
Contingent liabilities	(1,729)	32,137
Available-for-sale financial assets (note 17)	45,079	(27,212)
Placements with banks	-	23,461
Other assets (note 20)	(83,405)	(204,070)
	(1,529,382)	**(948,646)**

11 General administrative expenses

	2013 '000 KZT	2012 '000 KZT
Employee compensation	2,523,145	2,802,371
Payroll related taxes	262,731	294,691
Personnel expenses	**2,785,876**	**3,097,062**
IT charges	886,639	905,070
Depreciation and amortisation	604,099	620,989
Occupancy	570,000	565,806
Taxes other than on income	241,011	358,402
Professional services	186,948	68,034
Repairs and maintenance	161,018	145,324
Communications and information services	113,812	107,925
Travel	100,662	93,216
Security	71,605	74,035
Transportation	64,417	57,386
Utilities	64,234	86,270
Advertising and marketing	62,356	87,449
Insurance	27,549	153,704
Representation expenses	12,464	9,043
Other	263,738	477,187
	6,216,428	**6,906,902**

Kazakhstan guarantee deposit insurance fund expense was included into fee and commission expense for the year ended 31 December 2013 and general administrative expenses for the year ended 31 December 2012.

12 Income tax expense

	2013 '000 KZT	2012 '000 KZT
Current tax expense	877,081	1,095,277
Current tax expense under provided in prior years	5,891	6,038
	882,972	**1,101,315**
Deferred taxation movement due to origination and reversal of temporary differences	(98,186)	(342,802)
Total income tax expense recognised in profit or loss	**784,786**	**758,513**

In 2013, the applicable rate for current and deferred tax is 20% (2012: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2013 '000 KZT	%	2012 '000 KZT	%
Profit before income tax	**4,121,923**	**100.0**	**3,655,509**	**100.0**
Income tax at the applicable tax rate	824,385	20.0	731,102	20.0
Non-deductible costs	2,910	0.1	21,373	0.6
Deferred tax over provided in prior years	(48,400)	(1.2)	-	-
Current tax expense under provided in prior years	5,891	0.1	6,038	0.2
	784,786	**19.0**	**758,513**	**20.7**

12 Income tax expense, continued

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets at 31 December 2013 and 2012. These deferred tax assets are recognised in these financial statements. Management considers that deferred tax asset recognised at 31 December 2013 and 31 December 2012 is recoverable.

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

’000 KZT	Balance 1 January 2013	Recognised in profit or loss	Balance 31 December 2013
Loans to customers	(48,400)	48,400	-
Property and equipment	55,558	39,725	95,283
Other assets	16,284	(2,032)	14,252
Financial instruments at fair value through profit or loss (asset)	(102,098)	99,169	(2,929)
Financial instruments at fair value through profit or loss (liability)	89,135	(80,039)	9,096
Current accounts and deposits from customers	-	47,541	47,541
Reserve for general banking risks	-	(56,203)	(56,203)
Other liabilities	115,730	1,625	117,355
	126,209	**98,186**	**224,395**

’000 KZT	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Loans to customers	(439,662)	391,262	(48,400)
Placements with banks	(23,584)	23,584	-
Available-for-sale financial assets	3,435	(3,435)	-
Property and equipment	21,805	33,753	55,558
Other assets	159,836	(143,552)	16,284
Financial instruments at fair value through profit or loss (asset)	(239,503)	137,405	(102,098)
Financial instruments at fair value through profit or loss (liability)	216,297	(127,162)	89,135
Other liabilities	84,783	30,947	115,730
	(216,593)	**342,802**	**126,209**

13 Cash and cash equivalents

	2013 '000 KZT	2012 '000 KZT
Cash on hand	**3,515,098**	**2,991,564**
Nostro accounts with NBRK	**74,562,744**	**55,905,912**
Nostro accounts with other banks		
- rated from AA- to AA+	19,651,155	43,852,877
- rated BBB	68,287	593,074
- not rated	-	18,175
Total nostro accounts with other banks	**19,719,442**	**44,464,126**
Cash equivalents		
Term deposits with other banks		
- rated BBB	1,200,267	-
- rated from BB- to BB+	3,000,065	-
Total term deposits with other banks	**4,200,332**	**-**
	101,997,616	**103,361,602**

No cash and cash equivalents are impaired or past due.

As at 31 December 2013 the Bank has two banks (2012: three banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 is KZT 17,364,877 thousand (2012: KZT 42,766,115 thousand).

14 Financial instruments at fair value through profit or loss

	2013 '000 KZT	2012 '000 KZT
ASSETS		
Held by the Bank		
Derivative financial instruments		
Foreign currency contracts	8,810	448,781
Interest Rate Swaps	18,750	80,159
	27,560	**528,940**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	39,644	348,832
Interest Rate Swaps	15,619	96,841
	55,263	**445,673**

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

No financial assets at fair value through profit or loss are past due or impaired.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2013 and 31 December 2012 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contracted exchange rates	
	2013 '000 KZT	**2012 '000 KZT**	**2013 '000 KZT**	**2012 '000 KZT**
Buy USD sell KZT				
Less than three months	7,303,251	14,583,743	154.67	147.21
Between three months and one year	3,394,939	5,600,904	160.15	147.41
Sell USD buy KZT				
Less than three months	4,992,491	29,099,349	154.96	150.71
Between three months and one year	5,705,839	11,299,930	157.48	152.05
Sell Euros buy KZT				
Less than three months	-	298,001	-	199.91
Buy GBP sell USD				
Less than three months	-	968,988	-	1.61

14 Financial instruments at fair value through profit or loss, continued

Approach to derivative transactions

The Bank may enter into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions. A swap involves the exchange by the Bank with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments. As at 31 December 2013 the Bank entered into interest rate swap agreements with the customers in the total notional amount of USD 4,673,210 (2012: USD 17,788,674) and HSBC Group in the total notional amount of USD 19,673,210 (2012: USD 47,788,674) out of which USD 4,673,210 is against customer deals (2012: USD 17,788,674).

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Bank's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the swap positions increases or decreases depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Bank's profit.

The Bank's ability to realise a profit from such transactions will depend on the ability of the counterparty with which it enters into the transaction to meet their obligations to the Bank. If counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Bank will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of counterparty's insolvency.

The following table provides information on the credit quality of foreign currency contracts and derivatives, which are assets:

	2013 '000 KZT	2012 '000 KZT
Parent Bank	762	109,771
Other Kazakhstan banks	7,850	569
Other foreign banks	-	5,050
Other Kazakhstan corporate clients	18,948	413,550
	27,560	**528,940**

15 Loans to customers

	2013 '000 KZT	2012 '000 KZT
Loans to corporate customers		
Loans to large corporates	45,956,997	34,869,797
Loans to small and medium size companies	6,363,414	5,561,311
Total loans to corporate customers	**52,320,411**	**40,431,108**
Loans to retail customers		
Mortgage loans	15,656,192	14,536,866
Consumer loans	11,740,419	9,648,050
Credit cards	2,557,721	2,581,573
Total loans to retail customers	**29,954,332**	**26,766,489**
Gross loans to customers	**82,274,743**	**67,197,597**
Impairment allowance	(6,477,276)	(4,364,756)
Allowances on acquired loans	-	(77,576)
Net loans to customers	**75,797,467**	**62,755,265**

During the year the Bank changed the classification of loans to large corporates to be consistent with regulatory requirements. Comparative information has been changed accordingly. This resulted in a reallocation of KZT 25,831,837 thousand from loans to small and medium size companies to loans to large corporates at 31 December 2012.

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

	Loans to corporate customers '000 KZT	Loans to retail customers '000 KZT	Total '000 KZT
Balance at the beginning of the year	4,218,356	146,400	4,364,756
Net charge	1,248,346	404,028	1,652,374
Effect of unwinding of discount	(84,604)	(3,158)	(87,762)
Written off amounts restored / (write-offs)	-	472,844	472,844
Effect of foreign currency translation	74,483	581	75,064
Balance at the end of the year	**5,456,581**	**1,020,695**	**6,477,276**

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

	Loans to corporate customers '000 KZT	Loans to retail customers '000 KZT	Total '000 KZT
Balance at the beginning of the year	3,354,163	147,794	3,501,957
Net charge	894,259	210,925	1,105,184
Effect of unwinding of discount	(39,912)	(153)	(40,065)
Write-offs	-	(222,577)	(222,577)
Effect of foreign currency translation	9,846	10,411	20,257
Balance at the end of the year	**4,218,356**	**146,400**	**4,364,756**

15 Loans to customers, continued

(a) Credit quality of loans to customers

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

	Gross loans ’000 KZT	Impairment allowance ’000 KZT	Net loans ’000 KZT	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	37,448,622	(95,929)	37,352,693	0.26
Overdue or impaired loans:				
- not overdue	8,505,943	(918,419)	7,587,524	10.80
- overdue less than 90 days	2,432	-	2,432	0.00
Total overdue or impaired loans	8,508,375	(918,419)	7,589,956	10.79
Total loans to large corporates	**45,956,997**	**(1,014,348)**	**44,942,649**	**2.21**
Loans to small and medium size companies				
Loans without individual signs of impairment	1,305,396	(3,015)	1,302,381	0.23
Overdue or impaired loans:				
- not overdue	31,399	(31,399)	-	100.00
- overdue less than 90 days	221,952	-	221,952	0.00
- overdue more than 1 year	4,804,667	(4,407,819)	396,848	91.74
Total overdue or impaired loans	5,058,018	(4,439,218)	618,800	87.77
Total loans to small and medium size companies	**6,363,414**	**(4,442,233)**	**1,921,181**	**69.81**
Total loans to corporate customers	**52,320,411**	**(5,456,581)**	**46,863,830**	**10.43**
Loans to retail customers				
Mortgage loans				
- not overdue	15,613,268	(40,779)	15,572,489	0.26
- overdue less than 180 days	3,973	(571)	3,402	14.37
- overdue more than 180 days	38,951	(16,561)	22,390	42.52
Total mortgage loans	**15,656,192**	**(57,911)**	**15,598,281**	**0.37**
Consumer loans				
- not overdue	11,200,649	(206,730)	10,993,919	1.85
- overdue less than 180 days	46,644	(12,507)	34,137	26.81
- overdue more than 180 days	493,126	(485,880)	7,246	98.53
Total consumer loans	**11,740,419**	**(705,117)**	**11,035,302**	**6.01**
Credit cards				
- not overdue	2,142,224	(7,970)	2,134,254	0.37
- overdue less than 180 days	213,482	(49,455)	164,027	23.17
- overdue more than 180 days	202,015	(200,242)	1,773	99.12
Total credit cards	**2,557,721**	**(257,667)**	**2,300,054**	**10.07**
Total loans to retail customers	**29,954,332**	**(1,020,695)**	**28,933,637**	**3.41**
Total loans to customers	**82,274,743**	**(6,477,276)**	**75,797,467**	**7.87**

15 Loans to customers, continued

(a) Credit quality of loans to customers, continued

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

	Gross loans ’000 KZT	Impairment allowance ’000 KZT	Net loans ’000 KZT	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	32,479,331	(46,296)	32,433,035	0.14
Overdue or impaired loans:				
- overdue less than 90 days	2,390,466	-	2,390,466	-
Total overdue or impaired loans	2,390,466	-	2,390,466	-
Total loans to large corporates	**34,869,797**	**(46,296)**	**34,823,501**	**0.13**
Loans to small and medium size companies				
Loans without individual signs of impairment	512,454	-	512,454	-
Overdue or impaired loans:				
- overdue more than 1 year	5,048,857	(4,172,060)	876,797	82.63
Total overdue or impaired loans	5,048,857	(4,172,060)	876,797	82.63
Total loans to small and medium size companies	**5,561,311**	**(4,172,060)**	**1,389,251**	**75.02**
Total loans to corporate customers	**40,431,108**	**(4,218,356)**	**36,212,752**	**10.43**
Loans to retail customers				
Mortgage loans				
- not overdue	14,069,612	(72,308)	13,997,304	0.51
- overdue less than 180 days	394,622	(2,681)	391,941	0.68
- overdue more than 180 days	72,632	(34,107)	38,525	46.96
Total mortgage loans	**14,536,866**	**(109,096)**	**14,427,770**	**0.75**
Consumer loans				
- not overdue	9,283,288	(44,069)	9,239,219	0.47
- overdue less than 180 days	353,291	(17,858)	335,433	5.05
- overdue more than 180 days	11,471	(1,553)	9,918	13.54
Total consumer loans	**9,648,050**	**(63,480)**	**9,584,570**	**0.66**
Credit cards				
- not overdue	2,269,036	(42,790)	2,226,246	1.89
- overdue less than 180 days	310,880	(6,953)	303,927	2.24
- overdue more than 180 days	1,657	(1,657)	-	100.00
Total credit cards	**2,581,573**	**(51,400)**	**2,530,173**	**1.99**
Total loans to retail customers at nominal value	**26,766,489**	**(223,976)**	**26,542,513**	**0.84**
Allowance on acquired loans	(77,576)	77,576	-	100.00
Total loans to retail customers	**26,688,913**	**(146,400)**	**26,542,513**	**0.55**
Total loans to customers	**67,120,021**	**(4,364,756)**	**62,755,265**	**6.50**

As at 31 December 2013 included in the loan portfolio are renegotiated loans to retail customers that would otherwise be past due or impaired of KZT 91,831 thousand (2012: nil). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

15 Loans to customers, continued

(b) Key assumptions and judgements for estimating the loan impairment

(i) Loans to corporate customers

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

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

- annual loss rate of 0.18% and an emergence period of three months
- a historic loss of KZT 4,439,218 thousand recognised for small and medium size companies is related to an isolated event and has not been taken into account in the estimation of future loss emergence
- a discount up to 70% to the originally appraised value of property pledged
- a delay of 12 -18 months on average in obtaining proceeds from the foreclosure of collateral

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2013 would be KZT 468,638 thousand lower/higher (2012: KZT 362,128 thousand lower/higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- loan impairment for secured mortgage and consumer loans with total gross exposure of KZT 187,035 thousand was estimated on an individual basis based on an analysis of the future cash flows
- for mortgage loans and secured consumer loans a discount of 30% to 50% to the originally appraised value if the property pledged is sold
- for mortgage and secured consumer loans a delay of 24 months in average in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2013 would be KZT 868,009 thousand lower/higher (2012: KZT 796,275 thousand).

15 Loans to customers, continued

(c) Analysis of collateral

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provide information on collateral securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2013 KZT'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Treasury bills	3,424,322	3,424,322	-	-
Guarantees	14,211,152	-	-	14,211,152
Vechicles	6,757,051	6,757,051	-	-
Real estate	3,485,291	3,485,291	-	-
Other collateral	2,095,363	-	2,095,363	-
No collateral or other credit enhancement	8,681,895	-	-	8,681,895
Total loans without individual signs of impairment	38,655,074	13,666,664	2,095,363	22,893,047
Overdue or impaired loans				
Treasury bills	4,848,387	4,848,387	-	-
Guarantees	404,267	-	-	404,267
Real estate	214,533	214,533	-	-
No collateral or other credit enhancement	2,741,569	-	-	2,741,569
Total overdue or impaired loans	8,208,756	5,062,920	-	3,145,836
Total loans to corporate customers	**46,863,830**	**18,729,584**	**2,095,363**	**26,038,883**

15 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

31 December 2012 KZT'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Vehicles	9,559,702	9,559,702	-	-
Real estate	9,370,407	9,370,407	-	-
Guarantees	6,526,626	-	-	6,526,626
Contract receivables	1,076,343	-	1,076,343	-
Property claims	477,664	-	477,664	-
Other collateral	2,218,177	2,171,565	46,612	-
No collateral or other credit enhancement	3,716,570	-	-	3,716,570
Total loans without individual signs of impairment	32,945,489	21,101,674	1,600,619	10,243,196
Overdue or impaired loans				
Real estate	3,198,376	3,198,376	-	-
Other collateral	68,887	68,887	-	-
Total overdue or impaired loans	3,267,263	3,267,263	-	-
Total loans to corporate customers	**36,212,752**	**24,368,937**	**1,600,619**	**10,243,196**

The tables above exclude overcollateralisation.

Commercial loans which exceed the single borrower limit established by FMSC are secured by Treasury bills pledged by HSBC Bank plc. As at 31 December 2013 this excess amounts to KZT 8,272,709 thousand (2012: KZT 13,144,749 thousand secured by guarantees from HSBC Bank plc).

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral and the Bank updates the valuation of collateral annually.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

15 Loans to customers, continued

(c) Analysis of collateral, continued

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%.

The following tables provide information on real estate collateral securing mortgage loans, net of impairment:

31 December 2013 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	15,572,489	15,572,489	-	-
Overdue loans	25,792	25,792	-	-
Total mortgage loans	**15,598,281**	**15,598,281**	**-**	**-**

31 December 2012 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	13,997,304	13,997,304	-	-
Overdue loans	430,466	430,466	-	-
Total mortgage loans	**14,427,770**	**14,427,770**	**-**	**-**

The table above excludes the effect of overcollateralisation.

Consumer loans are partially secured by housing real estate. Credit card loans are not secured.

Mortgage loans

For mortgage loans with a net carrying amount of KZT 14,427,770 thousand (2011: KZT 16,503,059 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

Consumer loans

Included in consumer loans are loans with a net carrying amount of KZT 9,292,095 thousand (2012: KZT 7,065,594 thousand), which are not secured by collateral.

For consumer loans with a net carrying amount of KZT 1,743,207 thousand (2012: KZT 2,518,976 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

For loans to retail customers the Bank monitors fair value of collateral every 6 months from inception of the loan in accordance with local legislation to update the values considering changes in property prices. The Bank obtains specific individual valuations of collateral in case there are indications of impairment in the loan concerned (overdue more than 90 days).

(iii) Repossessed collateral

During the year ended 31 December 2013 the Bank does not obtain assets by taking possession of collateral for loans to customers (2012: nil).

15 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

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

	2013 ’000 KZT	2012 ’000 KZT
Loans to retail customers	29,954,332	26,766,489
Loans to corporate customers		
Agriculture	8,902,478	2,842,684
Oil & gas	8,309,906	-
Trade	7,940,805	4,879,017
Communications	7,016,694	984,450
Transportation	5,724,475	17,133,519
Chemical industry	3,327,180	1,448,805
Repairs and maintenance	2,878,417	-
Construction	1,486,606	3,904,179
Mining/metallurgy	1,159,582	2,082,970
Food industry	373,591	404,319
Finance	-	46,612
Other	5,200,677	6,704,553
	82,274,743	**67,197,597**
Impairment allowance	(6,477,276)	(4,364,756)
Allowance on acquired loans	-	(77,576)
	75,797,467	**62,755,265**

(e) Significant credit exposures

As at 31 December 2013 the Bank had six borrowers or groups of connected borrowers (2012: five), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2013 is KZT 29,678,569 thousand (2012: KZT 24,596,347 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 25 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is possible that some of the loans to customers will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the term based on contractual terms.

16 Documentary settlements

	2013 ’000 KZT	2012 ’000 KZT
Import discounted deferred payment bills	1,268,153	718,410
Export discounted deferred payment bills	810,932	-
Impairment allowance	(5,477)	-
	2,073,608	**718,410**

No documentary settlements are past due.

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

	2013 ’000 KZT	2012 ’000 KZT
Balance at the beginning of the year	-	-
Net charge	5,477	-
Balance at the end of the year	**5,477**	**-**

17 Available-for-sale financial assets

	2013 ’000 KZT	2012 ’000 KZT
Held by the Bank		
Debt instruments		
- **Government bonds**		
Treasury Notes of the National Bank	-	2,386,553
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,420,857	1,326,063
- **Corporate bonds**		
rated from BB- to CCC	-	11,472
rated from CCC to C	11,559	75,376
Impairment allowance	(11,537)	(75,376)
- **Equity investments**		
Shares of local banks	-	4,148
Shares of JSC Kazakhstan Stock Exchange	6,904	6,904
	2,427,783	**3,735,140**
Pledged under sale and repurchase agreements		
Debt instruments		
- **Government bonds**		
Treasury Notes of the National Bank	-	105,230
	2,427,783	**3,840,370**

Investments without a determinable fair value

Available-for-sale equity investments stated at cost comprise unquoted equity securities. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

Analysis of movements in the impairment allowance

	2013 ’000 KZT	2012 ’000 KZT
Balance at the beginning of the year	75,376	82,883
Net charge	(45,079)	27,212
Write-offs	(15,025)	(35,960)
Effect of foreign currency translation	(3,735)	1,241
Balance at the end of the year	**11,537**	**75,376**

18 Property and equipment

’000 KZT	Land and buildings	Leasehold improve-ments	Computer equipment	Vehicles	Office furniture and other equipment	Total
Cost						
Balance at 1 January 2013	8,356	1,045,092	478,559	44,472	724,987	2,301,466
Additions	-	78,351	95,562	-	32,499	206,412
Disposals	(8,356)	-	(17,582)	-	(548)	(26,486)
Internal movements	-	-	4,964	-	(4,964)	-
Balance at 31 December 2013	**-**	**1,123,443**	**561,503**	**44,472**	**751,974**	**2,481,392**
Depreciation						
Balance at 1 January 2013	827	437,618	341,163	21,572	555,644	1,356,824
Depreciation charge	118	140,594	101,202	7,145	86,330	335,389
Disposals	(945)	-	(17,455)	-	(511)	(18,911)
Internal movements	-	-	4,964	-	(4,964)	-
Balance at 31 December 2013	**-**	**578,212**	**429,874**	**28,717**	**636,499**	**1,673,302**
Carrying amount						
At 31 December 2013	**-**	**545,231**	**131,629**	**15,755**	**115,475**	**808,090**

’000 KZT	Land and buildings	Leasehold improve-ments	Computer equipment	Vehicles	Office furniture and other equipment	Total
Cost						
Balance at 1 January 2012	8,356	1,040,504	454,255	31,304	713,424	2,247,843
Additions	-	4,588	27,839	13,168	22,487	68,082
Disposals	-	-	(3,535)	-	(10,924)	(14,459)
Balance at 31 December 2012	**8,356**	**1,045,092**	**478,559**	**44,472**	**724,987**	**2,301,466**
Depreciation						
Balance at 1 January 2012	472	290,697	243,302	15,085	441,220	990,776
Depreciation charge	355	146,921	100,771	6,487	122,010	376,544
Disposals	-	-	(2,910)	-	(7,586)	(10,496)
Balance at 31 December 2012	**827**	**437,618**	**341,163**	**21,572**	**555,644**	**1,356,824**
Carrying amount						
At 31 December 2012	**7,529**	**607,474**	**137,396**	**22,900**	**169,343**	**944,642**

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

19 Intangible assets

’000 KZT	Software
Cost	
Balance at 1 January 2013	1,470,301
Additions	251,575
Disposals	(22,181)
Balance at 31 December 2013	**1,699,695**
Amortisation	
Balance at 1 January 2013	693,909
Amortisation charge	268,710
Disposals	-
Balance at 31 December 2013	**962,619**
Carrying amount	
At 31 December 2013	**737,076**
Cost	
Balance At 1 January 2012	1,317,073
Additions	184,858
Disposals	(31,630)
Balance at 31 December 2012	**1,470,301**
Amortisation	
Balance at 1 January 2012	478,178
Amortisation charge	244,445
Disposals	(28,714)
Balance at 31 December 2012	**693,909**
Carrying amount	
At 31 December 2012	**776,392**

20 Other assets

	2013 '000 KZT	2012 '000 KZT
Guarantee receivables	1,738,585	1,629,093
Accepted bills	650,077	-
Accrued commission income	52,020	72,400
Other assets	726,756	878,271
Impairment allowance	(1,085,515)	(940,519)
Total other financial assets	**2,081,923**	**1,639,245**
Prepayments	265,410	254,044
Assets held for sale	40,485	42,151
Materials and supplies	20,246	10,388
Other assets	32,217	24,106
Total other non-financial assets	**358,358**	**330,689**
Total other assets	**2,440,281**	**1,969,934**

Guarantee receivables in the amount of KZT 1,738,585 thousand (2012: KZT 1,629,093 thousand) comprise an amount paid to a beneficiary in respect of a guarantee which was called. An impairment allowance was provided in the amount of KZT 1,072,681 thousand (2012: KZT 937,726 thousand) based on the expected realisation of collateral.

As at 31 December 2013, included in other assets are net overdue receivables of KZT 665,904 thousand which are overdue more than one year (2012: KZT 691,367 thousand). These include the guarantee receivable.

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

	Other financial assets '000 KZT	Other non-financial assets '000 KZT	Total '000 KZT
Balance at the beginning of the year	940,519	-	940,519
Net charge (recovery)	83,449	(44)	83,405
Write-offs	-	44	44
Effect of foreign currency translation	61,547	-	61,547
Balance at the end of the year	**1,085,515**	**-**	**1,085,515**

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

	Other financial assets '000 KZT	Other non-financial assets '000 KZT	Total '000 KZT
Balance at the beginning of the year	799,007	172	799,179
Net charge	108,582	95,488	204,070
Write-offs	-	(95,660)	(95,660)
Effect of foreign currency translation	32,930	-	32,930
Balance at the end of the year	**940,519**	**-**	**940,519**

21 Deposits and balances from banks

	2013 '000 KZT	2012 '000 KZT
Vostro accounts	4,580,367	6,464,933
Term deposits	2,657,183	886,623
	7,237,550	**7,351,556**

As at 31 December 2013, the Bank had no banks (2012: nil), whose balances exceeded 10% of equity.

22 Current accounts and deposits from customers

	2013 '000 KZT	2012 '000 KZT
Current accounts and demand deposits		
- Retail	18,073,864	15,712,827
- Corporate	80,971,008	78,672,712
Term deposits		
- Retail	13,836,271	13,279,340
- Corporate	29,124,842	32,882,197
	142,005,985	**140,547,076**

As at 31 December 2013, the Bank maintained customer deposit balances of KZT 249,864 thousand (2012: KZT 829,512 thousand) that serve as collateral for loans and off-balance sheet credit instruments granted by the Bank.

As at 31 December 2013, the Bank has 7 customers (2012: 11 customers), whose balances exceed 10% of equity. These balances as at 31 December 2013 are KZT 58,117,534 thousand (2012: KZT 72,103,179 thousand).

23 Other liabilities

	2013 '000 KZT	2012 '000 KZT
Cash collateral	5,556,609	-
Documentary settlements	2,171,028	-
Currency regulation settlements	1,768,427	-
Accepted bills	650,077	-
Trade payables	382,072	431,897
Accrued expenses	378,483	250,320
Transit accounts	63,577	86,808
Settlements with custody customers	4,736	2,613,425
Total other financial liabilities	**10,975,009**	**3,382,450**
Payables to employees	537,855	533,753
Deferred income	102,381	87,449
Other taxes payable	44,961	45,534
Provisions for contingent liabilities	22,160	19,464
Total other non-financial liabilities	**707,357**	**686,200**
Total other liabilities	**11,682,366**	**4,068,650**

24 Equity

(a) Issued capital

The authorised, issued and outstanding share capital comprises 70,500 ordinary shares (2012: 70,500). All shares have a nominal value of KZT 100,000 (2012: KZT 100,000), giving a total share capital of KZT 7,050,000 thousand (2012: KZT 7,050,000 thousand).

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

(b) Nature and purpose of reserves

Until 2013, in accordance with Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the Committee on 28 August 2009, the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year was calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in classified assets and contingent liabilities (as defined in the Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the Committee on 25 December 2006) during the preceding year. Such percentage increase had to be not less than 10% and not more than 100%.

During the twelve-month period ended 31 December 2013, the shareholders approved a transfer of KZT 289,699 thousand from retained earnings to this statutory reserve capital (twelve-month period ended 31 December 2012: KZT 438,699 thousand, unaudited).

The Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks and the Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities ceased to be in force during 2013.

The Bank’s statutory reserve capital was not dissolved as of 31 December 2013.

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank should establish a dynamic reserve calculated using a formula determined in the Resolution and the value should not be less than zero. The Resolution has been effective from 1 January 2013. The dynamic reserve requirement of the Bank as at 31 December 2013 was KZT 281,014 thousand.

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Kazakhstan. In accordance with the legislation of the Republic of Kazakhstan, as at the reporting date, reserves available for distribution amounted to KZT 15,705,731 thousand (2012: KZT 12,947,157 thousand). No dividends were declared for 2013 and 2012.

25 Risk management

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

25 Risk management, continued

(a) Risk management policies and procedures

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

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

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Chief Risk Officer of the Bank is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Compliance function is managed by Compliance department.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees, Risk Management Committee and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure.

The Bank follows relevant regulatory requirements and risk management policies of the HSBC Group which are designed to identify and analyse different types of risks, to set appropriate risk limits, and to monitor these risks and limits continually by means of reliable and up-to-date management information systems. Particular attention is given to credit risk (which includes cross-border risk), liquidity risk, market risk and operational risk. Market risk includes foreign exchange and interest rate risks.

(b) Market risk

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

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

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits. Limits are consolidated in Bank's mandate which is issued and reviewed at least annually by Head office Market Risk Management Team. It is further reviewed and approved by the Board of Directors and Management Board of the Bank.

Treasury Department is responsible for market risk management within approved limits. Product Control Team monitors utilization of limits daily. Results are reported weekly to Management Board and monthly to ALCO and Risk Management Committee.

The Bank also utilizes Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

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25 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

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

Interest rate gap analysis

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

’000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	4,200,332	-	-	-	-	97,797,284	101,997,616
Financial instruments at fair value through profit or loss	18,750	-	-	-	-	8,810	27,560
Loans to customers	34,658,710	17,474,785	10,948,010	12,715,962	-	-	75,797,467
Available-for-sale financial assets	1,332,939	1,087,918	-	22	-	6,904	2,427,783
	40,210,731	**18,562,703**	**10,948,010**	**12,715,984**	**-**	**97,812,998**	**180,250,426**
LIABILITIES							
Deposits and balances from banks	2,657,183	-	-	-	-	4,580,367	7,237,550
Current accounts and deposits from customers	29,820,731	7,162,743	4,792,488	-	-	100,230,023	142,005,985
Financial instruments at fair value through profit or loss	15,619	-	-	-	-	39,644	55,263
	32,493,533	**7,162,743**	**4,792,488**	**-**	**-**	**104,850,034**	**149,298,798**
	7,717,198	**11,399,960**	**6,155,522**	**12,715,984**	**-**	**(7,037,036)**	**30,951,628**

25 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

’000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2012							
ASSETS							
Cash and cash equivalents	243,035	-	-	-	-	103,118,567	103,361,602
Financial instruments at fair value through profit or loss	80,159	-	-	-	-	448,781	528,940
Loans to customers	28,610,170	11,499,919	18,935,808	2,294,185	1,415,183	-	62,755,265
Available-for-sale financial assets	3,363,883	194,928	259,035	4,594	6,878	11,052	3,840,370
	32,297,247	**11,694,847**	**19,194,843**	**2,298,779**	**1,422,061**	**103,578,400**	**170,486,177**
LIABILITIES							
Deposits and balances from banks	886,623	-	-	-	-	6,464,933	7,351,556
Current accounts and deposits from customers	56,359,482	12,969,865	2,544,855	-	-	68,672,874	140,547,076
Financial instruments at fair value through profit or loss	63,709	33,132	-	-	-	348,832	445,673
Amounts payable under repurchase agreements	100,068	-	-	-	-	-	100,068
	57,409,882	**13,002,997**	**2,544,855**	**-**	**-**	**75,486,639**	**148,444,373**
	(25,112,635)	**(1,308,150)**	**16,649,988**	**2,298,779**	**1,422,061**	**28,091,761**	**22,041,804**

25 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %			**2012 Average effective interest rate, %**		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	1.7	-	-	-	-	0.4
Financial instruments at fair value through profit or loss	-	0.7	-	-	2.0	-
Loans to customers	12.3	7.0	7.0	13.5	8.3	6.8
Available-for-sale financial assets	2.8	1.3	-	1.6	1.3	-
Interest bearing liabilities						
Financial instruments at fair value through profit or loss	-	2.5	-	-	1.1	-
Deposits and balances from banks						
- Term deposits	3.2	0.1	0.3	0.7	-	-
Current accounts and deposits from customers	3.9	0.8	0.6	3.3	1.4	0.9
Amounts payable under repurchase agreements	-	-	-	5.0	-	-

Interest rate sensitivity analysis

An analysis of sensitivity of the Bank's profit or loss for the year and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

'000 KZT	**2013**		**2012**	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	186,314	186,314	(199,246)	(199,246)
100 bp parallel fall	(186,314)	(186,314)	199,246	199,246

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

'000 KZT	**2013**		**2012**	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	(9,058)	(12,436)	(90,778)	(97,466)
100 bp parallel fall	9,058	12,436	90,778	97,466

25 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

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

’000 KZT	USD	EUR	Other currencies	Total
ASSETS				
Cash and cash equivalents	48,880,376	8,659,939	2,478,792	60,019,107
Financial instruments at fair value through profit or loss, net of foreign currency contracts	18,750	-	-	18,750
Loans to customers	27,058,829	539,450	64,810	27,663,089
Documentary settlements	1,028,823	101,135	525,150	1,655,108
Available-for-sale financial assets	-	-	-	-
Other financial assets	766,965	689,842	3,481	1,460,288
Total assets	**77,753,743**	**9,990,366**	**3,072,233**	**90,816,342**
LIABILITIES				
Deposits and balances from banks	1,258,664	169,617	-	1,428,281
Current accounts and deposits from customers	71,015,796	9,652,967	2,670,680	83,339,443
Financial instruments at fair value through profit or loss, net of foreign currency contracts	15,619	-	-	15,619
Other financial liabilities	4,619,544	151,659	337,797	5,109,000
Total liabilities	**76,909,623**	**9,974,243**	**3,008,477**	**89,892,343**
Net position as at 31 December 2013	**844,120**	**16,123**	**63,756**	**923,999**
The effect of derivatives held for risk management	**(140)**	-	-	**(140)**
Net position after derivatives held for risk management purposes	**843,980**	**16,123**	**63,756**	**923,859**

25 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

’000 KZT	USD	EUR	Other currencies	Total
ASSETS				
Cash and cash equivalents	72,738,152	12,982,535	2,212,691	87,933,378
Financial instruments at fair value through profit or loss, net of foreign currency contracts	80,159	-	-	80,159
Loans to customers	26,710,028	493,297	64,549	27,267,874
Documentary settlements	445,762	174,983	-	620,745
Available-for-sale financial assets	6,877	-	-	6,877
Other financial assets	49,742	691,559	-	741,301
Total assets	**100,030,720**	**14,342,374**	**2,277,240**	**116,650,334**
LIABILITIES				
Deposits and balances from banks	905,240	-	-	905,240
Current accounts and deposits from customers	73,946,275	15,246,108	3,042,686	92,235,069
Financial instruments at fair value through profit or loss, net of foreign currency contracts	96,841	-	-	96,841
Other financial liabilities	2,643,567	-	229,491	2,873,058
Total liabilities	**77,591,923**	**15,246,108**	**3,272,177**	**96,110,208**
Net position as at 31 December 2012	**22,438,797**	**(903,734)**	**(994,937)**	**20,540,126**
The effect of derivatives held for risk management	**(21,183,620)**	**(298,001)**	**968,988**	**(20,512,633)**
Net position after derivatives held for risk management purposes	**1,255,177**	**(1,201,735)**	**(25,949)**	**27,493**

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

	2013		**2012**	
’000 KZT	**Net income**	**Equity**	**Net income**	**Equity**
20% appreciation of USD against KZT	135,037	135,037	200,828	200,828

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

25 Risk management, continued

(b) Market risk, continued

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Bank takes a long or short position in a financial instrument.

As at 31 December 2013 and 2012 the Bank is not exposed to significant other price risk.

(iv) Value at Risk (VAR) estimates

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period scaled to 10 days. The VAR model used is based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from the last 2 years.

Although VAR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- the use of holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VAR estimate
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

The Bank does not solely rely on its VAR calculations in its market risk measurement due to inherent risk of usage of VAR as described above. The limitations of the VAR methodology are recognized by supplementing VAR limits with other position and sensitivity limit structures.

A summary of the VAR estimates of losses that could occur as at 31 December is as follows:

’000 KZT	**31 December 2013**	**31 December 2012**
Foreign exchange risk	(17,714)	(26,302)
Fixed income securities interest rate risk	(5,863)	(34,951)
Equity securities price risk	(14,976)	(13,427)
	(38,553)	**(74,680)**

25 Risk management, continued

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Risk Management Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors.

The Bank's credit policy and related internal documents establishes:

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

Corporate loan credit applications are originated by the relevant client relationship managers and are then passed on to the Credit Administration Department, which is responsible for the Bank's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Credit Administration Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

25 Risk management, continued

(c) Credit risk, continued

The Bank continuously monitors the performance of corporate credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Bank's Retail Risk Department.

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

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

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

	2013 '000 KZT	2012 '000 KZT
ASSETS		
Cash and cash equivalents	98,482,518	100,370,038
Financial instruments at fair value through profit or loss	27,560	528,940
Loans to customers	75,797,467	62,755,265
Documentary settlements	2,073,608	718,410
Available-for-sale financial assets	2,420,879	3,829,318
Other financial assets	2,081,923	1,639,245
Total maximum exposure	**180,883,955**	**169,841,216**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 15.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 27.

As at 31 December 2013 the Bank has two debtors or group of connected debtors (2012: one), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for these counterparties as at 31 December 2013 is KZT 94,307,137 thousand (2012: KZT 42,242,049 thousand).

25 Risk management, continued

(d) Liquidity risk

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

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

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

The liquidity management policy of the Bank requires:

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

The daily liquidity position is monitored and managed by Balance Sheet Management team at Treasury department and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Finance Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the relevant business and/or support departments, progress monitored by ALCO.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the FMSA. The Bank was in compliance with these ratios as at 31 December 2013 and 2012.

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

25 Risk management, continued

(d) Liquidity risk, continued

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

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (outflow)/ inflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	(7,238,238)	-	-	-	-	(7,238,238)	(7,237,550)
Current accounts and deposits from customers	(122,519,048)	(13,551,829)	(4,844,577)	(1,203,929)	-	(142,119,383)	(142,005,985)
Other financial liabilities	(3,564,790)	(750,993)	(3,891,331)	(1,864,893)	(903,002)	(10,975,009)	(10,975,009)
Derivative liabilities							
Net settled derivatives	-	(15,619)	-	-	-	(15,619)	(15,619)
Gross settled derivatives							
- Inflow	11,022,135	1,302,825	8,457,113	770,300	-	21,552,373	-
- Outflow	(11,022,859)	(1,301,573)	(8,416,046)	(819,000)	-	(21,559,478)	(39,644)
Total liabilities	**(133,322,800)**	**(14,317,189)**	**(8,694,841)**	**(3,117,522)**	**(903,002)**	**(160,355,354)**	**(160,273,807)**
Credit related commitments	**(72,425,827)**	**-**	**-**	**-**	**-**	**(72,425,827)**	**(72,425,827)**

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

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (outflow)/ inflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	(7,351,631)	-	-	-	-	(7,351,631)	(7,351,556)
Current accounts and deposits from customers	(97,031,560)	(27,952,292)	(13,112,267)	(2,635,347)	(55,749)	(140,787,215)	(140,547,076)
Amounts payable under repurchase agreements	(100,110)	-	-	-	-	(100,110)	(100,068)
Other financial liabilities	(2,622,779)	-	(759,671)	-	-	(3,382,450)	(3,382,450)
Derivative liabilities							
- Inflow	18,406,339	16,425,218	6,284,784	10,735,736	-	51,852,077	-
- Outflow	(18,366,150)	(16,307,782)	(6,217,598)	(10,563,939)	-	(51,455,469)	(445,673)
Total liabilities	**(107,065,891)**	**(27,834,856)**	**(13,804,752)**	**(2,463,550)**	**(55,749)**	**(151,224,798)**	**(151,826,823)**
Credit related commitments	**(59,246,524)**	**-**	**-**	**-**	**-**	**(59,246,524)**	**(59,246,524)**

25 Risk management, continued

(d) Liquidity risk, continued

In accordance with Kazakhstan legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Accordingly, these deposits, excluding accrued interest, are shown in the table above in the category of “Demand and less than 1 month”.

The gross nominal inflow/(outflow) disclosed in the tables above represents the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

As at 31 December 2013, the Bank does not maintain any lines of credit (2012: nil).

25 Risk management, continued

(d) Liquidity risk, continued

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

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	101,997,616	-	-	-	-	-	-	101,997,616
Loans to customers	4,670,820	11,890,251	18,824,627	24,674,375	14,883,187	-	854,207	75,797,467
Documentary settlements	339,526	655,417	1,078,665	-	-	-	-	2,073,608
Available-for-sale financial assets	-	1,332,939	1,087,918	22	-	6,904	-	2,427,783
Property, equipment and intangible assets	-	-	-	-	-	1,545,166	-	1,545,166
Current tax asset	-	-	-	-	-	200,877	-	200,877
Deferred tax assets	-	-	-	-	-	224,395	-	224,395
Other assets	918,335	188,798	308,886	-	-	358,358	665,904	2,440,281
Total assets	**107,926,297**	**14,067,405**	**21,300,096**	**24,674,397**	**14,883,187**	**2,335,700**	**1,520,111**	**186,707,193**
Non-derivative liabilities								
Deposits and balances from banks	7,237,550	-	-	-	-	-	-	7,237,550
Current accounts and deposits from customers	112,483,918	17,566,129	11,955,938	-	-	-	-	142,005,985
Other liabilities	3,564,790	750,993	5,756,224	903,002	-	707,357	-	11,682,366
Total liabilities	**123,286,258**	**18,317,122**	**17,712,162**	**903,002**	**-**	**707,357**	**-**	**160,925,901**
Net position	**(15,359,961)**	**(4,249,717)**	**3,587,934**	**23,771,395**	**14,883,187**	**1,628,343**	**1,520,111**	**25,781,292**

25 Risk management, continued

(d) Liquidity risk, continued

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

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	103,361,602	-	-	-	-	-	-	103,361,602
Loans to customers	4,827,587	7,179,684	6,816,702	25,135,700	14,448,586	-	4,347,006	62,755,265
Documentary settlements	95,443	71,961	551,006					718,410
Available-for-sale financial assets	830,070	2,533,813	453,963	4,594	6,878	11,052	-	3,840,370
Property, equipment and intangible assets	-	-	-	-	-	1,721,034	-	1,721,034
Deferred tax assets	-	-	-	-	-	126,209	-	126,209
Other assets	826,685	88,787	32,406	-	-	330,689	691,367	1,969,934
Total assets	**109,941,387**	**9,874,245**	**7,854,077**	**25,140,294**	**14,455,464**	**2,188,984**	**5,038,373**	**174,492,824**
Non-derivative liabilities								
Deposits and balances from banks	7,351,556	-	-	-	-	-	-	7,351,556
Current accounts and deposits from customers	97,031,559	27,883,801	15,575,967	55,749	-	-	-	140,547,076
Amounts payable under repurchase agreements	100,068	-	-	-	-	-	-	100,068
Current tax liability	89,072	-	-	-	-	-	-	89,072
Other liabilities	2,622,779	-	1,338,958	-	-	106,913	-	4,068,650
Total liabilities	**107,195,034**	**27,883,801**	**16,914,925**	**55,749**	**-**	**106,913**	**-**	**152,156,422**
Net position	**2,746,353**	**(18,009,556)**	**(9,060,848)**	**25,084,545**	**14,455,464**	**2,082,071**	**5,038,373**	**22,336,402**

26 Capital management

The FMSC sets and monitors capital requirements for the Bank. The Bank is directly supervised by local regulators.

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

- Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, perpetual financial instruments and deferred tax liability formed of prior periods' retained earnings less intangible assets and current year losses

- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's income, revaluation reserves, deferred tax liability formed of current year expenses qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of risk-weighted assets less uninvested funds received under terms of custody agreements.

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

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

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

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

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital. For this purpose the investments are adjusted in the proportion of tier 1 capital to the total of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital).

As at 31 December 2013 and 2012 the minimum level of ratios as applicable to the Bank are as follows:

- k1.1 - 5%
- k1.2 – 5%
- k2 - 10%.

The Bank was in compliance with the statutory capital ratios as at 31 December 2013 and 2012. As at 31 December 2013 the Bank's ratios were as follows: k1.1 – 11.9% (2012: 10.9%), k1.2 – 19.7% (2012: 16.8%) and k2 – 23.3% (2012: 21.2%).

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

27 Credit related commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to fifteen years. The Bank also provides guarantees by acting as settlement agent lending transactions.

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

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

	2013 ’000 KZT	**2012 ’000 KZT**
Contracted amount		
Loan and credit line commitments	42,965,536	41,132,927
Guarantees and letters of credit	29,460,291	18,113,597
	72,425,827	**59,246,524**

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

Credit related commitments in the amount of KZT 1,494,689 thousand are secured by Treasury bills provided by other HSBC Group companies (2012: KZT 2,951,202 thousand secured by guarantees from other HSBC Group companies).

28 Operating leases

Leases as lessee

Non-cancellable operating lease rentals as at 31 December are payable as follows:

	2013 ’000 KZT	**2012 ’000 KZT**
Less than one year	600,893	465,719
Between one and five years	1,649,545	1,472,972
More than five years	-	107,190
	2,250,438	**2,045,881**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year KZT 570,000 thousand was recognised as an expense in profit or loss in respect of operating leases (2012: KZT 565,806 thousand).

29 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Republic of Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

30 Custody activities

The Bank provides custody services to its customers, whereby it holds assets on behalf of customers and receives fee income for providing these services. These assets do not belong to the Bank and are not recognised in the statement of financial position.

31 Related party transactions

(a) Control relationships

The Bank’s Parent is HSBC Bank Plc, London, a member of the HSBC Group. The party with ultimate control over the Bank is HSBC Holdings plc, the parent company of HSBC Group incorporated in the United Kingdom, which produces publicly available financial statements. Publicly available financial statements are also produced by the Bank’s Parent.

Related parties include parent company HSBC Bank plc as well as other HSBC Group entities controlled by HSBC Holdings plc, the Bank’s directors, members of the Board of Directors and members of the Management Board.

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

Total remuneration included in employee compensation (refer Note 11) for the years ended 31 December 2013 and 2012 is as follows::

	2013 **’000 KZT**	**2012** **’000 KZT**
Members of the Board of Directors and the Management Board	337,708	355,888

These amounts include share-based payment transactions.

31 Related party transactions, continued

(b) Transactions with members of the Board of Directors and the Management Board, continued

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

	2013 ’000 KZT	Average interest rate, %	2012 ’000 KZT	Average interest rate, %
Statement of Financial Position				
Assets				
Loans to members of the Board of Directors and the Management Board	5,499	14.05	69,788	3.42
Liabilities				
Deposits of members of the Board of Directors and the Management Board	53,778	0.10	65,146	0.31

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

	2013 ’000 KZT	2012 ’000 KZT
Statement of Comprehensive Income		
Interest income	308	2,444
Interest expense	(56)	(17)

31 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2013 and 2012 and related profit or loss amounts of transactions for the year ended 31 December 2013 and 2012 with other related parties are as follows:

	Parent Bank				**Other HSBC Group Entities**				**Total**	
	2013 ’000 KZT	**Average interest rate 2013**	**2012 ’000 KZT**	**Average interest rate 2012**	**2013 ’000 KZT**	**Average interest rate 2013**	**2012 ’000 KZT**	**Average interest rate 2012**	**2013 ’000 KZT**	**2012 ’000 KZT**
Statement of financial position										
ASSETS										
Cash and cash equivalents	1,985,755	-	6,995,209	-	17,754,488	0.3%	35,137,054	-	19,740,243	42,132,263
Financial instruments at fair value through profit or loss	762	-	109,771	-	-	-	-	-	762	109,771
Other assets	3,388	-	15	-	-	-	-	-	3,388	15
LIABILITIES										
Financial instruments at fair value through profit or loss	51,351	-	416,575	-	-	-	15,728	-	51,351	432,303
Current accounts and deposits from customers	-	-	-	-	-	-	1,285,014	-	-	1,285,014
Deposits and balances from banks	841,006	-	168,062	-	35,371	-	539,034	-	876,377	707,096
Other liabilities	230,718	-	-		185,949	-	-		416,667	-
Items not recognised in the statement of financial position										
Guarantees received	792,178	-	17,812,623	-	794,991	-	59,383	-	1,587,169	17,872,006
Guarantees issued	886,327	-	-	-	794,991	-	59,383	-	1,681,318	59,383
Collateral	14,789,760	-	-		-	-	-		14,789,760	-
Profit (loss)										
Interest income	-		-		1,625		11,327		1,625	11,327
Interest expense	(253)		(23)		-		(46,268)		(253)	(46,291)
Fee and commission income	214,793		107,306		-		-		214,793	107,306
Fee and commission expense	(39,410)		(3,167)		-		(8)		(39,410)	(3,175)
Other operating income	20,189		-		-		17,600		20,189	17,600
General administrative expenses	(895,417)		(636,043)		(279,937)		(315,142)		(1,175,354)	(951,185)

During 2013, the Bank capitalised costs of services provided by the Parent Bank and recognised them as intangible assets in the amount of KZT 47,125 thousand (2012: KZT 182,200 thousand).

32 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

’000 KZT	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	101,997,616	-	-	101,997,616	101,997,616
Financial instruments at fair value through profit or loss	27,560	-	-	-	27,560	27,560
Loans to customers:	-	75,797,467	-	-	75,797,467	74,561,885
Documentary settlements	-	2,073,608	-	-	2,073,608	2,073,608
Available-for-sale financial assets	-	-	2,427,783	-	2,427,783	2,427,783
Other financial assets	-	2,081,923	-	-	2,081,923	2,081,923
	27,560	**181,950,614**	**2,427,783**	**-**	**184,405,957**	**183,170,375**
Financial instruments at fair value through profit or loss	55,263	-	-	-	55,263	55,263
Deposits and balances from banks	-	-	-	7,237,550	7,237,550	7,237,550
Current accounts and deposits from customers	-	-	-	142,005,985	142,005,985	142,005,985
Other financial liabilities	-	-	-	10,975,009	10,975,009	10,975,009
	55,263	**-**	**-**	**160,218,544**	**160,273,807**	**160,273,807**

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

’000 KZT	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	103,361,602	-	-	103,361,602	103,361,602
Financial instruments at fair value through profit or loss	528,940	-	-	-	528,940	528,940
Loans to customers:	-	62,755,265	-	-	62,755,265	62,636,905
Available-for-sale financial assets	-	-	3,840,370	-	3,840,370	3,840,370
Documentary settlements	-	718,410	-	-	718,410	718,410
Other financial assets	-	1,639,245	-	-	1,639,245	1,639,245
	528,940	**168,474,522**	**3,840,370**	**-**	**172,843,832**	**172,725,472**
Financial instruments at fair value through profit or loss	445,673	-	-	-	445,673	445,673
Deposits and balances from banks	-	-	-	7,351,556	7,351,556	7,351,556
Current accounts and deposits from customers	-	-	-	140,547,076	140,547,076	140,547,076
Amounts payable under repurchase agreements	-	-	-	100,068	100,068	100,068
Other financial liabilities	-	-	-	3,382,450	3,382,450	3,382,450
	445,673	**-**	**-**	**151,381,150**	**151,826,823**	**151,826,823**

32 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities and simple over the counter derivatives like interest rate swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 13.0-20.7% and 10.3-15.7% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- quoted market prices are used for determination of fair value of debt securities.

(b) Fair value hierarchy

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

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

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

- verification of observable pricing
- re-performance of model valuations
- a review and approval process for new models and changes to models involving both Product Control and Group Market Risk

32 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by a committee of senior Product Control and Group Market Risk personnel.

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

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

Significant valuation issues are reported to the Valuation Committee.

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

	Level 1 '000 KZT	Level 2 '000 KZT	Total '000 KZT
ASSETS			
Cash and cash equivalents	101,997,616	-	101,997,616
Financial instruments at fair value through profit or loss	-	27,560	27,560
Loans to customers	-	74,561,885	74,561,885
Documentary settlements	-	2,073,608	2,073,608
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	2,420,879	2,420,879
- Equity investments	-	6,904	6,904
Other financial assets	-	2,081,923	2,081,923
	101,997,616	**81,172,759**	**183,170,375**
LIABILITIES			
Financial instruments at fair value through profit or loss	-	55,263	55,263
Deposits and balances from banks	-	7,237,550	7,237,550
Current accounts and deposits from customers	-	142,005,985	142,005,985
Other financial liabilities	-	10,975,009	10,975,009
	-	**160,273,807**	**160,273,807**

Securities, which are listed on the Kazakhstan Stock Exchange but which do not have an active market as at 31 December 2013, are classified as Level 2 in the fair value hierarchy.

32 Financial assets and liabilities: fair values and accounting classifications, continued

(c) Fair value hierarchy, continued

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

	Level 1 '000 KZT	Level 2 '000 KZT	Total '000 KZT
ASSETS			
Cash and cash equivalents	103,361,602	-	103,361,602
Financial instruments at fair value through profit or loss	-	528,940	528,940
Loans to customers	-	62,636,905	62,636,905
Documentary settlements	-	718,410	718,410
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	3,829,318	3,829,318
- Equity investments	-	11,052	11,052
Other financial assets	-	1,639,245	1,639,245
	103,361,602	**69,363,870**	**172,725,472**
LIABILITIES			
Financial instruments at fair value through profit or loss	-	445,673	445,673
Deposits and balances from banks	-	7,351,556	7,351,556
Current accounts and deposits from customers	-	140,547,076	140,547,076
Amounts payable under repurchase agreements	-	100,068	100,068
Other financial liabilities	-	3,382,450	3,382,450
	-	**151,826,823**	**151,826,823**

Securities, which are listed on the Kazakhstan Stock Exchange but which do not have an active market as at 31 December 2012, are classified as Level 2 in the fair value hierarchy.

33 Events after the reporting period

The Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks and the Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities ceased to be in force during 2013.

The Bank's statutory reserve capital in amount KZT 2,642,636 thousands was dissolved in accordance with the Resolution of the sole shareholder on 13 January 2014 as maintaining such a reserve capital was no longer required by regulations.

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

Management estimates that the financial effect from gains and losses on monetary items on the date the devaluation was announced is a loss of approximately KZT 706,665 thousand. Management's current assessment is that the devaluation will not affect the Bank's ability to meet its existing contractual obligations.

In February 2014 the Parent Bank has entered into an agreement to sell 100 per cent of the share capital of the Bank to JSC Halyk Bank of Kazakhstan. The transaction is expected to complete in 2014.