

**NATIONAL BANK OF THE
REPUBLIC OF KAZAKHSTAN**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank of the Republic of Kazakhstan ("the NBK") and its subsidiaries (the NBK and its subsidiaries together – "the National Bank") as at 31 December 2013, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Principles of preparation of the consolidated financial statements disclosed in Note 2 ("the Principles of preparation of the financial statements") to the consolidated financial statements.

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- following requirements of the Principles of preparation of the financial statements; and
- preparing the consolidated financial statements on a going concern basis.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the National Bank;
- Maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the National Bank and which enable them to ensure that the consolidated financial statements of the Bank comply with the requirements of the Principles of preparation of the financial statements;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the National Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2013 were authorized for issuance by the National Bank's Management Board on 14 March 2014.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

14 March 2014
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

14 March 2014
Almaty, Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Management Board of the National Bank of the Republic of Kazakhstan:

We have audited the accompanying consolidated financial statements of the National Bank of the Republic of Kazakhstan and its subsidiaries (collectively - "the National Bank"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Principles of preparation of the consolidated financial statements as described in Note 2 to the consolidated financial statements ("the Principles of preparation of the financial statements") and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the National Bank of the Republic of Kazakhstan as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with the Principles of preparation of the financial statements.

Other Matters

The consolidated financial statements of the National Bank for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 15 March 2013.

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

Nurlan Bekenov
Engagement Partner
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate №0082
13 June 1994
General Director
Deloitte, LLP

14 March 2014
Almaty, Kazakhstan

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 KZT'000	2012 KZT'000
Interest income	4	67,360,690	70,875,297
Interest expense	4	(2,509,457)	(8,608,108)
Net interest income		64,851,233	62,267,189
Fee and commission income	5	8,476,111	9,977,205
Fee and commission expense	6	(1,738,889)	(651,801)
Net fee and commission income		6,737,222	9,325,404
Net gain on financial instruments at fair value through profit or loss	7	26,092,065	10,836,772
Net gain on available-for-sale financial assets	8	3,792,411	7,059,042
Loss on held-to-maturity investments	22	-	(15,170,270)
Share of (loss)/profit of associates		(8,774)	119,590
Other operating (expenses)/income, net	9	(5,199,507)	4,745,632
Operating income		96,264,650	79,183,359
(Charge for)/recovery of impairment losses	10	(214,414)	1,775,893
Banknotes and coins production expenses	11	(6,957,465)	(8,915,829)
Funding of third parties	12	(198,482)	(182,017)
Personnel expenses	13	(18,645,018)	(17,929,143)
Depreciation and amortisation		(2,677,794)	(2,314,493)
Other general administrative expenses	14	(6,471,146)	(5,714,907)
Profit before income tax		61,100,331	45,902,863
Income tax expense	15	(901,236)	(1,433,185)
Profit for the year		60,199,095	44,469,678
Profit/(loss) attributable to:			
Equity holders of the National Bank		59,993,945	44,474,558
Non-controlling interest		205,150	(4,880)
Profit for the year		60,199,095	44,469,678

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

14 March 2014
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 11-71 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 KZT'000	2012 KZT'000
Profit for the year	60,199,095	44,469,678
Other comprehensive income, net of income tax		
Net gain on foreign currency revaluation	12,538,692	92,359,477
Net (loss)/gain on precious metals revaluation	(268,583,692)	44,694,546
Revaluation reserve for available-for-sale financial assets:		
Net change in fair value	(3,336,811)	(9,093,464)
Net change in fair value transferred to profit or loss	(3,792,411)	(7,059,042)
Impairment transferred to profit or loss	98,270	-
Revaluation of property and equipment	6,901,130	-
Other comprehensive (loss)/income for the year, net of income tax	(256,174,822)	120,901,517
Total comprehensive (loss)/income for the year	(195,975,727)	165,371,195
Total comprehensive (loss)/income attributable to:		
Equity holders of the National Bank	(196,180,877)	165,376,075
Non-controlling interest	205,150	(4,880)
Total comprehensive (loss)/income for the year	(195,975,727)	165,371,195

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

14 March 2014
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 11-71 form an integral part of these consolidated financial statements

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 KZT'000	2012 KZT'000
ASSETS			
Cash on hand in foreign currency		20,771,701	9,969,355
Gold	17	855,239,300	926,815,525
Placements with banks and other financial institutions	18	778,600,511	735,238,828
Financial instruments at fair value through profit or loss	19	485,690,789	302,392,225
Reverse repurchase agreements	20	573,139,668	578,002,980
Available-for-sale financial assets	21	2,214,257,326	2,636,135,268
Held-to-maturity investments	22	57,980,208	56,155,772
Investments in associates	41	355,832	186,770
Property, equipment and intangible assets	23	53,453,209	39,114,304
Current tax asset		325,080	192,814
Deferred tax asset		4,510	86,489
Other assets	24	15,014,904	10,686,518
Total assets		5,054,833,038	5,294,976,848
LIABILITIES			
Currency in circulation	25	1,763,275,779	1,737,000,230
Due to banks and other financial institutions	26	1,088,063,218	1,010,832,334
Financial instruments at fair value through profit or loss	19	252,414	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	27	749,020,680	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	28	299,374,819	177,848,958
Customer accounts	29	89,426,291	359,938,341
Debt securities issued	30	3,597,913	168,354,440
Reserves of guarantee fund	31	133,658,087	97,661,126
Current tax liability		10,273	36,663
Deferred tax liability		1,514,492	1,249,460
Other liabilities	32	7,329,005	5,787,279
Total liabilities		4,135,522,971	4,165,688,576
EQUITY			
Share capital	33	20,000,000	20,000,000
Capital reserve	33	231,957,033	188,436,214
Reserve for general banking risks	33	2,346,594	19,277,457
Revaluation surplus for property and equipment		17,347,767	11,694,253
Revaluation reserve for available-for-sale financial assets		(1,979,772)	4,733,015
Revaluation reserve for foreign currency and precious metals		534,715,370	790,762,617
Retained earnings		111,626,159	93,493,652
Total equity attributable to equity holders of the National Bank		916,013,151	1,128,397,208
Non-controlling interest		3,296,916	891,064
Total equity		919,310,067	1,129,288,272
Total liabilities and equity		5,054,833,038	5,294,976,848

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

14 March 2014
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 11-71 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 KZT'000	2012 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	61,100,331	45,902,863
<i>Adjustments for:</i>		
Depreciation and amortization	4,316,269	3,684,161
Expenses from generation of a special deposits guarantee reserve	10,000,000	-
Charge for/(recovery of) impairment losses on financial instruments	98,270	(1,805,122)
Charge for impairment losses on other assets	29,305	-
Loss on disposal and from negative revaluation of property and equipment	116,079	202,637
Amortisation of discount on debt securities issued	939,584	6,211,727
Amortisation of premium on available-for-sale assets	18,343,644	28,769,347
Unrealised gain on financial instruments at fair value through profit or loss	(136,027)	(11,141,912)
Share of loss/(profit) of associates	8,774	(119,590)
Loss on held-to-maturity investments	-	15,170,270
Other operating income	-	(100,167)
Cash flow from operating activities before changes in operating assets and liabilities	94,816,229	86,774,214
(Increase)/decrease in operating assets		
Gold	(197,007,467)	(266,110,209)
Placements with banks and other financial institutions	13,830,844	60,947,242
Financial instruments at fair value through profit or loss	(182,910,865)	(125,482,990)
Reverse repurchase agreements	6,364,178	(145,326,100)
Available-for-sale financial assets	390,355,333	866,760,208
Investments in associates	(177,836)	-
Other assets	(6,828,910)	948,859
Increase/(decrease) in operating liabilities		
Currency in circulation	26,275,549	188,506,759
Due to banks and other financial institutions	63,142,463	4,617,839
Financial instruments at fair value through profit or loss	(268,936)	(4,264,654)
Current accounts of the National Fund of the Republic of Kazakhstan	142,310,038	133,524,382
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	123,404,384	48,197,492
Customer accounts	(270,605,489)	(120,303,352)
Reserves of guarantee fund	23,662,735	21,030,734
Other liabilities	1,514,897	(62,895)
Net cash from operating activities before income tax paid	227,877,147	749,757,529
Income tax paid	(712,881)	(313,894)
Cash flows from operations	227,164,266	749,443,635
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	(1,824,436)	(70,127,892)
Purchases of property and equipment and intangible assets	(13,372,281)	(8,111,451)
Sales of property and equipment and intangible assets	1,502,158	565,084
Disposal of subsidiary, net of transfer of net assets	6,919,125	-
Acquisition of subsidiary	89,566	100,278
Cash flows used in investing activities	(6,685,868)	(77,573,981)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 KZT'000	2012 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	79,316,186	856,251,441
Repayment of debt securities issued	(245,012,297)	(1,187,819,663)
Cash flows used in financing activities	(165,696,111)	(331,568,222)
Net increase in cash and cash equivalents	54,782,287	340,301,432
Effect of changes in exchange rates on cash and cash equivalents	3,319,214	1,530,374
Cash and cash equivalents as at the beginning of the year	629,426,174	287,594,368
Cash and cash equivalents as at the end of the year (Note 16)	687,527,675	629,426,174

Amounts of interest, paid and received during the year ended 31 December 2013, are KZT 2,429,216 thousand and KZT 58,790,719 thousand, respectively.

Amounts of interest, paid and received during the year ended 31 December 2012, are KZT 8,616,770 thousand and KZT 74,149,459 thousand, respectively.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

14 March 2014
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 11-71 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

KZT*000	Attributable to equity holders of the National Bank							Non-controlling interest	Total equity	
	Share capital	Capital reserve	Reserve for general banking risks	Revaluation surplus for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings			Total
Balance as at 1 January 2012	20,000,000	156,287,842	13,201,628	17,071,875	20,885,521	653,708,594	81,865,673	963,021,133	-	963,021,133
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	44,474,558	44,474,558	(4,880)	44,469,678
Other comprehensive income/(loss)										
Net gain on foreign currency revaluation	-	-	-	-	-	92,359,477	-	92,359,477	-	92,359,477
Net gain on precious metals revaluation	-	-	-	-	-	44,694,546	-	44,694,546	-	44,694,546
Net change in fair value of available-for-sale financial assets	-	-	-	-	(9,093,464)	-	-	(9,093,464)	-	(9,093,464)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(7,059,042)	-	-	(7,059,042)	-	(7,059,042)
Total other comprehensive (loss)/income	-	-	-	-	(16,152,506)	137,054,023	-	120,901,517	-	120,901,517
Total comprehensive (loss)/income for the year	-	-	-	-	(16,152,506)	137,054,023	44,474,558	165,376,075	(4,880)	165,371,195
Transfer of revaluation surplus resulting from depreciation and disposals	-	-	-	(5,377,622)	-	-	5,377,622	-	-	-
Transactions with owners, recorded directly in equity:										
Transfer to capital reserve and reserve for general banking risks	-	32,148,372	6,075,829	-	-	-	(38,224,201)	-	-	-
Acquisition of subsidiary and contributions from holders of non-controlling interest (Note 41)	-	-	-	-	-	-	-	-	895,944	895,944
Total transactions with owners	-	32,148,372	6,075,829	-	-	-	(38,224,201)	-	895,944	895,944
Balance as at 31 December 2012	20,000,000	188,436,214	19,277,457	11,694,253	4,733,015	790,762,617	93,493,652	1,128,397,208	891,064	1,129,288,272

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

KZT'000	Attributable to equity holders of the National Bank							Non-controlling interest	Total equity	
	Share capital	Capital reserve	Reserve for general banking risks	Revaluation surplus for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings			Total
Balance as at 1 January 2013	20,000,000	188,436,214	19,277,457	11,694,253	4,733,015	790,762,617	93,493,652	1,128,397,208	891,064	1,129,288,272
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	59,993,945	59,993,945	205,150	60,199,095
Other comprehensive income/(loss)										
Net gain on foreign currency revaluation	-	-	-	-	-	12,538,692	-	12,538,692	-	12,538,692
Net loss on precious metals revaluation	-	-	-	-	-	(268,583,692)	-	(268,583,692)	-	(268,583,692)
Net change in fair value of available- for-sale financial assets	-	-	-	-	(3,336,811)	-	-	(3,336,811)	-	(3,336,811)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(3,792,411)	-	-	(3,792,411)	-	(3,792,411)
Impairment of financial assets available for sale transferred to profit and loss	-	-	-	-	98,270	-	-	98,270	-	98,270
Revaluation of property and equipment	-	-	-	6,901,130	-	-	-	6,901,130	-	6,901,130
Total other comprehensive income/(loss)	-	-	-	6,901,130	(7,030,952)	(256,045,000)	-	(256,174,822)	-	(256,174,822)
Total comprehensive income/(loss) for the year	-	-	-	6,901,130	(7,030,952)	(256,045,000)	59,993,945	(196,180,877)	205,150	(195,975,727)
Transfer of revaluation surplus resulting from depreciation and disposals	-	-	-	(1,247,616)	-	-	1,247,616	-	-	-
Transactions with owners, recorded directly in equity:										
Addition to capital reserve	-	43,520,819	(12,874,346)	-	-	-	(30,646,473)	-	-	-
Acquisition of subsidiary (Note 41)	-	-	-	-	-	-	-	-	2,239,245	2,239,245
Changes in non-controlling interest share of net assets	-	-	-	-	-	-	-	-	(38,543)	(38,543)
Disposal of a subsidiary	-	-	(4,056,517)	-	318,165	(2,247)	(12,462,581)	(16,203,180)	-	(16,203,180)
Total transactions with owners	-	43,520,819	(16,930,863)	-	318,165	(2,247)	(43,109,054)	(16,203,180)	2,200,702	(14,002,478)
Balance as at 31 December 2013	20,000,000	231,957,033	2,346,594	17,347,767	(1,979,772)	534,715,370	111,626,159	916,013,151	3,296,916	919,310,067

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

14 March 2014
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

14 March 2014
Almaty, Kazakhstan

The notes on pages 11-71 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. BACKGROUND

Principal activities

These consolidated financial statements include the consolidated financial statements of the National Bank of the Republic of Kazakhstan (“the NBK”) and its subsidiaries (together referred to as “the National Bank”).

The NBK was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary role of the NBK is ensuring price stability in the Republic of Kazakhstan. The NBK has the following goals: development and implementation of the monetary policy of the state; ensuring functioning of payment systems; exchange regulation and exchange control; ensuring financial stability and further development of the financial market and financial organizations and maintaining trust in the financial system as a whole; maintaining proper level of protection of the rights and legitimate interests of the consumers of financial services.

According to its mission, the National Bank exercises the following main functions: pursuit of the monetary policy in the Republic of Kazakhstan; issue of banknotes and coins in the Republic of Kazakhstan; exercises the function of the central bank; exercises the function of the bank, financial advisor, agent of the Government of the Republic of Kazakhstan and provides other services to the Government and other state bodies in agreement therewith; organization of the functioning of payment systems; exchange regulation and exchange control in the Republic of Kazakhstan; management of the gold and currency reserves of the NBK; regulation of the activity of the financial market and financial organizations and other entities within its competence; control and supervision of the financial market, financial organizations and other entities within its competence, including checking and supervision for compliance of their activity with regulations of the National Bank; monitoring of the financial market and financial organizations in order to ensure stability of the financial system; setting standards of activity of financial organizations, creation of stimulus for improvement of corporate management of financial organizations; regulation of the activity and development of the Regional Financial Center of Almaty.

The address of the NBK’s registered office is 21, Micro District Koktem-3, Almaty 050040. As at 31 December 2013 the NBK has 17 branches and 13 subsidiaries located in the Republic of Kazakhstan and 1 representative offices in other countries and 2 agencies.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

All the subsidiaries are registered in the Republic of Kazakhstan. The principal subsidiaries are as follows:

Name	Year of establishment	Principal activities	Ownership % 2013	2012
RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan”	1994	Coin manufacturing	100.00	100.00
RSE “Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan”	1996	Electronic cash transfers	100.00	100.00
RSE “Banking Service Bureau of the National Bank of the Republic of Kazakhstan”	1996	Software maintenance and development	100.00	100.00
JSC “Kazakhstan Fund of Deposits Guarantee”	1999	Individual deposit guarantee	100.00	100.00
RSE “Banknote Factory of National Bank of the Republic of Kazakhstan”	2004	Banknote manufacturing	100.00	100.00
JSC “Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO”	2007	Ensuring the smooth functions of IT of the NBK	100.00	100.00
JSC “Activity support center of the National Bank of the Republic of Kazakhstan”	2011	Transportation services, economical activity on property management	100.00	100.00
JSC “Fund of bad loans”	2011	Promotion of measures on quality improvement for credit portfolios of second-tier banks	100.00	100.00
JSC “National Investment Corporation of the National Bank of the Republic of Kazakhstan”	2012	Management of assets of the National Fund of the Republic of Kazakhstan and gold and foreign currency assets of the NBK, management of pension assets	100.00	100.00
JSC “State Credit Bureau”	2012	Forming of credit histories and credit reports	100.00	100.00
JSC “Integrated Securities Registrar”	2012	Maintaining a registry system for securities holders	97.80	96.42
JSC “Central Securities Depository”	1996	Depository activity	72.36	54.98
JSC “Kazakhstan Stock Exchange”	1993	Organization and maintenance of financial markets	50.10	-
JSC “Accumulative Pension Fund “State Accumulative Pension Fund”	1997	Management of pension assets of depositors of the fund	-	100.00

In accordance with the Laws of the Republic of Kazakhstan “On State Property” dated 1 March 2011, On pension provision in the Republic of Kazakhstan dated 21 June 2013, Resolution of the Government №747 dated 31 July 2013 “On creation of unified accumulative pension fund” and Resolution of the Management Board of the NBK state package of shares of JSC “Accumulative Pension Fund” GNPF” belonging to NBK was granted to the Committee on State Property and privatization of the Ministry of Finance of the Republic of Kazakhstan

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

In 2013 in accordance with the Laws of the Republic of Kazakhstan “On securities market” dated 2 July 2003 and “On making amendments and additions in certain legal acts of the Republic of Kazakhstan on activities of microfinance organisations” the Management Board of the NBK approved acquisition of shares of JSC “Kazakhstan Stock Exchange” by subscription on non organized securities market (Note 41).

During 2012, in accordance with the Laws of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” and “On Joint-Stock Companies” management of the NBK:

- with Resolution of the Board № 180 from 25 May 2012 approved the establishment of JSC “National Investment Corporation of the National Bank of the Republic of Kazakhstan” that was registered with the Ministry of Justice of the Republic of Kazakhstan on 23 June 2012.
- with Resolution of the Board № 213 from 4 July 2012 approved the creation of JSC “The State Credit Bureau”. The share of the founder, the NBK, is 100%. JSC “State Credit Bureau” registered with the Ministry of Justice of the Republic of Kazakhstan on 19 September 2012.
- with Resolution of the Board № 337 from 26 November 2012 approved the purchase of 5.19% shares of JSC “Central Securities Depository” (Note 41).

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kazakhstan and the Kazakhstani economy in general.

Laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Kazakhstan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

2 BASIS OF PREPARATION

Statement of compliance

In accordance with the Law of the Republic of Kazakhstan №2155 dated 30 March 1995 “On the National Bank of the Republic of Kazakhstan” the NBK determines its accounting policies for itself based on International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been designed to present fairly the financial position of the NBK and the results of its operations and have been prepared in accordance with the accounting policy of the NBK which was approved by the Board of Directors of the National Bank on 7 June 2013 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) with principal modifications as described below.

Gold and gold deposits are revalued based on market value of gold; gains resulting from the mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income.

Contributions received from the participating banks in accordance with the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” with amendments as at 5 December 2013 are recognised as reserves of guarantee fund within liabilities.

Basis of measurement

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

Functional and presentation currency

The functional currency of the National 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 consolidated financial statements.

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

Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. Management believes that significant areas of estimation uncertainty that require using of critical judgments and valuation models in preparation of these consolidated financial statements are absent.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the NBK. Control exists when the NBK has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Funds management

The National Bank manages and administers assets held in investment vehicles on behalf of investors. The consolidated financial statements of these entities are not included in these consolidated financial statements except when the National Bank controls the entity.

Acquisitions and disposals of non-controlling interests

The National Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the National Bank.

Associates

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the NBK.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the NBK. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of income and comprehensive income.

Gold

Gold comprises gold deposits with foreign banks and gold bullion in depositories. Gold is measured at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gains on revaluation of gold are recorded directly in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the National Bank entities 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. Gain on foreign currency differences arising on retranslation are recognised in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of foreign currency is not transferred to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with other banks, and highly liquid financial assets 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 National Bank in the management of short-term commitments.

Financial instruments

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 financial instruments that are designated and effective hedging instruments); or
- upon initial recognition, designated as at fair value through profit or loss.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The National 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 initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified to another category of financial instruments.

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 National Bank:

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

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

- the National Bank upon initial recognition designates as at fair value through profit or loss;
- the National 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.

Recognition

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

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

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

Amortised cost

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

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, regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the National 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 quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the National Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the National Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the National Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the National Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the National Bank believes a third-party market participant would take them into account in pricing a transaction.

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.

Derecognition

The National 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 National 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 National Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The National Bank writes off assets deemed to be uncollectible.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Reverse repurchase agreements

Securities purchased under agreements to resell (reverse repo) are recorded as reverse repurchase agreements in the separate line of the consolidated statement of financial position. 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.

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the National Bank.

Currency in circulation

Currency in circulation is recorded in the consolidated statement of financial position at nominal value.

Currency in circulation is recorded as a liability when cash is issued by the NBK to commercial banks. Banknotes and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Reserves of guarantee fund

According to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 5 December 2013) the subsidiary of the NBK, JSC “Kazakhstan Fund of Deposits Guarantee”, is due to compensate participating banks’ depositors amounts up to a certain level in case of forced liquidation of a participating bank. The National Bank establishes a reserve of guarantee fund to accumulate contributions of the banks that participate in the deposit guarantee scheme. In accordance with the National Bank’s accounting policy reserves of guarantee fund represent accumulated contributions received from the participating banks.

Fiduciary assets

The National Bank provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank. Commissions received from such business are shown within fee and commission income in profit or loss.

Property and equipment

Items of property and equipment are stated at revalued amounts as described below.

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

Revaluation

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

A revaluation decrease on a building and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a units of production method over the expected output of the individual assets.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings and constructions	7 to 40 years
- Furniture and equipment	3 to 10 years
- Computer equipment	3 to 5 years
- Motor vehicles	5 to 25 years
- Intangible assets	1 to 10 years

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Issued for operations property, equipment and intangible assets which cost less than 200 (two hundred) monthly calculating index per unit and (or) kit are attributable to expenses accounts of the National Bank with simultaneous reflection on non-systemic accounts, except for property and equipment acquired for upgrading of equipment that requires assembling and intangible assets that are included into the property and equipment. Monthly calculating index in 2013 and 2012 amounted to KZT 1,731 and KZT 1,618, respectively.

Intangible assets

Acquired intangible assets are stated at cost in the consolidated financial statements.

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 1 to 10 years.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks and other financial institutions, reverse repurchase agreements, held-to-maturity investments and other financial assets (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the National 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.

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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 National 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 National 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.

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.

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.

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.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. 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. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the National 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.

Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

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 not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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.

Recognition of income and expenses in consolidated financial statements

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

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

Segment reporting

An operating segment is a component of a National Bank that engages in business activities from which it may earn revenues and incur the expenses (including revenues and expenses relating to transactions with other components of the National Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Adoption of new and revised standards

In the previous year, the National Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods ending on 31 December 2013. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the National Bank's accounting policies that have affected the amounts reported for the current or prior years.

New standards and interpretations not yet adopted

The Bank has not applied new standards, amendments to standards and interpretations as at 31 December 2013 in preparing of these consolidated financial statements. The following standards, amendments and interpretations could potentially have an impact on the activities of the National Bank of the Republic of Kazakhstan. National Bank of Kazakhstan plans to adopt these standards, amendments and interpretations from the moment of their entry in force. National Bank of Kazakhstan has not assessed the possible impact of these new standards on its consolidated financial statements.

- IFRS 9 Financial Instruments
- Amendments to IFRS 9: "IFRS 9: Mandatory Effective Date and Transition Disclosures"
- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities"
- Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities"
- Amendments to IAS 36 "Impairment of Assets"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"

IFRS 9 *Financial Instruments*.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

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

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

- receive funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The management of the National Bank do not anticipate that the investment entities amendments will have any effect on the Bank's consolidated financial statements as the Bank is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities.

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Amendments to IAS 36 Impairment of Assets

In May 2013 the International Accounting Standards Board modified some of the disclosure requirements in IAS 36 'Impairment of Assets'. The amendments published today result from the proposals of the Exposure Draft ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets (Proposed amendments to IAS 36)* and the feedback received on it.

The amendments to IAS 36:

- remove the requirement to disclose the recoverable amount of each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant when compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives
- require an entity to disclose the recoverable amount of an individual asset (including goodwill) or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period
- require an entity to disclose additional information about the fair value less costs of disposal of an individual asset, including goodwill, or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period, including:
- the level of the fair value hierarchy (from IFRS 13) within which the fair value measurement is categorised
- the valuation techniques used to measure fair value less costs of disposal
- key assumptions used in the measurement of fair value measurements categorised within 'Level 2' and 'Level 3' of the fair value hierarchy
- require an entity to disclose the discount rate used, where an entity has recognised or reversed an impairment loss during the reporting period and recoverable amount is based on fair value less costs of disposal determined using a present value technique

The amendments apply on a retrospective basis for annual periods beginning on or after 1 January 2014. An entity may apply the amendments earlier to any period in which it also applies IFRS 13.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”

In February 2013 the IASB has issued ED/2013/2 'Novation of Derivatives and Continuation of Hedge Accounting'. New edition of the standard simplifies accounting for over-the-counter derivatives. ED/2013/2 proposes that the novation of a hedging instrument should not be considered an expiration or termination giving rise to the prospective discontinuation of hedge accounting only when: 1) the novation is required by laws or by stock exchange regulators, 2) the novation results in a central depository or a clearing agency becoming the new counterparty to each of the parties to the novated derivative, 3) the changes in terms of the novated derivative are limited to those necessary to effect the terms of the novated derivative.

The amendments apply on a retrospective basis for annual periods beginning on or after 1 January 2014. An entity may apply the amendments earlier but additional disclosures will be required. In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” amendments should be applied retrospectively.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

4 NET INTEREST INCOME

	2013 KZT'000	2012 KZT'000
Interest income		
Available-for-sale financial assets	35,613,858	38,389,809
Reverse repurchase agreements	30,536,331	30,655,184
Placements with banks and other financial institutions	1,174,190	1,793,683
Other	36,311	36,621
	67,360,690	70,875,297
Interest expense		
Debt securities issued	(939,584)	(6,211,727)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(732,740)	(463,173)
Due to banks and other financial institutions	(676,590)	(1,932,712)
Other	(160,543)	(496)
	(2,509,457)	(8,608,108)
	64,851,233	62,267,189

5 FEE AND COMMISSION INCOME

	2013 KZT'000	2012 KZT'000
Asset management fee	4,367,619	3,959,840
Pension asset management fee	2,262,086	5,825,012
Depository operations and servicing of financial markets	1,643,997	-
Transfer operations	202,409	192,353
	8,476,111	9,977,205

Fee and commission income on asset management operations consists of income for asset management services provided to the National Fund of the Republic of Kazakhstan and JSC "State Social Insurance Fund". The National Bank renders asset management services to these organisations investing funds received in various financial instruments in accordance with customers' instructions.

Fee and commission income on pension asset management consists of commission income of JSC Accumulation Pension Fund "State Accumulated Pension Fund" ("GNPF").

Depository operations and servicing of financial markets consists of income from main activities of JSC "Central Securities Depository" and JSC "Kazakhstan Stock Exchange"

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of RSE "Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan".

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

6 FEE AND COMMISSION EXPENSE

	2013 KZT'000	2012 KZT'000
Asset management	1,471,316	362,965
Brokerage	148,938	142,121
Custody	112,647	144,405
Other	5,988	2,310
	1,738,889	651,801

7 NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 KZT'000	2012 KZT'000
Net gain on assets under external management (Note 19)	27,679,929	11,653,657
Net loss on operations with other derivative financial instruments	(1,587,864)	(816,885)
	26,092,065	10,836,772

8 NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013 KZT'000	2012 KZT'000
Debt instruments	3,792,411	7,059,042
	3,792,411	7,059,042

9 OTHER OPERATING (EXPENSES)/INCOME, NET

	2013 KZT'000	2012 KZT'000
Sale of coins for collection	2,666,564	2,441,678
Sale of printed products	2,109,035	1,767,778
Sale of medals, badges and jewelry	15,302	142,281
Rent of property and equipment	25,523	30,733
Other (expenses)/income, net	(15,931)	363,162
Replenishment of reserve on deposits guarantee	(10,000,000)	-
	(5,199,507)	4,745,632

During 2013 for conduction of activities on protection of bank-participants depositors in accordance with the Law on “Obligatory guarantee of deposits placed in second tier banks of the Republic of Kazakhstan”: JSC “Kazakhstan Fund of Deposits Guarantee” formed a special reserve in the amount of KZT 10,000,000 thousand.

10 (CHARGE FOR)/ RECOVERY OF IMPAIRMENT LOSSES

	2013 KZT'000	2012 KZT'000
Available-for-sale financial assets	(98,270)	1,875,941
Negative revaluation of property and equipment	(86,839)	(29,229)
Inventory	(23,557)	-
Other assets	(5,748)	(70,819)
	(214,414)	1,775,893

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

11 BANKNOTES AND COINS PRODUCTION EXPENSES

	2013 KZT'000	2012 KZT'000
Banknotes	4,597,070	4,459,451
Coins	2,268,730	4,367,328
Other	91,665	89,050
	6,957,465	8,915,829

Banknotes and coin production expenses for 2013 include depreciation expenses of KZT 985,728 thousand (2012: KZT 915,013 thousand).

12 FUNDING OF THIRD PARTIES

	2013 KZT'000	2012 KZT'000
Funding of the Masters' Studies at Kazakh Economic University in the name of T. Ryskulov	198,482	182,017
	198,482	182,017

13 PERSONNEL EXPENSES

	2013 KZT'000	2012 KZT'000
Payroll	9,539,947	9,401,749
Bonuses	6,874,135	6,390,732
Social tax	1,426,295	1,396,941
Insurance	507,026	503,475
Training	179,533	170,711
Other	118,082	65,535
	18,645,018	17,929,143

14 OTHER GENERAL ADMINISTRATIVE EXPENSES

	2013 KZT'000	2012 KZT'000
Repair and maintenance of property and equipment	1,338,812	832,892
Taxes other than income tax	826,544	877,455
Communication	717,832	943,281
Information and other services	590,723	653,580
Inventory	527,864	653,133
Advertising, announcements and presentations in mass media	382,663	244,378
Business trips	289,169	265,214
Transportation	286,089	149,129
Rent	259,287	239,403
Security	258,931	210,448
Representative expenses	204,879	117,192
Utilities	157,665	131,141
Gratuitous assignment of property	150,497	84,922
Insurance of property and equipment	43,450	27,811
Other	436,741	284,928
	6,471,146	5,714,907

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

15 INCOME TAX EXPENSE

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

	2013 KZT'000	2012 KZT'000
Current tax expense		
Current year	554,225	1,144,881
	554,225	1,144,881
Deferred tax expense		
Origination and reversal of temporary differences	347,011	288,304
Total income tax expense	901,236	1,433,185

The NBK's subsidiaries applicable tax rate in 2013 and 2012 is the income tax rate of 20% for Kazakhstan companies

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Reconciliation of effective tax rate:

	2013 KZT'000	%	2012 KZT'000	%
Profit before tax	61,100,331		45,902,863	
Income tax at the applicable tax rate	12,220,066	20.00	9,180,573	20.00
Effect of non-taxable operations of the National Bank	(11,263,634)	(18.43)	(7,635,357)	(16.63)
Non-taxable income	(55,196)	(0.09)	(112,031)	(0.25)
	901,236	1.48	1,433,185	3.12

16 CASH AND CASH EQUIVALENTS

	2013 KZT'000	2012 KZT'000
Amounts due from foreign banks with the original maturity of less than three months	606,272,318	586,756,053
Nostro accounts in foreign banks	58,216,998	28,233,336
Cash on hand in foreign currency	20,771,701	9,969,355
Nostro accounts in Kazakhstan banks	1,665,978	3,709,516
Accounts with the Bank for International Settlements	600,680	757,914
Cash and cash equivalents in the consolidated statement of cash flows	687,527,675	629,426,174

Cash and cash equivalents are not impaired or past due as at 31 December 2013.

17 GOLD

	2013 KZT'000	2012 KZT'000
Gold deposits with foreign banks:		
- rated from A to A+	139,345,672	199,026,379
- rated from AA- to AA	160,748,695	156,026,791
	300,094,367	355,053,170
Gold bullion in NBK depository	388,244,549	346,309,560
Gold bullion in foreign bank depositories		
- rated AAA	166,900,384	225,452,795
	855,239,300	926,815,525

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

18 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 KZT'000	2012 KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts		
- rated A- to AAA	57,361,680	26,134,170
- rated from BBB- to BBB+	543,704	1,565,900
- rated from B- to B+	53,497	144,966
- not rated	258,117	388,300
Total nostro accounts	58,216,998	28,233,336
Deposits - rated A+ to AA+	606,272,318	586,756,053
Other placements and deposits		
Accounts with the International Monetary Fund	86,762,325	84,725,376
Uninvested cash under external management – rated AA- (Note 19)	16,101,588	9,812,003
Receivables on operations in foreign currency	1,667,693	2,371,682
Accounts with the Bank for International Settlements	600,680	757,914
Total other placements and deposits	105,132,286	97,666,975
Total placements with foreign banks and other financial institutions	769,621,602	712,656,364
Receivables from Kazakhstan banks and other financial institutions		
Nostro accounts		
- rated B+ and above	1,376,357	2,188,380
- rated below B+	238,657	1,467,638
- not rated	50,964	53,498
Total nostro accounts	1,665,978	3,709,516
Deposits		
- rated B+ and above	1,989,940	4,646,472
- rated below B+	-	2,070,639
- not rated	4,036,181	7,618,484
Total deposits	6,026,121	14,335,595
Other placements and deposits		
Receivables from the Ministry of Finance of the Republic of Kazakhstan	1,077,655	1,365,029
Receivables from JSC “UNPF”	209,155	-
Receivables from Kazakhstan banks and insurance organisations - not rated	-	3,172,324
Total other placements and deposits	1,286,810	4,537,353
Total receivables from Kazakhstan banks and other financial institutions	8,978,909	22,582,464
	778,600,511	735,238,828

As at 31 December 2013 and 2012 the National Bank has placements and deposits in bank-counterparty in the amount exceeding 10 % of equity. The total amount of that balance is KZT 606,272,318 thousand (2012: 568,666,650 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

19 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss consisted of the following at 31 December 2013 and 2012:

	2013 KZT'000	2012 KZT'000
Assets		
Assets under external management –designated as at fair value through profit or loss		
Corporate bonds	181,818,327	129,535,765
Corporate shares	172,260,497	94,573,178
Government bonds	131,149,862	77,918,034
Options	151,559	349,153
Futures	135,086	15,178
Forwards	5,774	917
Assets under own management		
Swap	77,049	-
Forwards	73,570	-
Option	19,065	-
Total financial instruments at fair value through profit or loss	485,690,789	302,392,225
Liabilities		
Liabilities under external management		
Forwards	(146,134)	(235,167)
Futures	(72,412)	(7,474)
Liabilities under own management		
Option	(17,640)	-
Forwards	(12,841)	(26,462)
Swaps	(3,387)	-
Total financial instruments at fair value through profit or loss	(252,414)	(269,103)

As at December 2013 and 2012 a portion of financial instruments at fair value through profit and loss was under the management of 9 and 6 foreign asset management organisations, respectively. Depending on the mandate the managers invest into fixed income and equity instruments and are also allowed to use derivative instruments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The portfolios under external management pursue the following investment strategies:

External manager	2013 KZT'000	2012 KZT'000	Strategy	Index
Amundi	119,677,095	92,171,780	Global shares	MSCI World Index (MXWO)
Nomura Asset Management U.K. Limited	59,284,021	45,665,769	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs (G5BC)
Bank Julius Baer & Co. AG.	57,389,494	44,715,059	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs (G5BC)
Aviva Investors Global Services Limited	55,052,728	47,411,430	Global developing markets	ML Emerging Customised Index
Deutsche Asset Management International GmbH	51,734,094	42,417,665	Global developing markets	ML Emerging Customised Index
JP Morgan	50,932,228	-	Global active shares	MSCI World Index (MXWO)
BBVA	39,581,585	-	Global developing markets	ML USD Latin America (BR,CL,PE,CO,MX)-Q610
Lombard Odier Asset Management (Europe) Limited	35,316,302	29,767,881	Global convertible bonds	UBS Convertible Global Investment Grade USD Index (UICBGIGU)
BNP	16,335,012	-	Global convertible bonds	UBS Convertible Global Investment Grade USD Index (UICBGIGU)
Total net assets	485,302,559	302,149,584		

Uninvested balances in 2013 equivalent to KZT 16,101,588 thousand (2012: KZT 9,812,003 thousand) related to portfolios under external management are presented within "placements with banks and other financial institutions" (Note 18).

The schedule below summarises credit quality of these portfolio's underlying fixed income assets:

	2013 KZT'000	2012 KZT'000
Corporate bonds		
Rated BBB- to BBB+	90,549,130	56,993,504
Rated A- to AAA	80,097,415	64,840,060
Rated BB- to BB+	1,534,215	1,551,081
Not rated	9,637,567	6,151,120
	181,818,327	129,535,765
Government bonds		
Rated BBB- to BBB+	72,731,505	32,323,939
Rated BB- to BB+	36,993,457	31,248,199
Rated A- to AAA	20,901,907	13,786,272
Not rated	522,993	559,624
	131,149,862	77,918,034
Total debt instruments under external management	312,968,189	207,453,799

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The tables below summarises, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions, excluding portfolios under external management, as at 31 December 2013 and 2012 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/ notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2013	2012	2013	2012
Forwards – for the period less than 3 months				
Buy USD sell EUR	10,674,586	-	1.38577	-
Buy EUR sell USD	10,601,000	-	1.37789	-
Buy EUR sell DKK	24,722	-	7.4599	-
Buy USD sell KRW	-	6,187,667	-	1.0719
	21,300,308	6,187,667		
Swap operations - for the period less than 1 year				
Buy KZT sell USD	10,730,300	-	0.22150	-
Option operations - for the period from 3 to 12 months				
Buy KZT sell USD	19,065	-	49.50	-
	32,049,673	6,187,667		

20 REVERSE REPURCHASE AGREEMENTS

	2013 KZT'000	2012 KZT'000
International financial institutions and Kazakhstan banks:		
- rated AAA	13,819,131	-
- rated B-	-	57,312,250
- rated CCC	71,019,721	-
- not rated	488,300,816	520,690,730
	573,139,668	578,002,980

As at 31 December 2013 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 573,095,222 thousand (2012: KZT 578,002,980 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013 KZT'000	2012 KZT'000
Debt instruments		
Foreign investments		
Government bonds		
US Government Treasury bills	644,451,768	696,078,321
French Government bonds	117,309,353	233,004,933
British Government Treasury bills	112,220,726	204,771,362
Japanese Government Treasury bills	111,259,084	193,150,333
German Government Treasury bills	82,268,309	230,811,680
Korean Government Treasury bills	61,029,866	100,185,733
Canadian Government Treasury bills	59,810,615	110,231,913
Australian Government Treasury bills	59,707,213	111,630,975
Hong Kong Government Treasury bills	38,487,651	65,659,194
Netherlands Government Treasury bills	32,038,162	59,306,242
Swedish Government bonds	27,423,984	37,456,663
Denmark Government Treasury bills	27,098,369	41,093,719
Singapore Government bonds	25,772,083	45,878,859
Austrian Government Treasury bills	17,583,814	38,187,546
China Government bonds	7,616,074	-
Finnish Government Treasury bills	6,426,887	-
Total government bonds	1,430,503,958	2,167,447,473
Debt securities of international governmental and nongovernmental financial institutions		
- rated AAA	160,384,731	96,917,958
- rated AA-	7,703,490	-
- rated A+	6,394,328	15,174,845
- rated AA+	6,164,600	22,041,336
- rated A	-	2,892,538
- not rated	22,505,264	-
Total investments in debt securities of international governmental and nongovernmental financial institutions	203,152,413	137,026,677
Corporate bonds of international companies		
- rated A to AAA	84,192,537	65,907,911
- rated B	9,768,734	-
- rated BB	253,039	251,570
- rated B+	-	10,306,801
- not rated	23,193,854	5,200,182
Total corporate bonds of international companies	117,408,164	81,666,464
Total foreign investments	1,751,064,535	2,386,140,614

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 KZT'000	2012 KZT'000
Kazakhstan investments		
Treasury bills of the Ministry of Finance	461,694,819	248,557,678
Debt securities of state owned financial organisations	1,539,809	1,385,526
Total Kazakhstan investments	463,234,628	249,943,204
Impairment allowance	(75,829)	-
Total Kazakhstan investments net of impairment allowance	463,158,799	249,943,204
Total investments in debt instruments	2,214,223,334	2,636,083,818
Equity investments		
Corporate shares	456,623	451,640
Total equity investments	456,623	451,640
Impairment allowance	(422,631)	(400,190)
Total equity investments net of impairment	33,992	51,450
Total available-for-sale financial assets	2,214,257,326	2,636,135,268

Analysis of movements in the impairment allowance

Movements in the impairment allowance on available-for-sale financial assets for the year ended 31 December 2013 are as follows:

	2013 KZT'000	2012 KZT'000
Balance at the beginning of the year	400,190	5,628,451
Net charge/(recovery)	98,270	(1,875,941)
Write-offs	-	(3,352,320)
Balance at the end of the year	498,460	400,190

In December 2012 following the completion of restructuring of obligations of JSC “BTA Bank” to its creditors, NBK received new securities that were recognised at fair value. As a result, reversal of impairment loss of KZT 1,875,941 thousand was recognised, the remaining amount of allowance related to JSC “BTA Bank” was written-off.

22 HELD-TO-MATURITY INVESTMENTS

	2013 KZT'000	2012 KZT'000
Bonds of JSC Sovereign Wealth Fund “Samruk-Kazyna” - rated BBB+	56,069,124	55,205,772
Bonds of the Ministry of Finance of Republic of Kazakhstan - rated BBB+	1,798,996	950,000
Securities of commercial banks and other organizations	112,088	-
	57,980,208	56,155,772

In 2012 NBK purchased bonds of JSC Sovereign Wealth Fund “Samruk-Kazyna”.

Fair value of these bonds at acquisition date equaled KZT 54,957,622 thousand. The difference of KZT 15,170,270 thousand between cash paid and fair value was recognised as loss at initial recognition of held-to-maturity investments in the consolidated income statement for the year ended 31 December 2012.

Fair value of the bonds at initial recognition was determined by discounting the contractual cash flows on the bonds using a market rate of 6.64% determined with reference to the market yield on Kazakhstan government securities with similar terms and credit risk.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

23 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land, buildings and construction	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equip ment not yet installed	Intangible assets	Total
KZT'000							
<i>Historical/revalued cost</i>							
Balance at 1 January 2012	18,034,313	15,662,781	2,334,566	1,095,240	4,563,877	3,359,175	45,049,952
Additions	2,193,914	3,625,057	305,156	407,895	1,091,380	532,425	8,155,827
Negative revaluation	-	(44,754)	-	-	-	-	(44,754)
Disposals	(498,619)	(756,740)	(119,249)	(153,209)	(330,792)	(433,110)	(2,291,719)
Transfers	847,029	2,994,796	354	9,800	(3,851,979)	-	-
Balance at 31 December 2012	20,576,637	21,481,140	2,520,827	1,359,726	1,472,486	3,458,490	50,869,306
<i>Depreciation and amortisation</i>							
Balance at 1 January 2012	251,355	5,073,094	1,550,536	639,389	-	2,125,219	9,639,593
Charge	1,410,603	762,704	974,416	172,557	-	363,881	3,684,161
Negative revaluation	-	(15,525)	-	-	-	-	(15,525)
Disposals	(237,040)	(639,254)	(119,249)	(146,193)	-	(411,491)	(1,553,227)
Transfers	(906)	881	25	-	-	-	-
Balance at 31 December 2012	1,424,012	5,181,900	2,405,728	665,753	-	2,077,609	11,755,002
<i>Carrying amount</i>							
At 31 December 2012	19,152,625	16,299,240	115,099	693,973	1,472,486	1,380,881	39,114,304

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

	Land, buildings and construction	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equip ment not yet installed	Intangible assets	Total
KZT'000							
<i>Historical/revalued cost</i>							
Balance at 1 January 2013	20,576,637	21,481,140	2,520,827	1,359,726	1,472,486	3,458,490	50,869,306
Additions	8,942,817	1,798,468	907,969	338,902	737,536	646,588	13,372,280
Revaluation	4,516,721	51,858	2,835	3,274	-	-	4,574,688
Revaluation (through expense accounts)	(65,355)	-	-	-	-	-	(65,355)
Disposals	(65,400)	(559,927)	(542,615)	(154,833)	(1,128,429)	(642,404)	(3,093,608)
Balance at 31 December 2013	33,905,420	22,771,539	2,889,016	1,547,069	1,081,593	3,462,674	65,657,311
<i>Depreciation and amortization</i>							
Balance at 1 January 2013	1,424,012	5,181,900	2,405,728	665,753	-	2,077,609	11,755,002
Depreciation and amortization	1,693,657	1,534,750	480,404	193,363	-	414,095	4,316,269
Impairment	(2,326,441)	-	-	-	-	-	(2,326,441)
Disposals	(34,775)	(510,998)	(341,844)	(128,771)	-	(524,340)	(1,540,728)
Transfers	126,729	(126,729)	-	-	-	-	-
Balance at 31 December 2013	883,182	6,078,923	2,544,288	730,345	-	1,967,364	12,204,102
<i>Carrying amount</i>							
At 31 December 2013	33,022,238	16,692,616	344,728	816,724	1,081,593	1,495,310	53,453,209

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

Revalued assets

At 31 December 2013 property and equipment owned by the National Bank were recorded at revalued amount. The revaluation procedures were performed by independent appraisers: “Market-Consulting” LLP (19 objects) and “Expertno-Ocenochnyiye auditorskiiy centr” LLP (7 objects).

The income approach with the method of realization as income capitalization and the comparative approach with application of market information were used to identify the fair value of buildings and construction in terms of an active market for items that were subject to revaluation. The cost approach was used when there was no active market for items that were subject to revaluation.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The carrying amount of the property and equipment as at 31 December 2013, if the property and equipment had not been revalued, would be KZT 33,528,618 thousand.

As at 31 December 2012 the carrying amount of building and equipment had it not been revalued amounted to KZT 24,566,684 thousand.

24 OTHER ASSETS

	2013 KZT'000	2012 KZT'000
Other receivables	4,883,161	4,115,806
Impairment allowance	(16,052)	(12,362)
Total other financial assets	4,867,109	4,103,444
Inventories	5,509,056	5,723,063
Prepayments for property and equipment	2,852,688	292,948
Refined and non-refined precious metals and stones	876,668	512,831
Other	909,383	54,232
Total other non-financial assets	10,147,795	6,583,074
Total other assets	15,014,904	10,686,518

Analysis of movements in the impairment allowance

Movements in the impairment allowance on other financial assets for the year ended 31 December are as follows:

	2013 KZT'000	2012 KZT'000
Balance at the beginning of the year	12,362	11,164
Net charge	5,748	70,819
Write-offs	(2,058)	(69,621)
Balance at the end of the year	16,052	12,362

25 CURRENCY IN CIRCULATION

	2013 KZT'000	2012 KZT'000
Banknotes and coins in circulation	1,764,256,384	1,737,955,160
Less banknotes and coins on hand and in vaults	(980,605)	(954,930)
	1,763,275,779	1,737,000,230

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

26 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 KZT'000	2012 KZT'000
Due to foreign banks and other financial institutions		
Current accounts of international financial organisations	86,769,263	85,258,162
OECD based banks	6,902,014	4,149,954
Other foreign banks	152,393	149,109
Total due to foreign banks and other financial institutions	93,823,670	89,557,225
Due to Kazakhstan banks and other financial institutions		
Loro accounts		
Largest 10 Kazakhstan banks	424,097,742	340,271,874
Other Kazakhstan banks	503,282,060	435,791,376
Deposits		
Largest 10 Kazakhstan banks	-	15,000,625
Other Kazakhstan banks	66,859,746	130,211,234
Total due to Kazakhstan banks and other financial institutions	994,239,548	921,275,109
	1,088,063,218	1,010,832,334

As at 31 December 2013 and 2012 due to banks and other financial institutions included accounts of four and two banks, respectively, with balances exceeding 10% of NBK's equity. The gross value of these balances as at 31 December 2013 is KZT 474,612,443 thousand (2012: KZT 295,936,825 thousand).

As at 31 December 2013 current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the "IMF") in the amount of KZT 86,762,325 thousand (2012: KZT 84,725,376 thousand). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 365,700 thousand).

27 CURRENT ACCOUNTS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

Current accounts of the National Fund of the Republic of Kazakhstan ("the National Fund") amounted to KZT 749,020,680 thousand as at 31 December 2013 (2012: KZT 606,710,642 thousand).

During 2013 and 2012 the National Bank conducted trust management activities over the assets of the National Fund. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for deposits of the National Fund in NBK.

28 CURRENT ACCOUNTS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN

	2013 KZT'000	2012 KZT'000
In national currency	298,777,618	176,138,092
In foreign currency	597,201	1,710,866
	299,374,819	177,848,958

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

29 CUSTOMER ACCOUNTS

	2013 KZT'000	2012 KZT'000
In national currency	87,485,551	329,650,595
In foreign currency	1,940,740	30,287,746
	89,426,291	359,938,341

During 2013 and 2012 the National Bank maintained customer accounts in foreign and national currencies. NBK customers' industry is state management, and NBK's subsidiaries customers' industries are financial agency services, insurance and liquidation of banks.

As at 31 December 2013 and 2012, customer accounts included accounts of one customer with a balance exceeding 6% of NBK's equity. These balances as at 31 December 2013 are KZT 58,039,558 thousand (2012: KZT 295,071,963 thousand).

30 DEBT SECURITIES ISSUED

As at 31 December 2013 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KM064122	1,598,504	26.07.2013	24.01.2014	1.51
KZW1KD944224	1,999,409	04.10.2013	06.01.2014	2.17
	3,597,913			

As at 31 December 2012 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KM093477	9,591,031	27.04.2012	25.01.2013	1.80
KZW1KM093501	17,367,222	18.05.2012	15.02.2013	1.80
KZW1KM093568	14,238,934	29.06.2012	29.03.2013	1.82
KZW1KM093592	12,473,888	20.07.2012	19.04.2013	1.82
KZW1KM063603	18,321,742	27.07.2012	25.01.2013	1.50
KZW1KM063629	12,720,329	10.08.2012	08.02.2013	1.51
KZW1KM093691	12,613,822	28.09.2012	28.06.2013	1.82
KZW1KD913708	10,999,057	05.10.2012	04.01.2013	1.05
KZW1KD913740	12,399,008	02.11.2012	01.02.2013	1.05
KZW1KM063801	14,900,161	14.12.2012	14.06.2013	1.51
KZW1KD893819	15,065,592	21.12.2012	20.03.2013	1.07
KZW1KM093824	17,663,654	28.12.2012	27.09.2013	1.82
	168,354,440			

31 RESERVES OF GUARANTEE FUND

As at 31 December 2013 reserves of guarantee fund for deposits of individuals were KZT 133,658,087 thousand (2012: 97,661,126 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

32 OTHER LIABILITIES

	2013 KZT'000	2012 KZT'000
Other creditors on banking activity	1,595,689	360,866
Other creditors on non-banking activity	980,100	1,878,679
General and administrative expenses payable	124,306	67,780
Other	-	5,723
Total other financial liabilities	2,700,095	2,313,048
Salaries payable	2,909,880	2,366,762
Other prepayments received	1,160,535	716,504
Tax payable (except for corporate income tax)	555,933	383,252
Payables on purchase of property and equipment	2,562	7,713
Total other non-financial liabilities	4,628,910	3,474,231
Total other liabilities	7,329,005	5,787,279

33 SHARE CAPITAL AND TREASURY SHARES

Issued capital

The share capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments and alterations. In accordance with the amendments to the Decree dated 21 June 2013 the share capital shall comprise not less than KZT 20,000,000 thousand formed by appropriations of the net income.

As at 31 December 2013 and 2012, the share capital of the National Bank amounted to KZT 20,000,000 thousand.

Reserve capital

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” the Management Board decided (according to decree of the Management Board #118 dated 26 April 2013) to transfer a portion of retained earnings of the year 2012 to the replenishment of the reserve capital of the NBK.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should establish a capital reserve in the amount of not less than its share capital. Reserve capital is increased by the retained earnings and assigned exclusively for compensation and reimbursement of losses on conducted operations in accordance with the requirements set by the Management Board of the National Bank of Kazakhstan. As at 31 December 2013 and 2012, the capital reserve amounted to KZT 231,957,033 thousand and KZT 188,436,214 thousand, respectively.

Capital management

Retained earnings are transferred to the share and/or reserve capital in the amount determined by the Management Board. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one year.

In case if reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank’s disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year the deficiency is compensated by the State budget with a deferral of one year.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

34 ANALYSIS BY SEGMENT

The National Bank's operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

35 RISK MANAGEMENT

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

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

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

The Management Board, Board of Directors, committees, commissions and related working groups review regularly matters related to the monetary, investment and currency policies of the National Bank and set up limits on the scope of management over its assets, as well as requirements for the assessment of the NBK's counterparties.

In accordance with Investment Strategy on gold and foreign currency assets management of the NBK approved by the decision of the Board on 27 October 2006, the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, saving purchasing power of assets and profitability growth.

In accordance with these goals, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, investment portfolio, strategic portfolio, gold portfolio and developing market portfolio.

The operations of the NBK's subsidiaries are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of the subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' boards of directors and internal control departments.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and stop-loss limits.

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. In accordance with Investment Strategy, Tracking Error limit is 2% for the reporting period.

Tracking Error can be used only in cases when the investor manages a portfolio against the benchmark portfolio on comparative basis.

As at 31 December 2013 the benchmark portfolio for the investment portfolio of gold and foreign currency assets is a composite index of:

- 30% - Merrill Lynch United States Treasuries, 0-3 years (G1QA),
- 26% - Merrill Lynch All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF), 0-3 years
- 10% - Merrill Lynch United Kingdom Gilts, 0-3 years (GBL0),
- 10% - Merrill Lynch Japanese Governments, 0-3 years (G1YA),
- 5% - Merrill Lynch Australian Government Index, 0-3 years (GJBT),
- 5% - Merrill Lynch Canadian Government Index, 0-3 years (GBCJ),
- 5% - Merrill Lynch South Korean Government Index, 0-3 years (GBSK),
- 3% - Merrill Lynch Hong Kong Government Index, 0-3 years (GBHK),
- 2% - Merrill Lynch Singapore Government Index , 0-3 years (GBSP),
- 2% - Merrill Lynch Danish Governments, 1-3 years (G1M0),
- 2%- Merrill Lynch Swedish Governments, 1-3 years (G1W0).

As at 31 December 2012 the benchmark portfolio for investment portfolio of gold and foreign currency assets is a composite index of:

- Merrill Lynch United States Treasuries, 0-3 years - 30%,
- Merrill Lynch All Euro Government Index, DE, FR, NL, AT, LU, FI, 0-3 years - 28%,
- Merrill Lynch United Kingdom Gilts Index, 0-3 years - 10%,
- Merrill Lynch Japanese Government Index, 0-3 years - 10%,
- Merrill Lynch Australian Government Index, 0-3 years - 5%,
- Merrill Lynch Canadian Government Index, 0-3 years - 5%,
- Merrill Lynch South Korean Government Index, 0-3 years - 5%,
- Merrill Lynch Hong Kong Government Index, 0-3 years - 3%,
- Merrill Lynch Singapore Government Index , 0-3 years - 2%,
- Merrill Lynch Danish Government Index, 1-3 years - 2%.

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 National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Interest rate gap analysis

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

KZT'000	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 on hand in foreign currency	-	-	-	-	-	20,771,701	20,771,701
Gold	300,094,367	-	-	-	-	555,144,933	855,239,300
Placements with banks and other financial institutions	626,238,205	-	3,615,077	1,524,654	-	147,222,575	778,600,511
Financial instruments at fair value through profit or loss	2,182,693	2,901,334	3,220,694	126,408,414	179,935,293	171,042,361	485,690,789
Reverse repurchase agreements	573,139,668	-	-	-	-	-	573,139,668
Available-for-sale financial assets	97,797,433	297,597,088	275,251,746	1,371,095,770	172,481,297	33,992	2,214,257,326
Held-to-maturity investments	59,417	1,295	70,846	875,560	56,973,090	-	57,980,208
Investments in associates	-	-	-	-	-	355,832	355,832
Other financial assets	-	-	-	-	-	4,867,109	4,867,109
	1,599,511,783	300,499,717	282,158,363	1,499,904,398	409,389,680	899,438,503	4,990,902,444
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,763,275,779	1,763,275,779
Due to banks and other financial institutions	70,255,000	-	-	-	-	1,017,808,218	1,088,063,218
Financial instruments at fair value through profit or loss	-	-	-	-	-	252,414	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	749,020,680	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	299,374,819	299,374,819
Customer accounts	-	-	-	-	-	89,426,291	89,426,291
Debt securities issued	3,597,913	-	-	-	-	-	3,597,913
Reserves of guarantee fund	-	-	-	-	-	133,658,087	133,658,087
Other financial liabilities	-	-	-	-	-	2,700,095	2,700,095
	73,852,913	-	-	-	-	4,055,516,383	4,129,369,296
	1,525,658,870	300,499,717	282,158,363	1,499,904,398	409,389,680	(3,156,077,880)	861,533,148

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

KZT'000	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 on hand in foreign currency	-	-	-	-	-	9,969,355	9,969,355
Gold	355,053,170	-	-	-	-	571,762,355	926,815,525
Placements with banks and other financial institutions	605,494,143	1,714,034	1,824,131	5,894,496	-	120,312,024	735,238,828
Financial instruments at fair value through profit or loss	642,080	3,131,544	2,974,043	74,140,992	128,969,748	92,533,818	302,392,225
Reverse repurchase agreements	475,659,709	-	102,343,271	-	-	-	578,002,980
Available-for-sale financial assets	44,108,440	228,034,054	569,932,061	1,644,012,794	149,996,468	51,451	2,636,135,268
Held-to-maturity investments	-	-	82,387	419,454	55,653,931	-	56,155,772
Investments in associates	-	-	-	-	-	186,770	186,770
Other financial assets	-	-	-	-	-	4,103,444	4,103,444
	1,480,957,542	232,879,632	677,155,893	1,724,467,736	334,620,147	798,919,217	5,249,000,167
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,737,000,230	1,737,000,230
Due to banks and other financial institutions	146,215,400	-	-	-	-	864,616,934	1,010,832,334
Financial instruments at fair value through profit or loss	-	-	-	-	-	269,103	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	606,710,642	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	177,848,958	177,848,958
Customer accounts	-	-	-	-	-	359,938,341	359,938,341
Debt securities issued	110,702,915	39,987,870	17,663,655	-	-	-	168,354,440
Reserves of guarantee fund	-	-	-	-	-	97,661,126	97,661,126
Other financial liabilities	-	-	-	-	-	2,313,048	2,313,048
	256,918,315	39,987,870	17,663,655	-	-	3,846,358,382	4,160,928,222
	1,224,039,227	192,891,762	659,492,238	1,724,467,736	334,620,147	(3,047,439,165)	1,088,071,945

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Average interest rates

The table below summarises the National Bank's average interest rates on interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of appropriate assets and liabilities.

	2013 KZT'000 Book value	Weighted average effective interest rate, %	2012 KZT'000 Book value	Weighted average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	300,094,367	0.13	355,053,170	0.04
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- USD	16,903,888	0.08	4,906,900	2.93
- CAD	1,578,556	0.53	-	
- GBP	321,354	0.08	1,095,608	1.06
- KRW	160,124	0.81	169,242	0.10
- JPY	144,501	0.02	6,439,521	0.05
- AUD	56,085	2.24	135,863	5.42
- EUR	1,678	0.13	953,317	3.05
- KZT	-	-	1,960	1.00
- Other currency	98,222	0.41	132,745	4.15
<i>Deposits</i>				
- USD	606,272,318	0.01	586,756,053	0.15
- KZT	5,841,211	5.45	14,335,595	6.29
Financial instruments at fair value through profit or loss				
- USD	240,404,150	5.01	153,475,937	2.56
- EUR	58,801,783	3.41	43,263,892	1.95
- GBP	6,101,371	5.36	5,966,555	1.99
- CAD	5,232,954	3.36	3,875,921	2.88
- AUD	1,961,156	5.27	1,373,869	5.20
- JPY	1,231,501	1.03	1,593,452	-
- CHF	610,364	-	-	-
- SGD	305,150	1.60	308,781	0.20
Reverse repurchase agreements				
-KZT	573,139,668	5.53	475,659,709	5.69
-USD	-	-	102,343,271	3.00

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 KZT'000 Book value	Weighted average effective interest rate, %	2012 KZT'000 Book value	Weighted average effective interest rate, %
Available-for-sale financial assets				
- USD	844,926,532	0.57	787,703,941	0.62
- KZT	462,954,983	5.58	249,776,587	5.21
- EUR	337,718,461	2.19	644,570,647	0.96
- GBP	132,624,868	2.82	221,828,586	0.74
- JPY	111,259,084	0.98	193,150,333	0.17
- KRW	66,950,546	3.43	117,771,714	3.29
- CAD	64,149,869	1.51	110,231,913	1.26
- AUD	63,402,256	5.18	111,630,975	3.13
- HKD	38,487,650	1.11	65,659,193	0.28
- DKK	30,936,945	3.40	50,424,406	0.06
- SEK	27,423,984	3.91	37,456,663	0.67
- SGD	25,772,083	2.39	45,878,859	0.23
- CNY	7,616,074	2.77	-	-
Held-to-maturity investments	57,980,208	4.02	56,155,772	6.64
Due to banks and other financial institutions				
<i>Term deposits</i>				
- KZT	66,859,746	0.47	145,211,859	0.42
Current accounts of the Ministry of Finance of the Republic of Kazakhstan				
- KZT	298,777,618	-	176,138,092	0.26
Debt securities issued				
- KZT	3,597,913	1.87	168,354,440	1.56

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	16,587,700	16,587,700	40,693,942	40,693,942
300 bp parallel fall	(16,587,700)	(16,587,700)	(40,693,942)	(40,693,942)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value 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 50 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	9,134,155	26,799,459	5,520,817	21,116,759
50 bp parallel rise	(10,240,439)	(30,873,750)	(5,797,449)	(29,516,478)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Currency risk

The National 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 market interest rates. The National Bank does not hedge its exposure to currency risk.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2013 is presented in the table below:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
Assets									
Cash on hand in foreign currency	-	-	19,291,447	1,458,744	4,880	-	5	16,625	20,771,701
Gold	-	855,239,300	-	-	-	-	-	-	855,239,300
Placements with banks and other financial institutions	8,909,922	-	622,254,331	39,130,172	14,584,753	86,975,691	3,841,010	2,904,632	778,600,511
Financial instruments at fair value through profit or loss	77,049	-	333,718,989	81,712,727	16,185,098	-	23,825,781	30,171,145	485,690,789
Reverse repurchase agreements	573,139,668	-	-	-	-	-	-	-	573,139,668
Available-for-sale financial assets	462,955,134	-	844,960,372	337,718,461	111,259,084	-	132,624,868	324,739,407	2,214,257,326
Held-to-maturity investments	57,980,208	-	-	-	-	-	-	-	57,980,208
Investments in associates	355,832	-	-	-	-	-	-	-	355,832
Other assets	4,865,850	-	1,259	-	-	-	-	-	4,867,109
Total assets	<u>1,108,283,663</u>	<u>855,239,300</u>	<u>1,820,226,398</u>	<u>460,020,104</u>	<u>142,033,815</u>	<u>86,975,691</u>	<u>160,291,664</u>	<u>357,831,809</u>	<u>4,990,902,444</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,763,275,779	-							1,763,275,779
Due to banks and other financial institutions	488,507,386	-	486,049,067	22,356,407	1,657	86,762,325	533	4,385,843	1,088,063,218
Financial instruments at fair value through profit or loss	12,841	-	83,717	94,088	57,011	-	3,850	907	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	749,020,680	-	-	-	-	-	-	-	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	298,777,618	-	-	-	-	-	-	597,201	299,374,819
Customer accounts	87,485,550	-	1,940,678	2				61	89,426,291
Debt securities issued	3,597,913	-	-	-	-	-	-	-	3,597,913
Reserves of guarantee fund	133,658,087	-	-	-	-	-	-	-	133,658,087
Other liabilities	1,850,880	-	849,215	-	-	-	-	-	2,700,095
Total liabilities	3,526,186,734	-	488,922,677	22,450,497	58,668	86,762,325	4,383	4,984,012	4,129,369,296
Effect of derivatives	10,730,300	-	(21,298,631)	6,669,077	2,850,597	-	307,029	716,906	(24,722)
Net balance sheet and off balance sheet positions	(2,407,172,771)	855,239,300	1,310,005,090	444,238,684	144,825,744	213,366	160,594,310	353,564,703	861,508,426

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
Assets									
Cash on hand in foreign currency	-	-	8,644,807	1,306,381	6,615	-	-	11,552	9,969,355
Gold	-	926,815,525	-	-	-	-	-	-	926,815,525
Placements with banks and other financial institutions	22,582,464	-	593,792,464	9,387,464	17,994,034	84,933,825	1,374,316	5,174,261	735,238,828
Financial instruments at fair value through profit or loss	-	-	202,010,025	50,776,982	13,867,050	-	13,490,320	22,247,848	302,392,225
Reverse repurchase agreements	475,659,709	-	102,343,271	-	-	-	-	-	578,002,980
Available-for-sale financial assets	249,779,282	-	787,752,697	644,570,647	193,150,333	-	221,828,586	539,053,723	2,636,135,268
Held-to-maturity investments	56,155,772	-	-	-	-	-	-	-	56,155,772
Investments in associates	186,770	-	-	-	-	-	-	-	186,770
Other assets	4,103,430	-	-	14	-	-	-	-	4,103,444
Total assets	808,467,427	926,815,525	1,694,543,264	706,041,488	225,018,032	84,933,825	236,693,222	566,487,384	5,249,000,167

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,737,000,230	-	-	-	-	-	-	-	1,737,000,230
Due to banks and other financial institutions	532,804,906	-	379,878,885	9,288,804	1,973	84,725,376	-	4,132,390	1,010,832,334
Financial instruments at fair value through profit or loss	26,462	-	7,474	38,334	180,077	-	12,151	4,605	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	606,710,642	-	-	-	-	-	-	-	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	176,138,092	-	-	-	-	-	-	1,710,866	177,848,958
Customer accounts	329,650,595	-	29,918,702	339,691	-	-	2,284	27,069	359,938,341
Debt securities issued	168,354,440	-	-	-	-	-	-	-	168,354,440
Reserves of guarantee fund	97,661,126	-	-	-	-	-	-	-	97,661,126
Other liabilities	2,313,048	-	-	-	-	-	-	-	2,313,048
Total liabilities	3,650,659,541	-	409,805,061	9,666,829	182,050	84,725,376	14,435	5,874,930	4,160,928,222
Effect of derivatives	-	-	783,791	(3,841,860)	(4,135,213)	-	1,226,845	5,964,624	(1,813)
Net balance sheet and off balance sheet positions	(2,842,192,114)	926,815,525	1,285,521,994	692,532,799	220,700,769	208,449	237,905,632	566,577,078	1,088,070,132

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Management of the National Bank believes that as at 31 December 2013 given the current economic conditions in Kazakhstan that 20% appreciation and 20% depreciation is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National

Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only amounts in foreign currency as at 31 December 2013 and adjusts their translation for 20% for appreciation and 20% for depreciation in currency rates as at 31 December 2013, respectively.

Appreciation of KZT, as indicated in table below, against following currencies as at 31 December 2013 (31 December 2012: 10% for appreciation and 15% for depreciation) would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	Equity, KZT'000
	2013
20% appreciation of USD against KZT	266,260,745
20% depreciation of USD against KZT	(266,260,745)
20% appreciation of EUR against KZT	87,513,921
20% depreciation of EUR against KZT	(87,513,921)
20% appreciation of Troy ounce of gold against KZT	171,047,860
20% depreciation of Troy ounce of gold against KZT	(171,047,860)
20% appreciation of Japanese yen against KZT	28,395,030
20% depreciation of Japanese yen against KZT	(28,395,030)
20% appreciation of GBP against KZT	32,057,456
20% depreciation of GBP against KZT	(32,057,456)
20% appreciation of SDR against KZT	42,673
20% depreciation of SDR against KZT	(42,673)
20% appreciation of other currencies against KZT	70,569,559
20% depreciation of other currencies against KZT	(70,569,559)
	Equity,
	KZT'000
	2012
10% appreciation of USD against KZT	128,473,820
15% depreciation of USD against KZT	(192,710,730)
10% appreciation of EUR against KZT	69,637,466
15% depreciation of EUR against KZT	(104,456,199)
10% appreciation of Troy ounce of gold against KZT	92,681,553
15% depreciation of Troy ounce of gold against KZT	(139,022,329)
10% appreciation of Japanese yen against KZT	22,483,598
15% depreciation of Japanese yen against KZT	(33,725,397)
10% appreciation of GBP against KZT	23,667,879
15% depreciation of GBP against KZT	(35,501,818)
10% appreciation of SDR against KZT	20,845
15% depreciation of SDR against KZT	(31,267)
10% appreciation of other currencies against KZT	56,061,245
15% depreciation of other currencies against KZT	(84,091,868)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the National Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in share prices, 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. Equity price risk arises when the National Bank takes a long or short position in a financial instrument.

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	17,226,050	17,229,434	9,457,318	9,462,463
10% decrease in securities prices	(17,226,050)	(17,229,434)	(9,457,318)	(9,462,463)

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 National Bank. The National Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and establishment of an Investment Committee, which is responsible for monitoring of credit risks. The National Bank's credit policy is reviewed and approved by the Board.

The National Bank's credit policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- Procedures for ongoing monitoring and review of the limit of the National Bank's counterparties.

Requests for inclusion in the list of counterparties are received by the National Bank's analysts. The analysts' report on a potential counterparty is based on a financial performance and financial position ratios analysis with use of international rating agencies' data. On the basis of this report the Investment Committee approves counterparty.

The National Bank's Department of monetary operation conducts daily monitoring of compliance with limits imposed on each individual counterparty. Apart to individual counterparty analysis, the National Bank performs valuation of portfolios in relation to concentration of credit risks.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

	2013 KZT'000	2012 KZT'000
ASSETS		
Available-for-sale financial assets	2,214,223,334	2,636,083,818
Placements with banks and other financial institutions	778,600,511	735,238,828
Reverse repurchase agreements	573,139,668	578,002,980
Gold	300,094,367	355,053,170
Financial instruments at fair value through profit or loss	313,430,292	207,819,047
Held-to-maturity investments	57,980,208	56,155,772
Other financial assets	4,867,109	4,103,444
Total maximum exposure	4,242,335,489	4,572,457,059

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. 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 National Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The National Bank's liquidity policy is reviewed and approved by the Management Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy consists of:

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

The department of Monetary Operations obtains information from the Department of Monetary Operations Accounting related to the liquidity of assets and liabilities and performs analysis of the liquidity position. After this the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold as soon as it possible if required.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

According to the Investment Strategy of the National Bank the liquidity portfolio has to comply with the following parameters:

- duration of the portfolio should not exceed 1 year;
- base currency of the liquidity portfolio is USD;
- volume of liquidity portfolio should not fall below USD 1 billion without considering current liabilities;
- volume of liquidity portfolio should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the 10 working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, it is replenished through the transfer of assets from the investment portfolio within 5 working days after the observance of non-compliance.

The assets of the liquidity portfolio can be invested cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 Moody's, agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A1 - Standard & Poor's or P1 – Moody's. The maximum term for the deposit should not exceed 1 month.

The following tables show the undiscounted cash flows on financial liabilities, derivatives 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 commitment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The maturity analysis for financial liabilities as at 31 December 2013 and 2012 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	No maturity	Total gross amount outflow/(inflow)	Carrying amount
KZT'000							
Non-derivative liabilities							
Due to banks and other financial institutions	1,001,139,128	-	-	-	86,914,718	1,088,053,846	1,088,063,218
Current accounts of the National Fund of the Republic of Kazakhstan	749,020,680	-	-	-	-	749,020,680	749,020,680
Current accounts of the Ministry of Finance	299,374,819	-	-	-	-	299,374,819	299,374,819
Customer accounts	89,426,291	-	-	-	-	89,426,291	89,426,291
Debt securities issued	3,595,581	-	-	-	-	3,595,581	3,597,913
Reserves of guarantee fund	133,658,087	-	-	-	-	133,658,087	133,658,087
Other financial liabilities	2,700,095	-	-	-	-	2,700,095	2,700,095
Derivative liabilities							
- Inflow	(21,300,308)	-	-	(10,730,300)	-	(32,030,608)	-
- Outflow	21,255,837	-	-	10,784,200	-	32,040,037	252,414
Total liabilities	2,278,870,210	-	-	53,900	86,914,718	2,365,838,828	2,366,093,517
	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	No maturity	Total gross amount outflow/(inflow)	Carrying amount
KZT'000							
Non-derivative liabilities							
Due to banks and other financial institutions	925,969,810	-	-	-	84,874,485	1,010,844,295	1,010,832,334
Current accounts of the National Fund of the Republic of Kazakhstan	606,710,642	-	-	-	-	606,710,642	606,710,642
Current accounts of the Ministry of Finance	177,848,958	-	-	-	-	177,848,958	177,848,958
Customer accounts	359,938,341	-	-	-	-	359,938,341	359,938,341
Debt securities issued	38,934,854	71,957,597	40,227,842	17,905,315	-	169,025,608	168,354,440
Reserves of guarantee fund	97,661,126	-	-	-	-	97,661,126	97,661,126
Other financial liabilities	2,313,048	-	-	-	-	2,313,048	2,313,048
Derivative liabilities							
- Inflow	(15,795,517)	-	-	-	-	(15,795,517)	-
- Outflow	15,793,704	2,300,756	-	-	-	18,094,460	269,103
Total liabilities	2,209,374,966	74,258,353	40,227,842	17,905,315	84,874,485	2,426,640,961	2,423,927,992

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

	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	Total
KZT'000							
Assets							
Cash on hand in foreign currency	20,771,701	-	-	-	-	-	20,771,701
Gold	267,684,536	32,409,831	-	-	-	555,144,933	855,239,300
Placements with banks and other financial institutions	625,669,228	568,977	3,615,077	1,524,654	-	147,222,575	778,600,511
Financial instruments at fair value through profit or loss	3,939	2,395,034	6,141,092	126,773,235	174,297,104	176,080,385	485,690,789
Reverse repurchase agreements	573,139,668	-	-	-	-	-	573,139,668
Available-for-sale financial assets	46,736,707	51,060,726	572,848,835	1,371,095,769	172,481,297	33,992	2,214,257,326
Held-to-maturity investments	35,967	23,450	72,141	875,560	56,973,090	-	57,980,208
Investments in associates	-	-	-	-	-	355,832	355,832
Other financial assets	4,867,109	-	-	-	-	-	4,867,109
Total assets	1,538,908,855	86,458,018	582,677,145	1,500,269,218	403,751,491	878,837,717	4,990,902,444
Liabilities							
Currency in circulation	-	-	-	-	-	1,763,275,779	1,763,275,779
Due to banks and other financial institutions	1,088,063,218	-	-	-	-	-	1,088,063,218
Financial instruments at fair value through profit or loss	129,717	101,670	17,640	3,387	-	-	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	749,020,680	-	-	-	-	-	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	299,374,819	-	-	-	-	-	299,374,819
Customer accounts	89,426,291	-	-	-	-	-	89,426,291
Debt securities issued	3,597,913	-	-	-	-	-	3,597,913
Reserves of guarantee fund	133,658,087	-	-	-	-	-	133,658,087
Other financial liabilities	2,700,095	-	-	-	-	-	2,700,095
Total liabilities	2,365,970,820	101,670	17,640	3,387	-	1,763,275,779	4,129,369,296
Net position	(827,061,965)	86,356,348	582,659,505	1,500,265,831	403,751,491	(884,438,062)	861,533,148

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Assets							
Cash on hand in foreign currency	9,969,355	-	-	-	-	-	9,969,355
Gold	313,788,574	41,264,596	-	-	-	571,762,355	926,815,525
Placements with banks and other financial institutions	723,682,264	3,243,386	2,418,682	5,894,496	-	-	735,238,828
Financial instruments at fair value through profit or loss	657,349	936,252	6,077,596	74,235,560	125,912,290	94,573,178	302,392,225
Reverse repurchase agreements	475,659,709	-	102,343,271	-	-	-	578,002,980
Available-for-sale financial assets	4,066,795	43,035,647	789,771,931	1,646,902,752	147,106,511	5,251,632	2,636,135,268
Held-to-maturity investments	-	-	347,166	263,893	55,544,713	-	56,155,772
Investments in associates	-	-	-	-	-	186,770	186,770
Other financial assets	4,103,444	-	-	-	-	-	4,103,444
Total assets	1,531,927,490	88,479,881	900,958,646	1,727,296,701	328,563,514	671,773,935	5,249,000,167
Liabilities							
Currency in circulation	-	-	-	-	-	1,737,000,230	1,737,000,230
Due to banks and other financial institutions	1,010,832,334	-	-	-	-	-	1,010,832,334
Financial instruments at fair value through profit or loss	197,223	71,880	-	-	-	-	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	606,710,642	-	-	-	-	-	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	177,848,958	-	-	-	-	-	177,848,958
Customer accounts	359,938,341	-	-	-	-	-	359,938,341
Debt securities issued	38,911,829	71,791,086	57,651,525	-	-	-	168,354,440
Reserves of guarantee fund	97,661,126	-	-	-	-	-	97,661,126
Other financial liabilities	2,313,048	-	-	-	-	-	2,313,048
Total liabilities	2,294,413,501	71,862,966	57,651,525	-	-	1,737,000,230	4,160,928,222
Net position	(762,486,011)	16,616,915	843,307,121	1,727,296,701	328,563,514	(1,065,226,295)	1,088,071,945

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

36 COMMITMENTS

The National Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and overdraft facilities.

The National 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 five years.

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

	2013 KZT'000	2012 KZT'000
Contracted amount		
Guarantees and letters of credit	645,754	414,784
Loan and credit line commitments	96,607	96,607
	742,361	511,391

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

37 CONTINGENCIES

Insurance

The insurance industry in the 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 National Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

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

Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

38 FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES

Funds management and trust activities

The National Bank provides trust and asset management services to the National fund of the Republic of Kazakhstan and to a retirement contribution plan, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2013 and 2012, the total amount of assets that National Bank holds and manages for outside organisations is KZT 596,887,820 thousand and KZT 459,724,958 thousand, respectively.

As at 31 December 2013 and 2012, the total amount of assets that National Bank holds and manages for the National Fund is KZT 11,755,676,721 thousand and KZT 9,427,727,651 thousand, respectively. A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

Custody activities

During 2013 the National Bank provided custody services to JSC UNPF. Custody and broker services were not provided in 2012.

Assets of depositors

On 26 November, 2012 the National Bank of Kazakhstan acquired shares of JSC "Central Securities Depository", which performs the accounting of financial instruments and money of their clients. Accounting for financial instruments and money of Central Depository's clients is performed separately from its own financial instruments and money on off balance sheet accounts.

As at December 31 2013 and 2012, the total amount of financial instruments and money in nominal holding and bank accounts of depositors in the Central Depository is KZT 35,223,713,271 thousand and KZT 15,986,938,758 thousand tenge, respectively.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

39 RELATED PARTY TRANSACTIONS

Transactions with the members of the Board of Directors and the Management Board

The remuneration to the members of the National Bank's Management Board and the Board of Directors for the years ended 31 December 2013 and 2012, comprised KZT 717,063 thousand and KZT 779,416 thousand, respectively. The remuneration consists of salary and other payments.

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.

	State companies and organisations			
	31 December 2013		31 December 2012	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Placements with banks and other financial institutions	1,286,810	-	1,365,029	-
Reverse repurchase agreements	546,502,195	5.50	553,788,645	5.53
Available-for-sale financial assets	463,175,960	5.17	249,994,654	5.11
Held-to-maturity investments	57,894,065	4.02	56,155,772	6.64
Current tax asset	325,080	-	192,814	-
Deferred tax asset	4,510	-	86,489	-
Other assets	7,646,141	-	823,096	-
LIABILITIES				
Due to banks and other financial institutions	160,278,275	0.45	192,088,981	0.56
Current accounts of the National Fund of the Republic of Kazakhstan	749,020,680	-	606,710,642	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	299,374,819	-	177,848,958	-
Customer accounts	89,224,811	-	359,805,709	-
Debt securities issued	-	-	40,523,488	-
Current tax liability	10,273	-	36,663	-
Deferred tax liability	1,514,492	-	1,249,460	-
Other liabilities	446,558	-	502,343	-
Consolidated income statement				
Interest income	45,862,752		39,281,931	
Interest expense	(995,787)		(1,450,314)	
Fee and commission income	4,354,539		3,932,733	
Fee and commission expense	(357,671)		(28,444)	
Net gain on available-for-sale financial assets	5,071		863	
Loss on held-to-maturity investments	-		(15,170,270)	
Other operating income, net	2,218,787		2,223,206	
Banknotes and coins production expenses	(41,235)		(39,489)	
Funding of third parties	(198,482)		(182,017)	
Personnel expenses	(213,309)		(7,929)	
Other general administrative expenses	(951,325)		(393,046)	
Income tax expense	(901,236)		(1,433,185)	

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

40 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

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

KZT'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available- for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	20,771,701	-	-	20,771,701	20,771,701
Gold	855,239,300	-	-	-	-	855,239,300	855,239,300
Placements with banks and other financial institutions	-	-	778,600,511	-	-	778,600,511	778,600,511
Financial instruments at fair value through profit or loss	485,690,789	-	-	-	-	485,690,789	485,690,789
Reverse repurchase agreements	-	-	573,139,668	-	-	573,139,668	573,095,222
Available-for-sale financial assets	-	-	-	2,214,257,326	-	2,214,257,326	2,214,257,326
Held-to-maturity investments	-	57,980,208	-	-	-	57,980,208	57,980,208
Other financial assets	-	-	4,867,109	-	-	4,867,109	4,867,109
	1,340,930,089	57,980,208	1,377,378,989	2,214,257,326	-	4,990,546,612	4,990,502,166
Currency in circulation	-	-	-	-	1,763,275,779	1,763,275,779	1,763,275,779
Due to banks and other financial institutions	-	-	-	-	1,088,063,218	1,088,063,218	1,088,063,218
Financial instruments at fair value through profit or loss	252,414	-	-	-	-	252,414	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	749,020,680	749,020,680	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	299,374,819	299,374,819	299,374,819
Customer accounts	-	-	-	-	89,426,291	89,426,291	89,426,291
Debt securities issued	-	-	-	-	3,597,913	3,597,913	3,597,913
Reserves of guarantee fund	-	-	-	-	133,658,087	133,658,087	133,658,087
Other financial liabilities	-	-	-	-	2,700,095	2,700,095	2,700,095
	252,414	-	-	-	4,129,116,882	4,129,369,296	4,129,369,296

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

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

KZT'000	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	9,969,355	-	-	9,969,355	9,969,355
Placements with banks and other financial institutions	-	-	735,238,828	-	-	735,238,828	735,238,828
Financial instruments at fair value through profit or loss	302,392,225	-	-	-	-	302,392,225	302,392,225
Reverse repurchase agreements	-	-	578,002,980	-	-	578,002,980	578,002,980
Available-for-sale financial assets	-	-	-	2,636,135,268	-	2,636,135,268	2,636,135,268
Held-to-maturity investments	-	56,155,772	-	-	-	56,155,772	56,155,772
Other financial assets	-	-	4,103,444	-	-	4,103,444	4,103,444
	302,392,225	56,155,772	1,327,314,607	2,636,135,268	-	4,321,997,872	4,321,997,872
Currency in circulation	-	-	-	-	1,737,000,230	1,737,000,230	1,737,000,230
Due to banks and other financial institutions	-	-	-	-	1,010,832,334	1,010,832,334	1,010,832,334
Financial instruments at fair value through profit or loss	269,103	-	-	-	-	269,103	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	606,710,642	606,710,642	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	177,848,958	177,848,958	177,848,958
Customer accounts	-	-	-	-	359,938,341	359,938,341	359,938,341
Debt securities issued	-	-	-	-	168,354,440	168,354,440	168,354,440
Reserves of guarantee fund	-	-	-	-	97,661,126	97,661,126	97,661,126
Other financial liabilities	-	-	-	-	2,313,048	2,313,048	2,313,048
	269,103	-	-	-	4,160,659,119	4,160,928,222	4,160,928,222

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Fair value hierarchy

The National Bank measures fair values for financial instruments recorded on the consolidated statement of financial position 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: Valuation techniques based on observable inputs, 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 identical or 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: Valuation techniques using significant unobservable inputs. 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 table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	-	485,228,686	485,228,686
- Derivative assets	-	462,103	462,103
- Derivative liabilities	-	(252,414)	(252,414)
Available-for-sale financial assets			
- Debt and other fixed income instruments	1,732,480,734	481,742,600	2,214,223,334
- Equity investments	-	33,992	33,992
	1,732,480,734	967,214,967	2,699,695,701

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	302,026,977	-	302,026,977
- Derivative assets	-	365,248	365,248
- Derivative liabilities	-	(269,103)	(269,103)
Available-for-sale financial assets			
- Debt and other fixed income instruments	2,344,491,743	291,592,075	2,636,083,818
- Equity investments	-	51,450	51,450
	2,646,518,720	291,739,670	2,938,258,390

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

41 ACQUISITION OF SUBSIDIARY AND NON-CONTROLLING INTEREST

In 2013 in accordance with the Laws of the Republic of Kazakhstan “On securities market” dated 2 July 2003 and “On making amendments and additions in certain legal acts of the Republic of Kazakhstan on activities of microfinance organisations” dated 26 November 2012, the Management Board of the NBK approved acquisition of shares of JSC “Kazakhstan Stock Exchange” in the amount of 397,014 shares at carrying value of KZT 4,657.18 per share by subscription on non organized securities market (Note 41).

The amount of assets and liabilities of the acquired subsidiary recognised in the National Bank’s consolidated financial statements were as follows at the date of acquisition:

KZT’000	Recognised amounts on acquisition
Assets	
Cash and cash equivalents	1,938,532
Placements with banks	1,259,795
Held-to-maturity investments	111,634
Investments in associates	177,835
Property, equipment and intangible assets	1,434,552
Other assets	71,842
Liabilities	
Other liabilities	(506,715)
Net identifiable assets and liabilities	4,487,475
Non-controlling interest recognised	(2,239,245)
Consideration paid	(1,848,966)
Shares of JSC “KASE” received free of charge	(348,986)
Net gain on acquisition of subsidiary	50,278
Cash and cash equivalents acquired	1,938,532
Consideration paid	(1,848,966)
Net cash inflow	89,566

In December 2012 the National Bank acquired the entire additional share issue of JSC “KACD Central Securities Depository” for KZT 5,600 thousand. This acquisition increased the share of the National Bank in the entity from 49.79% to 54.98% and was accounted for as an acquisition of subsidiary.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

The amount of assets and liabilities of the acquired subsidiary recognised in the National Bank's consolidated financial statements were as follows at the date of acquisition:

KZT'000	Recognised amounts on acquisition
Assets	
Cash and cash equivalents	105,878
Placements with banks	173,939
Held-to-maturity investments	1,198,150
Investments in associates	186,770
Property, equipment and intangible assets	92,558
Other assets	200,821
Liabilities	
Other liabilities	(26,776)
Net identifiable assets and liabilities	1,931,340
Investments in associate derecognized	(929,627)
Non-controlling interest recognised	(869,461)
Consideration paid	(5,600)
Net gain on acquisition of subsidiary	126,652
Cash and cash equivalents acquired	105,878
Consideration paid	(5,600)
Net cash inflow	100,278

The held-to-maturity portfolio of the acquired subsidiary comprised of government securities with fair values approximating their cost. Based on this factor and analysis of other identifiable assets and liabilities the management concluded that, at acquisition date, fair values of identifiable assets and liabilities approximated their carrying amounts. Difference of KZT 126,652 thousand between the carrying value of investment in associate at control acquisition date, consideration paid less share in net assets acquired is recognised in "other income".

Non-controlling interest of KZT 869,461 thousand, representing the proportion of the subsidiary's net identifiable assets and liabilities attributable to owners of 45.02% shares, was recognised on acquisition.

During 2012 non-controlling interest holders of JSC "Integrated Securities Registrar" contributed KZT 26,483 thousand into equity of the subsidiary.

42. DISPOSAL OF SUBSIDIARY AND NON-CONTROLLING SHAREHOLDER

In accordance with the Laws of the Republic of Kazakhstan dated 30 March 1995 "On the National Bank of Kazakhstan", "On State Property" dated 1 March 2011 in the framework of reformation of pension system of the Republic of Kazakhstan state package of shares of JSC "Accumulative Pension Fund" "GNPF" belonging to National Bank of Kazakhstan, in the amount of 9,444,873 shares of common stock was granted to the Committee on State Property and privatization of the Ministry of Finance of the Republic of Kazakhstan.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Assets and liabilities disposed of the subsidiary at the date of disposal can be represented as follows:

KZT'000	Amounts as of the date of disposal
Assets	
Cash and cash equivalents	1,174,576
Placements with banks	6,653,761
Investments available for sale	7,722,525
Property, equipment and intangible assets	357,070
Other assets	1,583,940
Total assets	17,491,872
Liabilities	
Other commitments	(1,288,692)
Total liabilities	(1,288,692)
Net assets disposed	16,203,180

Loss on disposal of subsidiary

	2013
Investments in authorized capital of the NBK APF "GNPF"	7,795,247
Reserve capital	4,056,517
Additional paid-in capital	3,666
Accumulated expense of financial assets available for sale reclassified from equity on loss of control over APF "GNPF"	(318,165)
Cumulative exchange differences reclassified from equity on loss of control over APF "GNPF"	2,247
Retained earnings of prior years	4,636,285
Retained earnings of current year	809,861
Loss on acquisition of non controlling interest	(782,478)
Loss on disposal	16,203,180

43. SUBSEQUENT EVENTS

During 2013 and 2012 the NBK supported the exchange rate of Kazakhstan Tenge to the USD within a range of KZT 147.50 to USD 1 to KZT 154.52 to USD 1.

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to U.S. dollar depreciated to KZT 184.55 per U.S. dollar as at 12 February 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the U.S. dollar at KZT 182-188 per U.S. dollar

Management of the National Bank assessed the possible effect of changes in exchange rates in their exchange rate sensitivity analysis which is presented in Note 35.