САҚТАНДЫРУ КОМПАНИЯСЫ
NOMAD LIFE
СТРАХОВАЯ КОМПАНИЯ

# Life insurance company NOMAD LIFE JSC

## Financial Statements

*For the year ended December 31, 2013*
*with Independent auditor's report*

# LIFE INSURANCE COMPANY NOMAD LIFE JSC

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# LIFE INSURANCE COMPANY NOMAD LIFE JSC

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

The following statement, which should be considered in conjunction with the auditors' responsibilities as presented in the Independent Auditor's Report, was prepared with a purpose to distinguish auditors' and management's responsibilities in relation to the financial statements of Life insurance company NOMAD LIFE JSC (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as of December 31, 2013, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- applying proved and reasonable estimates and assumptions;
- compliance with IFRS and the disclosure of all significant deviations from IFRS in the notes to the financial statements;
- preparing of the financial statements on the going concern basis, that the Company will continue its activities in the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining of effective and reliable functionality of internal control system;
- maintaining of proper accounting system, allowing preparation of the Company's financial position information at any time with reasonable accuracy, and to ensure compliance with IFRS;
- maintaining of accounting records in accordance with legislation of the Republic of Kazakhstan;
- adopting of measures within its competence to safeguard assets of the Company; and
- detecting and preventing fraud and other irregularities.

The financial statements of the Company for the year ended December 31, 2013 were approved by management on April 18, 2014:

Acting Chairman of the Board

Shalgimbayev M.A.

Chief Accountant

Pyanova I.N.

April 18, 2014
Republic of Kazakhstan, Almaty

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«Grant Thornton» LLP
Kazakhstan, 050059, Almaty
15, Al - Farabi ave,
BC Nurly Tau, 4V, office 705
T +7 (727) 311 13 40
almaty@gtkaz.com
www.grantthornton.kz
www.gti.org

## INDEPENDENT AUDITOR'S REPORT

To the Management and shareholders of Life insurance company NOMAD LIFE JSC

We have audited the accompanying financial statements of Life insurance company NOMAD LIFE JSC (the "Company"), which comprise the statement of financial position as at December 31, 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information ("financial statements").

### Management's responsibility for the financial statements

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

### Auditors' responsibility

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

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

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



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**Opinion**

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

Grant Thornton

| | |
|---|---|
| Yerzhan Dossymbekov<br>General Director<br>Grant Thornton LLP | Arman Chingilbayev<br>Audit partner |
| Auditor qualification certificate #МФ-0000069 issued by the Ministry of Finance of the Republic of Kazakhstan on January 20, 2012 | Auditor qualification certificate #МФ-0000487 issued by the Ministry of Finance of the Republic of Kazakhstan on October 12, 1999 |

State license for audit activity on the territory of the Republic of Kazakhstan: МФЮ-2 №0000087 dated June 21, 2012

April 18, 2014
The Republic of Kazakhstan, Almaty

## LIFE INSURANCE COMPANY NOMAD LIFE JSC

## STATEMENT OF FINANCIAL POSITION
## AS OF DECEMBER 31, 2013

| In thousands of tenge | Note | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Cash and cash equivalents | 5 | 295,177 | 420,755 |
| Amounts due from credit institutions | 6 | 11,141,916 | 5,630,627 |
| Reserve REPO operations | 7 | 1,064,499 | - |
| Available-for-sale investment securities | 8 | 3,545,830 | 1,720,923 |
| Held-to-maturity investment securities | 9 | 1,497,154 | 1,367,632 |
| Insurance and reinsurance receivables | 12 | 2,246,726 | 2,689,631 |
| Property, plant and equipment and intangible assets | 10 | 65,461 | 68,975 |
| Unearned premiums reserve, reinsurer's share | 11 | 2,462,818 | 2,013,695 |
| Insurance reserves, reinusrer's share | 11 | 399,473 | 12,089 |
| Corporate income tax asset | | 178,138 | - |
| Deferred income tax asset | 16 | 22,781 | 16,337 |
| Other assets | 13 | 142,654 | 107,212 |
| **TOTAL ASSETS** | | **23,062,627** | **14,047,876** |
| **EQUITY AND LIABILITIES** | | | |
| Insurance and reinsurance payables | 14 | 838,674 | 515,883 |
| Unearned premiums reserve | 11 | 5,685,973 | 4,960,151 |
| Insurance reserves | 11 | 12,904,637 | 5,216,396 |
| Corporate income tax payable | | - | 94,028 |
| Other liabilities | 15 | 235,419 | 248,573 |
| **TOTAL LIABILITIES** | | **19,664,703** | **11,035,031** |
| Share capital | 17 | 2,130,000 | 2,130,000 |
| Available-for-sale securities revaluation reserve | | (45,753) | (771) |
| Retained earnings | | 1,313,677 | 883,616 |
| **TOTAL EQUITY** | | **3,397,924** | **3,012,845** |
| **TOTAL LIABILITIES AND EQUITY** | | **23,062,627** | **14,047,876** |

*Accompanying notes on pages 5 to 44 are an integral part of these financial statements.*

Acting Chairman of the Board — Shalgimbayev M.A.

Chief Accountant — Pyanova I.N.

April 18, 2014
Republic of Kazakhstan, Almaty

# LIFE INSURANCE COMPANY NOMAD LIFE JSC

## STATEMENT OF COMPREHENSIVE INCOME
## FOR YEAR ENDED DECEMBER 31, 2013

| In thousands of tenge | Note | 2013 | 2012 |
|---|---|---|---|
| Gross earned premiums | 18 | 18,433,325 | 18,434,165 |
| Premiums ceded to reinsurance | 18 | (4,442,430) | (4,059,541) |
| **Premiums, net of reinsurer's share** | | **13,990,895** | **14,374,624** |
| | | | |
| Change in unearned premiums reserves | 18 | (276,699) | (2,934,059) |
| **Premiums earned, net of reinsurer's share** | | **13,714,196** | **11,440,565** |
| | | | |
| Claims paid, total amount | 20 | (2,749,464) | (6,742,929) |
| Claims paid, reinsurer's share | 20 | 80,421 | - |
| Change in claim reserves | 20 | (7,688,241) | (3,473,313) |
| Change in claim reserves, reinsurer's share | 20 | 387,384 | - |
| **Net claims** | | **(9,969,900)** | **(10,216,242)** |
| | | | |
| Other income from insurance, tantema | 19 | - | 1,996,790 |
| **Insurance income** | | **3,744,296** | **3,221,113** |
| | | | |
| Commisiion expense | 22 | (3,197,926) | (1,639,084) |
| **Net commission income** | | **(3,197,926)** | **(1,639,084)** |
| Interest income | 21 | 910,837 | 380,506 |
| Loss on impairment of Held to maturity securities | 9 | (13,521) | (112,008) |
| Other operating income | | 12,148 | 2,791 |
| **Other income** | | **909,464** | **271,289** |
| Personnel expenses and other expenses | | (472,519) | (353,422) |
| Operating expenses | 23 | (517,637) | (496,356) |
| **Total operating expenses** | | **(990,156)** | **(849,778)** |
| **Profit before income tax expense** | | **465,678** | **1,003,540** |
| | | | |
| Corporate income tax expense | 16 | (35,617) | (217,701) |
| **Net income** | | **430,061** | **785,839** |
| | | | |
| **Other comprehensive income** | | | |
| Unrealized loss on revaluation of securities | | (44,982) | (47,672) |
| **Total comprehensive income** | | **385,079** | **738,167** |

*Accompanying notes on pages 5 to 44 are an integral part of these financial statements.*

Acting Chairman of the Board

Shalgimbayev M.A.

Chief Accountant

Pyanova I.N.

April 18, 2014
Republic of Kazakhstan, Almaty

## STATEMENT OF CHANGES IN EQUITY
## FOR YEAR ENDED DECEMBER 31, 2013

| In thousands of tenge | Note | Share capital | Investment available-for-sale revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **As of January 1, 2012** | | **1,470,000** | **46,901** | **97,777** | **1,614,678** |
| *Net income for the year* | | - | - | 785,839 | **785,839** |
| *Other comprehensive loss* | | - | (47,672) | - | **(47,672)** |
| **Total comprehensive income** | | - | **(47,672)** | **785,839** | **738,167** |
| Contribution to share capital | | 660,000 | - | - | **660,000** |
| **As of December 31, 2012** | 17 | **2,130,000** | **(771)** | **883,616** | **3,012,845** |
| *Net income for the year* | | - | - | **430,061** | **430,061** |
| *Other comprehensive loss* | | - | **(44,982)** | - | **(44,982)** |
| **Total comprehensive income** | | - | **(44,982)** | **430,061** | **385,079** |
| **As of December 31, 2013** | 17 | **2,130,000** | **(45,753)** | **1,313,677** | **3,397,924** |

*Accompanying notes on pages 5 to 44 are an integral part of these financial statements.*

Acting Chairman of the Board

Shalgimbayev M.A.

Chief Accountant

Pyanova I.N.

April 18, 2014
Republic of Kazakhstan, Almaty

LIFE INSURANCE COMPANY NOMAD LIFE JSC

STATEMENT OF CASH FLOWS
FOR YEAR ENDED DECEMBER 31, 2013

| In thousands of tenge | Note | 2013 | 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax expense | | **465,678** | 1,003,540 |
| Adjustments for: | | | |
| Depreciation and amortization | 10 | **26,356** | 21,413 |
| Change in acrued interest | | **(322,884)** | (160,129) |
| Impairment of securities | 9 | **13,521** | 112,008 |
| Insurance reserves, net of reinsurer's share | 11 | **7,577,556** | 6,407,372 |
| **(Increase)/decrease of operating assets:** | | | |
| Amounts due from credit institutions | | **(5,234,962)** | (4,448,144) |
| Reverse repurchase agreements | | **(1,063,011)** | 562,314 |
| Insurance and reinsurance receivables | | **442,905** | (2,568,777) |
| Other assets | | **(148,131)** | (37,442) |
| **Increase/(decrease) of operating liabilities:** | | | |
| Insurance and reinsurance payables | 14 | **322,791** | 429,123 |
| Other liabilities | 15 | **(13,154)** | 138,303 |
| **Net cash inflow from operating activity before interest received and income tax paid** | | 2,066,665 | **1,459,581** |
| Income tax paid | | **(314,227)** | (145,193) |
| **Net cash inflow from operating activities** | | **1,752,438** | **1,314,388** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of fixed assets | | **(22,938)** | (37,421) |
| Proceeds from sale of property and equipment | | **95** | 246 |
| Purchase of available for sale investment securities | | **(1,808,207)** | (1,045,601) |
| Proceeds from sale of held-to-maturity investment securities | | **247,990** | - |
| Proceeds from sale of available-for-sale investment securities | | **-** | - |
| Purchase of held-to-maturity investment securities | | **(294,956)** | (650,138) |
| **Net cash flows used in investing activities** | | **(1,878,016)** | **(1,732,914)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from issue of shares | | **-** | 660,000 |
| **Net cash flows provided by financing activities** | | **-** | **660,000** |
| Change in cash and cash equivalents | | **(125,578)** | 241,474 |
| Cash and cash equivalents, beginning of the year | | **420,755** | 179,281 |
| **Cash and cash equivalents, ending of the year** | 5 | **295,177** | **420,755** |

In 2012 and 2013 the amounts of the interest received were 910,875 and 380,506 thousands of tenge and interest paid amounts were 610,951 and 220,377 thousands of tenge respectively.

*Accompanying notes on pages 5 to 44 are an integral part of these financial statements.*

Acting Chairman of the Board

Shalgimbayev M.A.

Chief Accountant

Pyanova I.N.

April 18, 2014
Republic of Kazakhstan, Almaty

## 1. GENERAL INFORMATION

Life insurance company NOMAD LIFE JSC (the "Company") primarily registered in Republic of Kazakhstan in March 2008 as Life insurance company Astana-Finance JSC in accordance with legislation of Republic of Kazakhstan. The Company was re-registered on January 10, 2012 (registration certificate 91075-1910 - JSC) and given a new name Life insurance company NOMAD LIFE JSC.

The Company has license №2.2.47 from February 1, 2012, which gives a right to perform business activity in the following sectors:

- life insurance and annuity insurance;
- voluntary general insurance: accident insurance and health insurance;
- obligatory general insurance: employee insurance from accidents;
- re-insurance activity.

This license was given by the Committee on control and supervision of the financial market and financial organization of National bank of the Republic of Kazakhstan ("KFN").

The Company's registered address is 050040, Satpayev st., 30A, block #1, Almaty, the Republic of Kazakhstan.

As of December 31, 2013 the number of personnel in the Company was 178 employees (2012: 176 employees).

As of December 31, 2013 shareholder of the Company was "Insurance group "Nomad" LLP (100%), final beneficiary , Mynbayev A.S. (2012:Mr Mynbayev A.S. (65%), resident of the Republic of Kazakhstan, Mr.. Sultan N.S (25 %), resident of the Republic of Kazakhstan, Mrs. Mamysheva A.A. (5%), resident of the Republic of Kazakhstan and Mrs. Salamatova S.S. (5%), resident of the Republic of Kazakhstan).

## 2. BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the Notes to these financial statements. The Company maintains its accounting records in Kazakhstani Tenge ("Tenge" or "KZT"). All values in these financial statements are rounded to the nearest thousands, except when otherwise indicated.

### Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### Going concern

The Company's management believes that the Company will be able to generate sufficient cash to pay its debts as and when they fall due. The management of the Company does not have any intention or necessity to liquidate or significantly reduce the size of its business.

### Operating environment

Economy of the Republic of Kazakhstan continues to be characterized by certain signs of a developing country. These signs include, but are not limited to the existence of a currency that does not have free convertibility outside the country and the low liquidity of debt and equity securities on stock exchanges. Prospects for future economic stability of the Republic of Kazakhstan significantly depend on the effectiveness of economic measures undertaken by the government, as well as the development of legal, political, and control systems, i.e. the circumstances that are beyond the Company's control.

## 2. BASIS OF PREPARATION (CONTINUED)

### Foreign currency translation

The financial statements are presented in Tenge, which is the functional currency and presentation currency of the Company.

Transactions in foreign currencies are initially recorded in the functional currency at the market rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. All foreign exchange differences are included to the statement of comprehensive income as income or expense for the period.

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rates of KASE as of December 31, 2013 were 154.06 Tenge to 1 US Dollar. These rate was used to translate monetary assets and liabilities denominated in US Dollars as of December 31, 2013 (December 31, 2012: 150.74 Tenge to 1 US Dollar).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Insurance contracts are further classified as being either with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- Likely to be a significant portion of the total contractual benefits;
- The amount or timing is contractually at the discretion of the issuer;
- That are contractually based on the profit or loss of the company.

### Discretionary Participation Features (DPF)

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio whose amount or timing is contractually at the discretion of the Company. Under the terms of the contracts surpluses in the DPF funds can be distributed to policyholders and shareholders based on proportion established by Board of Directors. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities as appropriate.

### Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Reinsurance (continued)

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance assets that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

### Fair value measurement

The Company estimates financial instruments, such as available- for-sale securities, at fair value at each reporting date.

Fair value is the price that would be obtained from the sale of an asset or paid as a result of transfer of a liability in a transaction which is performed in the usual manner between market participants at the estimation date. Fair value estimation assumes that the transaction to sell the asset or transfer a liability occurs:

- either on the main market for the asset or liability;
- or, in the absence of the main market, the most advantageous market for the asset or liability.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### Financial Assets

*Initial recognition*

Financial assets within the scope of IFRS (IAS) 39, are classified into the following categories: at fair value through profit or loss ("FVTPL"); Held-to-maturity ("HTM"); available-for-sale ("AFS") and receivables. Classification of financial assets to one category or another depends on the nature and purpose of what happens in the time of initial recognition.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (continued)

At initial recognition, financial assets are measured at fair value. In the case of investments not classified as financial assets at fair value through profit or loss, the reflection in reporting is their fair value plus directly attributable transaction costs. At initial recognition, financial assets, the Company determines the classification , and subsequently can reclassify financial assets in certain cases.

Purchases or sales of financial assets that require delivery of assets within the period established by regulation or convention in the market (trading "regular conditions") are recognized on the trade date, ie the date that the Company commits itself to buy or sell the asset.

*Date of recognition*

All regular purchases and sales of financial assets are recognized on the trade date, ie on the date when the asset is delivered to the Company or the Company delivered asset. Regular purchases of financial instruments are subsequently measured at fair value between the date of the transaction and settlement date are accounted for in the same way as for acquired instruments. Regular purchases or sales - purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and current accounts.

### Deposits

In the normal course of business, the Company maintains deposits in banks for different periods. The deposits are valued at amortized cost using the effective interest rate.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes are traded in an active market are classified as AFS and are stated at fair value. The Company also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the Company management considers that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss in the period of disposal or impairment.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured stated at cost less impairment losses identified at the end of each reporting period.

## 3. SUMMARY OF OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairments.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

### Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors are experiencing significant financial difficulties, default or delinquency in interest or principal payments, the high probability of bankruptcy or financial reorganization, as well as evidence on the basis of information from the observed market decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

### Derecognition of financial assets and liabilities

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Review on impairement of balance of Insurance receivables always performed when there are events or circumstances which indicate that carrying value cannot be reimbursed and loss from impairement is recognized in statement of comprehensive income.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in derecognition of financial assets have been met.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment

Property, plant and equipment are carried at initial cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

| Categories of property, plant and equipment | Estimated useful life |
|---|---|
| Computers | 3 years |
| Vehicles | 5 years |
| Software | 5 years |
| Other | 5 years |

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

### Intangible assets

Intangible assets include software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets are amortized over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year end. Intangible assets are included as a component of other assets.

### Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Where the Company expects some or all of a provision to be reimbursed, for example under insurance agreement, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Expenses related to provisions are recognized in the statement of comprehensive income, net of reimbursement.

### Deductions from employee benefits

The Company holds 10% of the wages of their employees, but not more than 139,950 tenge per employee in 2013 (in 2012: 10%, but not more than 130,793 tenge) as contributions to their pension funds.

The Company does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan, which requires an employer to make deductions calculated as a percentage of current gross salary payments, such deductions are expensed in the period in which the related salaries are earned and are included in salaries and employee benefits in the statement of comprehensive income. The Company shall pay the social tax to the budget of the Republic of Kazakhstan for their employees. In addition, the Company has no other pensions requiring accrual.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Company pays social tax to the budget of the Republic of Kazakhstan in accordance with the laws of the Republic of Kazakhstan for a flat rate of 11% of salary.

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

### "Reserve REPO" contracts

Securities purchased under agreements to resell ("reverse repo") are recorded in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the term of the contracts "repo" on an effective yield basis.

### Reinsurance assets

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance assets that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognized in the income statement immediately at the date of purchase and are not amortized. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for ceded reinsurance. Reinsurance assets are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Life insurance contract liabilities

Life insurance liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. Furthermore, the liability for life insurance contracts comprises provision for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company. Adjustments to the liabilities at each reporting date are recorded in the statement of comprehensive income in gross change in insurance contract liabilities. The liability is derecognized when the contract expires, is discharged or is cancelled.

### Liability adequacy test

At the end of each reporting period, an assessment is made of whether the recognized insurance liabilities are adequate by using a liability adequacy test. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is recorded in the income statement by establishing an unexpired risk provision. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing can be reversed in the future years if the impairment no longer exists.

Liability adequacy tests are performed for each line of business of insurance portfolio on the basis of estimates of future claims costs.

For long duration contracts, if actual experience regarding investment yields, mortality, morbidity, terminations or expense indicates that existing contract liabilities, along with the present value of future gross premiums, will not be sufficient to cover the present value of future benefits, then a premium deficiency is recognized.

### Non-life insurance contract liabilities

Non-life insurance contract liabilities include the outstanding claims provision and the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims reported but not settled at the reporting date and incurred but not reported (IBNR), together with related claims handling costs. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognized when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Non-life insurance contract liabilities (continued)

The outstanding claims provision of all claims incurred but not settled at the reporting date are measured on a case-by-case basis, based on the facts and circumstances available at the time the provisions are established. The estimates reflect management's informed judgment of claims based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. These provisions are regularly re-evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available.

IBNR provisions are established to recognize the estimated cost of losses that have occurred but where the Company has not yet been notified. Since nothing is known about the occurrence, the Company relies on its past experience, adjusted for current trends and any other relevant factors. IBNR provisions are estimates based on prudent actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The analyses are based on facts and circumstances known at the time. Trends relating to claim frequency, severity and time lag in reporting are examples of factors used in projecting the IBNR provisions. IBNR provisions are reviewed and revised periodically as additional information becomes available and actual claims are reported.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs on attracting new policyholders) is inadequate, the deficiency is recognized in the statement of comprehensive income by setting up a provision for premium deficiency.

### Insurance and reinsurance payables

Payables on direct insurance business comprise insurance benefits due but not yet paid, premium refunds not paid and commissions due to agents. Payables are expressed at actual amount to be paid.

Payables on reinsurance business comprise net reinsurance premiums due to reinsurers and reinsurance brokers in connection with reinsurance business ceded.

### Share capital

Share capital is recognized at initial cost.

### Lease

*Operating - Company as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition

*Gross premiums*

Gross recurring premiums on life insurance contracts with DPF are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date on which the policy is effective.

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognized on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written. The proportion which relates to the subsequent periods is recognized as unearned premiums reserve.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

*Premiums ceded*

Gross premiums ceded on life insurance contracts are recognized as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into during the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are calculated proportionally on daily basis. Proportion related to the future periods is accounted as Unearned premiums Reserve.

### Commission expenses

Commission expense paid to agents and brokers that a vary and directly attributable to insurance contracts.

Commission is recognized as expenses in the period when such service was received (Note 22).

### Investment income

Interest income is recognized in the statement of comprehensive income as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex dividend.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Gross benefits and claims

Gross benefits and claims for life insurance contracts with DPF include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Changes in the gross valuation of insurance contract liabilities with DPF are also included. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

General insurance claims include all claims occurring during the year, whether reported or not, the related internal and external claims handling costs that are directly related to the processing and settlement of claims.

### Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognised according to the terms of the relevant contract.

### New and revised IFRSs affecting amounts reported in the financial statements

In the current year, the Company adopted the following new and revised IFRSs, issued by International Accounting Standards Board (hereinafter "IASB"), for which an application was mandatory in 2013.

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Company's financial position or performance.

### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The Company provides these disclosures in Note 25.

### Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Company's financial position or performance.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Amendments to IAS 1 Clarification of the Requirement for Comparative Information**

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. The Company must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Company's financial position or performance.

**IAS 19 Employee Benefits**

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognized in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Company's financial position.

**New and revised IFRS – issued but not effective**

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. Management of the Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

**IFRS 9 Financial Instruments**

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of the Company's financial liabilities. The Company will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

**IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32**

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Company.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### IFRIC Interpretation 21 Levies (IFRIC 21)

Interpretation clarifies that the Company recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Company does not expect that IFRIC 21 will have a material impact on its financial statements.

### Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

### Allowance for bad debt

The determination of allowance for bad debt requires from the management assumptions based on the best estimates of the Company's ability to realize these assets. Due to changes in overall economy and other similar circumstances after the reporting date, the management can make estimations that can differ from estimations made during the preparation of these financial statements.

### Deferred tax assets

Deferred tax assets are assessed at each reporting date and are adjusted according to the likelihood of sufficient taxable profits available in the future, against which all or part of the asset may be offset. Assessment of that probability includes judgments based on the expected performance.

### Useful life of property, plant and equipment and intangible assets

The Company considers useful life of property, plant and equipment and intangible assets at the end of each reporting period. Estimation of the useful life of the asset is dependent on factors such as the economic use, program for repair and maintenance, technological improvement and other business conditions. Management review of the useful lives of property, plant and equipment and intangible assets reflects the relevant information at the date of these financial statements.

### Uncertainty of estimates

In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates:

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

### Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

### Fair value of financial instruments

As described in Note 26, for estimation of fair value of financial instruments, the Company uses method, which takes into account primarily data which is not based on the market data. In Note 25 there is detailed information about key assumption used in estimation of fair value of financial instruments as well as detailed analysis of sensitivity of estimates in regard to these assumptions. The management believes that selected methods of estimations and used assumptions are appropriate for fair value estimation.

### Valuation of insurance contract liabilities

*Life insurance contract liabilities*

The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, expenses and discount rates. The Company bases mortality and morbidity on standard and national mortality industry tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made based on established mortality levels.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expense are based on either level of expenses existing at the date of issuance of insurance contract for life insurance contracts, or statutory level of expenses for annuity insurance contracts.

Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

The carrying value at the reporting date of life insurance contracts liabilities is 525,017 thousands tenge (2012: 18,231 thousands tenge), the carrying value of annuity insurance liabilities is 8,157,201 thousands tenge (2012: 4,216,680 thousands tenge).

*Non-life insurance contract liabilities*

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder method.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

### Valuation of insurance contract liabilities (continued)

*Non-life insurance contract liabilities (continued)*

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, by significant business lines and claim types. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. The carrying value as of 31 December 2013 for these general insurance contract liabilities is 5,685,973 thousands tenge (2012: 4,960,151 thousands tenge).

### Allowance for impairment of insurance receivable and reinsurance assets

The Company regularly reviews its insurance receivables and reinsurance assets to assess impairment.

Irrecoverable amounts and specific credit risks are written off by charging directly against gross premiums. Allowances for impairment based on past experience are necessary in respect of receivables due from policyholders and agents/brokers on direct insurance and in respect of counterparties on reinsurance.

## 5. CASH AND CASH EQUIVELANTS

Cash and cash equivalents at the end of the financial year, included in the statement of cash flows are as follows:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Cash on current bank accounts | 167,016 | 420,594 |
| Cash on hand | 128,161 | 161 |
| | **295,177** | **420,755** |

As of December 31, 2013 and 2012 cash and cash equivalents comprised current accounts in Kazakhstani banks and were denominated in Tenge.

## 6. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As of 31 December 2013, amounts due from credit institutions comprise of time deposits with Kazakh banks generating interest at rates ranging from 4% to 9% (2012: from 4.5% to 9%) per annum and mature in January 2014 – November 2016 (2012: November 2015) and deposits were denominated in Tenge.

## 6. AMOUNTS DUE FROM CREDIT INSTITUTIONS (CONTINUED)

| In thousands of tenge | Interest rate | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Tsesnabank JSC | 9% | 1,906,750 | 400,000 |
| HomeCredit Bank JSC | 9% | 1,360,309 | - |
| Temirbank JSC | 6.5%-8.5% | 1,247,087 | 785,988 |
| Eurasian Bank JSC | 6.5%-9% | 1,110,390 | 1,029,140 |
| Kazkommertsbank JSC | 4% | 1,035,115 | - |
| DeltaBank JSC | 7.5%-9% | 1,066,100 | 623,844 |
| AlfaBank JSC | 7%-7.75% | 1,063,000 | 370,732 |
| Sberbank JSC | 5% | 709,770 | - |
| RBK Bank JSC | 9% | 500,000 | - |
| KassaNova Bank JSC | 8% | 402,667 | 402,667 |
| Bank CenterCredit JSC | 6% | 390,728 | 369,512 |
| AsiaCreditBank JSC | 9% | 350,000 | 1,000,000 |
| KazInvestbank JSC | 7% | - | 417,344 |
| ATFBank JSC | 8% | - | 231,400 |
| **Total** | | **11,141,916** | **5,630,627** |

Accrued interest included in amounts due from credit institutions is 428,368 thousand of tenge as of December 31, 2013 (December 31, 2012: 152,041 thousand of tenge).

## 7. RESERVE REPO OPERATIONS

In 2013, the Company entered into reverse repurchase agreements on Kazakhstan Stock Exchange. The subject of these agreements were treasury bills and shares of Kazakhstani companies, which fair value as of December 31, 2013 amounted to 1,064,499 thousand of tenge, maturing in January 2014, which are not for resale (2012: no reverse repurchase operations).

## 8. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investments securities comprise:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Debt securities:** | | |
| Corporate bonds and shares of Kazakhstani issuers | **2,197,115** | **1,093,067** |
| Corporate bonds of Kazakhstani banks | **688,272** | **233,569** |
| Bonds of the Ministry of Finance of the Republic of Kazakhstan | **660,443** | **394,287** |
| **Total** | **3,545,830** | **1,720,923** |

Including:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Corporate bonds of Kazakhstani issuers** | | |
| National company Kazakhstan engineering JSC | 763,607 | 751,355 |
| Kazakhstan Mortgage Company JSC | 725,363 | 8 |
| NC Food Contract Corporation JSC | 617,632 | 240,390 |
| Atameken Agro JSC | 90,406 | 101,207 |
| **Shares** | | |
| Fund of guaranteed insurance payments JSC | 107 | 107 |
| | **2,197,115** | **1,093,067** |

## 8. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (CONTINUED)

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Corporate bonds of Kazakhstani banks:** | | |
| Halyk Bank Kazakhstan JSC | 459,757 | - |
| Sberbank of Russia JSC | 196,162 | 197,984 |
| Bank CenterCredit JSC | 32,350 | 35,582 |
| ATF Bank JSC | 3 | 3 |
| | **688,272** | **233,569** |

As of December 31, 2013, investments available for sale, included accrued interest in the amount of 48,784 thousand of tenge (2012: 19,033 thousand of tenge).

## 9. HELD-TO-MATURITY INVESTMENTS SECURITIES

Held-to-maturity investments securities comprise:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Debt securities:** | | |
| Corporate bonds of Kazakhstani issuers | **1,049,148** | **1,198,740** |
| Corporate bonds of Kazakhstani banks | **576,724** | **284,097** |
| Bonds of the Ministry of Finance of the Republic of Kazakhstan | **50,133** | **50,125** |
| | **1,676,005** | **1,532,962** |
| Less – Allowance for impairment | **(178,851)** | **(165,330)** |
| | **1,497,154** | **1,367,632** |

Including:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Corporate bonds of Kazakhstani issuers** | | |
| Kazakhstan Mortgage Company JSC | **662,735** | 662,774 |
| Astana-estate JSC | **142,086** | 128,565 |
| Central Asian Energy Company JSC | **112,063** | 114,319 |
| Mangistauskaya Energy Distribution Company JSC | **56,981** | 59,966 |
| Ekoton + JSC | **38,518** | 39,665 |
| Burlingazstroy JSC | **36,765** | 36,765 |
| NC Food Contract Corporation JSC | - | 156,686 |
| Concern Tsesna Astyk LLP | - | - |
| | **1,049,148** | **1,198,740** |
| Less – Allowance for impairment | **(178,851)** | (165,330) |
| | **870,297** | **1,033,410** |

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Corporate bonds of Kazakhstani banks** | | |
| Sberbank of Russia JSC | 485,088 | 192,764 |
| Eurasian bank JSC | 91,636 | 91,333 |
| | **576,724** | **284,097** |

As of December 31, 2013, held-to-maturity investment securities included accrued interest in amount of 25,023 thousands tenge (2012: 32,665 thousands tenge).

## 9. HELD-TO-MATURITY INVESTMENTS SECURITIES (CONTINUED)

The movement in the allowance for held-to-maturity investment securities was as follows:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| January 1 | **(165,330)** | (53,322) |
| Charge | **(13,521)** | (112,008) |
| **December 31** | **(178,851)** | (165,330) |

During the year ended December 31, 2012, the Company identified objective evidence of impairment in respect of "Astana-estate" JSC in connection with which the impairment provision was increased by the amount of 112,008 thousands of tenge. During the year ended December 31, 2013, the Company recognized a gain of 13,521 thousands of tenge as coupon for "Astana-estate" JSC securities, on which also established an additional reserve of the same amount.

## 10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Movement of property, plant and equipment and intangible assets for the years ended December 31, 2013 and 2012 was as follows:

| In thousands of tenge | Computers | Vehicles | Other | Software | Total |
|---|---|---|---|---|---|
| **Carrying amount at Januar 1, 2012** | **3,161** | **1,250** | **8,828** | **39,975** | **53,214** |
| Additions | 7,902 | 6,407 | 12,416 | 10,696 | **37,421** |
| Disposals | (55) | - | (192) | - | **(247)** |
| Depreciation charge | (2,958) | (1,083) | (5,329) | (12,043) | **(21,413)** |
| **Carrying amount at December 31, 2012** | **8,050** | **6,574** | **15,723** | **38,628** | 68,975 |
| Additions | 3,403 | 5,689 | 6,717 | 7,129 | **22,938** |
| Disposals | - | - | (96) | - | **(96)** |
| Depreciation charge | (4,339) | (876) | (6,332) | (14,809) | **(26,356)** |
| **Carrying amount at December 31, 2013** | **7,114** | **11,387** | **16,012** | **30,948** | 65,461 |
| Cost | 15,501 | 10,355 | 28,889 | 61,457 | **116,202** |
| Accumulated depreciation | (7,451) | (3,781) | (13,166) | (22,829) | **(47,227)** |
| **Carrying amount at December 31, 2012** | **8,050** | **6,574** | **15,723** | **38,628** | 68,975 |
| Cost | 18,902 | 12,096 | 34,459 | 68,586 | **134,043** |
| Accumulated depreciation | (11,788) | (709) | (18,447) | (37,638) | **(68,582)** |
| **Carrying amount at December 31, 2013** | **7,114** | **11,387** | **16,012** | **30,948** | 65,461 |

As of December 31, 2013 and 2012 Company did not have any property, plant and equipment pledged as collateral.

## 11. INSURANCE RESERVES

Insurance reserves by class of insurance:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2013 |
|---|---|---|---|
| Reserve on annuity insurance | 8,157,201 | - | 8,157,201 |
| Reserve on life insurance | 525,017 | - | 525,017 |
| Reserve on accident insurance | 126 | - | 126 |
| Reserve on general insurance | 9,908,266 | (2,862,291) | 7,045,975 |
| **Insurance contract liabilities** | **18,590,610** | **(2,862,291)** | **15,728,319** |

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| Reserve on annuity insurance | 4,216,680 | - | 4,216,680 |
| Reserve on life insurance | 18,231 | - | 18,231 |
| Reserve on accident insurance | 70 | - | 70 |
| Reserve on general insurance | 5,941,566 | (2,025,784) | 3,915,782 |
| **Insurance contract liabilities** | **10,176,547** | **(2,025,784)** | **8,150,763** |

Insurance reserves by type of liability:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2013 |
|---|---|---|---|
| Unearned premium reserve | 5,685,973 | (2,462,818) | **3,223,155** |
| Reserve on not-incurred expenses | 8,544,157 | - | **8,544,157** |
| Reported but not settled reserve | 2,709,133 | (399,473) | **2,309,660** |
| Incurred but note reported reserve | 1,519,601 | - | **1,519,601** |
| Incurred but not reported losses on life insurance contracts | 124,245 | - | **124,245** |
| Other reserves | 7,501 | - | **7,501** |
| **Insurance contract liabilities** | **18,590,610** | **(2,862,291)** | **15,728,319** |

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| Unearned premium reserve | 4,960,151 | (2,013,695) | **2,946,456** |
| Reserve on not-incurred expenses | 4,223,220 | - | **4,223,220** |
| Reported but not settled reserve | 539,999 | (12,089) | **527,910** |
| Incurred but note reported reserve | 441,486 | - | **441,486** |
| Other reserves | 11,691 | - | **11,691** |
| **Insurance contract liabilities** | **10,176,547** | **(2,025,784)** | **8,150,763** |

Reserves on life insurance and annuity insurance can be analyzed as follows:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2013 |
|---|---|---|---|
| With DPF | 1,043,353 | - | 1,043,353 |
| Without DPF | 7,638,865 | - | 7,638,865 |
| **Total** | **8,682,218** | - | **8,682,218** |

# 11. INSURANCE RESERVES (CONTINUED)

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| With DPF | 859,959 | - | 859,959 |
| Without DPF | 3,374,952 | - | 3,374,952 |
| **Total** | **4,234,911** | - | **4,234,911** |

Changes in liabilities under contracts of annuity and life insurance during the year are as follows:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2013 |
|---|---|---|---|
| **January 1, 2013** | **4,234,911** | - | **4,234,911** |
| Premiums written in the year | 8,052,623 | - | 8,052,623 |
| Liabilities paid for death, maturity and surrender, benefits and claims | (932,036) | - | (932,036) |
| Change in losses that occurred in previous years of the loss | (5,962) | - | (5,962) |
| Commission expenses | (2,667,318) | - | (2,667,318) |
| **December 31, 2013** | **8,682,218** | - | **8,682,218** |

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| **January 1, 2012** | **1,729,840** | **-** | **1,729,840** |
| Premiums written in the year | 9,607,020 | (2,366) | 9,604,654 |
| Liabilities paid for death, maturity and surrender, benefits and claims | (6,657,546) | - | (6,657,546) |
| Change in losses that occurred in previous years of the loss | 67,093 | 2,366 | 69,459 |
| Commission expenses | (511,496) | - | (511,496) |
| **December 31, 2012** | **4,234,911** | - | **4,234,911** |

Provision for not incurred losses («NIL») can be analyzed as follows:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2013 |
|---|---|---|---|
| **January 1** | **4,223,220** | - | **4,223,220** |
| Losses occurred in the current year loss | 4,320,937 | - | 4,320,937 |
| Change in losses that occurred in previous years loss | (924,402) | - | (924,402) |
| Adjustment for losses incurred in previous years loss due to changes in assumptions | - | - | - |
| Losses paid during the year | 924,402 | - | 924,402 |
| **December 31** | **8,544,157** | - | **8,544,157** |

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| **January 1** | **1,722,586** | - | **1,722,586** |
| Losses occurred in the current year loss | 2,500,634 | - | 2,500,634 |
| Change in losses that occurred in previous years loss | (6,656,985) | - | (6,656,985) |
| Adjustment for losses incurred in previous years loss due to changes in assumptions | - | - | - |
| Losses paid during the year | 6,656,985 | - | 6,656,985 |
| **December 31** | **4,223,220** | - | **4,223,220** |

## 11. INSURANCE RESERVES (CONTINUED)

Provision for losses claimed by policyholders but not settled ("RBNS", "IBNR") can be analyzed as follows:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| **January 1, 2013** | **981,485** | **(12,089)** | **969,396** |
| Losses occurred in the current year | 3,371,494 | (387,384) | 2,984,110 |
| Change in losses that occurred in previous years | (1,825,062) | - | (1,825,062) |
| Adjustment for losses incurred in previous years loss due to changes in assumptions | - | - | - |
| Losses paid during the year | 1,825,062 | - | 1,825,062 |
| **December 31, 2013** | **4,352,979** | **(399,473)** | **3,953,506** |

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| **January 1, 2012** | **1,154** | - | **1,154** |
| Losses occurred in the current year | 980,331 | (12,089) | 968,242 |
| Change in losses that occurred in previous years | (85,383) | - | (85,383) |
| Adjustment for losses incurred in previous years loss due to changes in assumptions | - | - | - |
| Losses paid during the year | 85,383 | - | 85,383 |
| **December 31, 2012** | **981,485** | **(12,089)** | **969,396** |

In 2013 and 2012, the Company used the following assumptions for the calculation of the allowance for all annuity insurance contracts:

| | 2013 | 2012 |
|---|---|---|
| **Discount rate** | | |
| The effective interest rate | 0.39%-6% | 3,8%-6% |
| Costs of premiums | 0%-3% | 0%-3% |
| Costs from payments | 0%-3% | 0%-3% |
| Indexation rate of insurance payments | 6%-19.45% | 7.5%-19.45% |
| Probability of mortality | | |
| Annuity insurance | | |
| - Men (ages 0-111) | 0.0001904 - 1 | 0.0001904 - 1 |
| - Women (ages 0-111) | 0.0000952 - 1 | 0.0000952 - 1 |

Provision for general insurance contracts can be analyzed as follows:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| Reported but not settled reserve | 2,702,818 | (399,473) | **2,303,345** |
| Incurred but not reported reserve | 1,519,601 | - | **1,519,601** |
| Reserves on contract liabilities | **4,222,419** | **(399,473)** | **3,822,946** |
| Unearned premium reserve | 5,685,973 | (2,462,818) | **3,223,155** |
| **Total** | **9,908,392** | **(2,862,291)** | **7,046,101** |

## 11. INSURANCE RESERVES (CONTINUED)

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net December 31, 2012 |
|---|---|---|---|
| Reported but not settled reserve | 539,999 | (12,089) | **527,910** |
| Incurred but not reported reserve | 441,486 | - | **441,486** |
| Reserves on contract liabilities | **981,485** | **(12,089)** | **969,396** |
| Unearned premium reserve | 4,960,151 | (2,013,695) | **2,946,456** |
| **Total** | **5,941,636** | **(2,025,784)** | **3,915,852** |

The provision for unearned premiums may be analyzed as follows:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net |
|---|---|---|---|
| **January 1, 2013** | **4,960,151** | **(2,013,695)** | **2,946,456** |
| Premiums written for the year | 10,147,011 | (4,442,430) | 5,704,581 |
| Outward reinsurance premiums written for the year | 233,691 | - | 233,691 |
| Premiums earned during the year | (9,488,895) | 3,993,307 | (5,495,588) |
| Premiums earned on outward reinsurance during the year | (165,985) | - | (165,985) |
| **December 31, 2013** | **5,685,973** | **(2,462,818)** | **3,223,155** |

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net |
|---|---|---|---|
| **January 1, 2012** | **12,397** | - | **12,397** |
| Premiums written in the year | 8,827,145 | (4,057,175) | 4,769,970 |
| Premiums earned during the year | (3,879,391) | 2,043,480 | (1,835,911) |
| **December 31, 2012** | **4,960,151** | **(2,013,695)** | **2,946,456** |

## 12. INSURANCE AND REINSURANCE RECEIVABLES

Insurance receivables includes:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Receivables from policyholders | **2,211,936** | 2,636,793 |
| Receivables from reinsurers | **34,790** | 52,838 |
| **Total** | **2,246,726** | **2,689,631** |

On December 31, 2013 and 2012 insurance and reinsurance receivables were denominated in Tenge.

## 13. OTHER ASSETS

Other assets comprise:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Prepayment of assessed contributions in JSC "Fund of Guaranteed Insurance Payments" | **54,734** | - |
| Raw materials and supplies | **30,845** | 23,791 |
| Prepayments | **27,398** | 57,675 |
| Short-term debt of employees | **6,206** | 14,777 |
| Other prepaid expenses | **6,071** | 4,073 |
| Prepayment of taxes and mandatory payments to the budget | **2,775** | 2,842 |
| Others | **14,625** | 4,054 |
| **Total** | **142,654** | **107,212** |

## 14. INSURANCE AND REINSURANCE PAYABLES

Insurance and reinsurance payables comprise:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Due to reinsurers | 676,017 | 481,666 |
| Due to insurance agents and brokers | 146,346 | 28,597 |
| Due to policyholders | 16,311 | 5,620 |
| **Total** | **838,674** | **515,883** |

## 15. OTHER LIABILITIES

Other current liabilities are as follows:

| In thousands of tenge | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Other financial liabilities:** | | |
| Trade payables to suppliers | 17,698 | 14,130 |
| Payables to Fund of guaranteed insurance payments | - | 37,449 |
| | **17,698** | **51,579** |
| **Other non-financial liabilities:** | | |
| Advances received | 128,790 | 60,813 |
| Outstanding payments | 49,624 | 111,851 |
| Provision for unused vacation | 28,874 | 6,015 |
| Taxes payable, other than income tax | 3,433 | 10,234 |
| Other | 7,000 | 8,081 |
| | **217,721** | **196,994** |
| **Total** | **235,419** | **248,573** |

## 16. TAXATION

Taxation is performed in accordance with Tax legislation of the Republic of Kazakhstan.

Starting from January 1, 2012 insurance companies were transferred from special tax regime to general tax regime. The Company is taxed by 20% corporate tax on net taxable income. In fact, Authorized body did not issue transitional provisions.

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements.

Temporary differences as of December 31, 2013 and 2012 mostly were due to difference in method of revenue and expense recognition as well as accounting of value of certain assets.

## 16. TAXATION (CONTINUED)

Below disclosure shows calculation of income tax using official rate of 20% (2012: 20%) on income before tax expressed in the financial statements and income tax expenses taken into account in financial statements:

| In thousands of tenge | 2013 | 2012 |
|---|---|---|
| Current income tax | **42,061** | 234,038 |
| Deferred income tax | **(6,444)** | (16,337) |
| | **35,617** | **217,701** |

| | 2013 | 2012 |
|---|---|---|
| **Taxable income** | **465,678** | 1,003,540 |
| Official rate | **20%** | 20% |
| | **93,136** | **200,708** |
| **Tax effect from permanent differences** | | |
| Changes in unrecognized deferred tax assets from tax loss carry forwards | **-** | (8,478) |
| Interest income from securities | **(56,808)** | - |
| Income from amortization of discount on securities | **(2,538)** | 17,347 |
| Other | **1,827** | 8,124 |
| | **35,617** | **217,701** |

Currently there are several laws that regulates different taxes applied by republic and local authorities. Applicable taxes include income tax, social tax and other taxes. Often implementing regulations on normative acts are unclear or do not exists and there is little number of precedents. Not frequently there are several opinions on juridical understanding of acts, between departments as well as in one department that leads to certain uncertainty and conflict situations.

Deferred income tax assets are recognized only in case of possibility that future taxable income for which asset can be used. Deferred income tax assets can be reduced only for amount for which there is no possibility that tax benefit can be realized.

Balance of deferred taxes calculated using tax rate as of reporting date applied to temporary differences between tax data and amount expressed in financial statements, comprise as of December 31:

| In thousands of tenge | 2013 | Recognized changes in the statement of comprehensive income | 2012 | Recognized changes in the statement of comprehensive income | 2011 |
|---|---|---|---|---|---|
| **Deferred tax asset** | | | | | |
| Allowance for impairment of amounts receivable | - | (7,689) | 7,689 | 7,353 | 336 |
| Reserve on losses related to securities | 36,106 | 10,393 | 25,713 | 15,049 | 10,664 |
| Unused vacation reserve | (5,775) | (6,978) | 1,203 | (745) | 1,948 |
| Not settled premiums | (9,329) | 13,041 | (22,370) | (17,900) | (4,470) |
| | **21,002** | **8,767** | **12,235** | **3,757** | **8,478** |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | 1,779 | (2,323) | 4,102 | 4,102 | - |
| | **1,779** | **(2,323)** | **4,102** | **4,102** | **-** |
| **Deferred tax asset / liability** | **22,781** | **6,444** | **16,337** | **7,859** | **8,478** |
| **Less: unrecognized deferred income tax assets on carry forward losses** | - | - | - | 8,478 | (8,478) |
| | **22,781** | **6,444** | **16,337** | **16,337** | - |

## 17. SHARE CAPITAL

As of December 31, 2013 and 2012 share capital consists of 1.100.000 ordinary shares which were issued authorized and fully paid. Each ordinary share gives one vote and equal when dividends are declared. As of December 31, 2013 the amount of share capital was 2,130,000 thousands tenge (2012: 2,130,000 thousands tenge).

## 18. NET ISURANCE PREMIUMS

| In thousands of tenge | Annuity insurance contracts | General insurance contracts | Total as of December 31, 2013 |
|---|---|---|---|
| Direct insurance premiums | 8,052,623 | 10,380,702 | 18,433,325 |
| Gross change in unearned premiums provision | - | (725,822) | (725,822) |
| **Gross earned premiums on insurance contracts** | **8,052,623** | **9,654,880** | **17,707,503** |
| Outward reinsurance premiums | - | (4,442,430) | (4,442,430) |
| Change in unearned premiums provision ceded to reinsurers | - | 449,123 | 449,123 |
| **Premiums ceded to reinsurers on insurance contracts** | - | **(3,993,307)** | **(3,993,307)** |
| **Net insurance premiums** | **8,052,623** | **5,661,573** | **13,714,196** |

| In thousands of tenge | Annuity insurance contracts | General insurance contracts | Total as of December 31, 2012 |
|---|---|---|---|
| Direct insurance premiums | 9,607,020 | 8,827,145 | 18,434,165 |
| Gross change in unearned premiums provision | - | (4,947,754) | (4,947,754) |
| **Gross earned premiums on insurance contracts** | **9,607,020** | **3,879,391** | **13,486,411** |
| Outward reinsurance premiums | (2,366) | (4,057,175) | (4,059,541) |
| Change in unearned premiums provision ceded to reinsurers | - | 2,013,695 | 2,013,695 |
| **Premiums ceded to reinsurers on insurance contracts** | **(2,366)** | **(2,043,480)** | **(2,045,846)** |
| **Net insurance premiums** | **9,604,654** | **1,835,911** | **11,440,565** |

## 19. OTHER INCOME INSURANCE, TANTEMA

In 2012 the Company entered into reinsurance agreement on obligatory insurance of employer. Under this agreement the Company accrued Tantema in amount of 1,996,790 thousands tenge. In 2013 the Company did not have agreements with similar terms.

## 20. NET INSURANCE BENEFITS AND CLAIMS

| In thousands of tenge | Annuity insurance contracts | General insurance contracts | Total as of December 31, 2013 |
|---|---|---|---|
| Gross insurance benefits and claims paid | **(932,036)** | **(1,817,428)** | **(2,749,464)** |
| Insurance benefits and claims reimbursed by reinsurers | - | **80,421** | **80,421** |
| Gross insurance benefits and claims paid ceded to reinsurers | - | - | - |
| **Claims paid, net** | **(932,036)** | **(1,737,007)** | **(2,669,043)** |
| Gross change in insurance contracts liabilities | **(4,447,307)** | **(3,240,934)** | **(7,688,241)** |
| Change in insurance contract liabilities ceded to reinsurers | - | **387,384** | **387,384** |
| **Net change in insurance contract liabilities** | **(4,447,307)** | **(2,853,550)** | **(7,300,857)** |
| **Net benefits and claims** | **(5,379,343)** | **(4,590,557)** | **(9,969,900)** |

## 20. NET INSURANCE BENEFITS AND CLAIMS (CONTINUED)

| In thousands of tenge | Annuity insurance contracts | General insurance contracts | Total as of December 31, 2012 |
|---|---|---|---|
| Gross insurance benefits and claims paid | (6,657,546) | (85,383) | (6,742,929) |
| Insurance benefits and claims reimbursed by reinsurers | - | - | - |
| Gross insurance benefits and claims paid ceded to reinsurers | - | - | - |
| **Claims paid, net** | **(6,657,546)** | **(85,383)** | **(6,742,929)** |
| Gross change in insurance contracts liabilities | (2,505,071) | (980,331) | (3,485,402) |
| Change in insurance contract liabilities ceded to reinsurers | - | 12,089 | 12,089 |
| **Net change in insurance contract liabilities** | **(2,505,071)** | **(968,242)** | **(3,473,313)** |
| **Net benefits and claims** | **(9,162,617)** | **(1,053,625)** | **(10,216,242)** |

## 21. INVESTMENT INCOME

Investment income comprise:

| In thousands of tenge | 2013 | 2012 |
|---|---|---|
| **Interest income:** | | |
| Amounts due from credit institutions | 583,421 | 224,379 |
| Available for sale securities | 165,190 | 58,715 |
| Held-to-maturity securities | 121,465 | 94,135 |
| Operations on reverse REPO | 39,830 | 2,684 |
| Other | 931 | 593 |
| **Total investment income** | **910,837** | **380,506** |

## 22. COMMISSION EXPENSE

Commission expense comprise:

| In thousands of tenge | 2013 | 2012 |
|---|---|---|
| Insurance companies, brokers and intermediaries | 2,917,188 | 1,195,026 |
| Agents | 280,738 | 444,058 |
| **Total commission expense** | **3,197,926** | **1,639,084** |

## 23. OPERATING EXPENSES

Operating expenses comprise:

| In thousands of tenge | 2013 | 2012 |
|---|---|---|
| Professional service | 139,395 | 55,919 |
| Materials | 85,557 | 26,166 |
| Rent | 75,028 | 52,321 |
| Repairs and maintenance | 47,422 | 5,252 |
| Compensation for termination of contract | 37,838 | - |
| Amortization and depreciation | 26,356 | 21,413 |
| Communication | 21,868 | 20,478 |
| Transportation | 18,811 | 14,864 |
| Bank service | 17,631 | 21,156 |
| Utilities | 9,890 | 4,831 |
| Business trips | 9,607 | 5,966 |
| Marketing | 8,988 | 12,986 |
| Organization of events | 7,299 | 4,124 |
| Education expense | 4,736 | 61,620 |
| Obligatory contribution to Fund of guaranteed insurance payments | (24,638) | 176,809 |
| Other | 31,849 | 12,451 |
| | **517,637** | **496,356** |

## 23. OPERATING EXPENSES (CONTINUED)

*Compensation for termination of contract*

In 2013 the Company terminated reinsurance contract with Hannover Ruckversicherung AG (Germany). On May 1, 2013 the termination contract was conducted under which the Company should pay compensation in amount of 250,000 USD or 37,838 thousands of tenge.

*Obligatory contribution to Fund of guaranteed insurance benefits*

In 2013 the Company performed recalculation of obligatory contributions to Fund of guaranteed insurance payments JSC due to changes in official rates, used in calculation of contributions, from 2% to 1%, from which overpayment was accrued that was recognized as income in amount of 24,648 thousands of tenge. As of December 31, 2013 the overpayment on obligatory contribution compromised 54,734 thousands of tenge, which was recognized as advance and included in other assets (Note 13).

## 24. COMMITMENTS AND CONTINGENCIES

*Legal*

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

*Taxation*

Kazakhstani commercial and tax legislation may lead to different opinions and can be retroactive. Moreover, the management's interpretation of tax legislation may differ interpretation of tax authorities, operations can be disputed by the tax authorities that can lead fees and penalties. The management believes all tax payments were paid and there is no need for any reserves in the financial statements. Tax authorities can inspect company's taxation for the last five years.

*Pension*

In accordance with Kazakhstani legislation the Company's personnel receive pension from pension fund. As of December 31, 2013 and 2012 the Company does not have any obligation to pay additional pension payments, medical service after retirement, insurance payments or any other benefits after retirement of its current and former employees.

*Lease*

As of December 31, 2013 and 2012 the Company does not have any obligations related to lease.

*Capital Commitments*

As of December 31, 2013 and 2012 the Company does not have any obligation related to capitalized costs.

## 25. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is calculated as cost at which financial instruments can be purchased at trade between knowledgeable, willing to make such deal, independent, except cases of forced or liquidation sale.

| In thousands of tenge | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Assets measured at fair value** | | | | |
| Investments available-for-sale | 3,545,830 | 3,545,830 | 1,720,923 | 1,720,923 |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 295,177 | 295,177 | 420,755 | 420,755 |
| Amounts due from credit institutions | 11,141,916 | 11,141,916 | 5,630,627 | 5,630,627 |
| Reverse REPO operations | 1,064,499 | 1,064,499 | - | - |
| Held-to-maturity investment securities | 1,497,154 | 1,460,368 | 1,367,632 | 1,091,064 |
| Insurance and reinsurance receivables | 2,246,726 | 2,246,726 | 2,689,631 | 2,689,631 |
| **Total** | **19,791,302** | **19,754,516** | **11,829,568** | **11,553,000** |
| **Liabilities for which fair values are disclosed** | | | | |
| Insurance and reinsurance payables | 838,674 | 838,674 | 515,883 | 515,883 |
| Other financial liabilities | 17,698 | 17,698 | 51,579 | 51,579 |
| **Total** | **856,372** | **856,372** | **567,462** | **567,462** |

Fair value of financial assets and liabilities is defined as follows:

- fair value of financial assets and liabilities on standard terms, traded on active liquid markets are determined in accordance with market quotations (including quoted in an active market term bonds, notes and perpetual notes);
- fair value of other financial assets and liabilities (excluding derivatives) is defined in accordance with commonly accepted cost calculation models based on discounted cash flow analysis using prices used in market transactions on the relevant date, and dealer quotes for similar instruments.

The Company uses the following hierarchical structure of methods for determining and disclosing the fair value of financial instruments:

- Level 1: quotes (not corrected) on active markets of similar assets or liabilities;
- Level 2: valuation models all initial data of which have a significant effect on the recorded fair value that are directly or indirectly based on information observed on market;
- Level 3: valuation models, using initial data, which have a significant effect on the recorded fair value that are not based on information observed on market.

| In thousands of tenge | Level 1 | Level 2 | Level 3 | December 31, 2013 |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Investments available-for-sale | 3,545,723 | 107 | - | 3,545,830 |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 295,177 | - | - | 295,177 |
| Amounts due from credit institutions | 11,141,916 | - | - | 11,141,916 |
| Reverse REPO operations | 1,064,499 | - | - | 1,064,499 |
| Held-to-maturity investment securities | 1,497,154 | - | - | 1,497,154 |
| Insurance and reinsurance receivables | - | 2,246,726 | - | 2,246,726 |
| **Total** | **17,544,469** | **2,246,833** | - | **19,791,302** |
| **Liabilities for which fair values are disclosed** | | | | |
| Insurance and reinsurance payables | - | 838,674 | - | 838,674 |
| Other financial liabilities | - | 17,698 | - | 17,698 |
| **Total** | - | **856,372** | - | **856,372** |

## 25. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

| In thousands of tenge | Level 1 | Level 2 | Level 3 | **December 31, 2012** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Investments available-for-sale | 1,720,816 | 107 | - | 1,720,923 |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 420,755 | - | - | 420,755 |
| Amounts due from credit institutions | 5,630,627 | - | - | 5,630,627 |
| Held-to-maturity investment securities | 1,367,632 | - | - | 1,367,632 |
| Insurance and reinsurance receivables | - | 2,689,631 | - | 2,689,631 |
| **Total** | **9,139,830** | **2,689,738** | - | **11,829,568** |
| **Liabilities for which fair values are disclosed** | | | | |
| Insurance and reinsurance payables | - | 515,883 | - | 515,883 |
| Other financial liabilities | - | 51,579 | - | 51,579 |
| **Total** | - | **567,462** | - | **567,462** |

During the year there were no transfers between Levels 1, 2 and 3.

*Derivative instruments*

Derivative instruments value of which estimated using methodology for which initial data is on the market, are represented by currency forward contracts. Mostly used methodologies of estimation includes models for estimation of price of forwards and swops that use calculation of present value. Models includes different initial data, including credit quality of counteragents, forwards and spot-currencies as well as curves of interest rates.

The following describes methodologies and assumptions, used in estimation of fair value of financial instruments that are not recognized in financial statement at fair value.

*Financial instruments with fixed rate*

Fair value of financial assets and liabilities with fixed rate that are recognized at amortized cost are valued using comparison market interest rate at the date of initial recognition of these instruments with current market rates of similar financial instruments.

## 26. RISK MANAGEMNT

Risk management is critical to the insurance business and is one of the key elements of the Company. The main risks inherent to the Company are insurance risk, investment risk, credit risk, market risk associated with changes in interest rates and foreign exchange rates, and liquidity risk. A description of the Company's policies for managing these risks is set below.

### Insurance policies

The company sets rules and limits on insurance that specify who and how much risk can take and to what amount. Monitoring of these limits are performed by underwriting department on a permanent basis.

The Company's insurance is covered on the entire territory of Kazakhstan. The company's portfolio of reinsurance in respect to geographical concentration is diversified across foreign reinsurers.

## 26. RISK MANAGEMNT (CONTINUED)

### Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risk mitigation program. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved from its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company's loss ratio comprises:

| In thousands of tenge | 2013 | 2012 |
|---|---|---|
| Loss ratio, life insurance | 0% | 0% |
| Loss ratio, general insurance | 96% | 96% |

The table below sets out the concentration of the claims liabilities by type of contract:

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net amount as of December 31, 2013 |
|---|---|---|---|
| Life insurance | 1,488,843 | - | 1,488,843 |
| Obligatory and voluntary insurance from accidents | 9,908,392 | (2,862,291) | 7,046,101 |
| Annuity insurance | 7,193,375 | - | 7,193,375 |
| **Total** | **18,590,610** | **(2,862,291)** | **15,728,319** |

| In thousands of tenge | Insurance contract liabilities | Reinsurer's share | Net amount as of December 31, 2012 |
|---|---|---|---|
| Life insurance | 860,761 | - | 860,761 |
| Obligatory and voluntary insurance from accidents | 5,941,636 | (2,025,784) | 3,915,852 |
| Annuity insurance | 3,374,150 | - | 3,374,150 |
| **Total** | **10,176,547** | **(2,025,784)** | **8,150,763** |

## 26. RISK MANAGEMNT (CONTINUED)

### Reinsurance

In the normal course of business, the Company enters into obligatory reinsurance treaties with local and foreign reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risks or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

### Insurance reserves

The Company uses actuarial methods and assumption in estimation of insurance and reinsurance liabilities. Insurance reserves are disclosed in Notes 11 and 20. The Company performs analysis of changes in such reserves.

### Investment risk

The Company follows a number of principles in its investment policies based on the level of return, and level of accepted risk in appropriate period of time. Kazakh insurance companies are highly regulated by insurance supervisors and are not allowed to act as a professional participant in the securities' market. For this reason, the Company performs its investment activity through a brokerage company, which carries out such investment operations on the Company's behalf.

The Company's Investment portfolio consist of financial instruments that are selected in based on profitability, maturity and level of investment risk. Formed in such way portfolio provides steady income for the period of investment. Investment income usually is reinvested in order to increase the value of portfolio.

### Key assumptions

*Life insurance contracts*

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

*Mortality rates*

Assumptions are based on standard industry and national tables, according to the type of contract written. They reflect recent historical experience and are adjusted when appropriate to reflect the Company's own experience. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, age and contract type.

An increase in rates will lead to increase of losses, which will increase the expenditure and decrease profits for the shareholders.

## 26. RISK MANAGEMENT (CONTINUED)

*Expenses*

Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in the level of expenses would result in increase of liabilities thereby decreasing profits for the shareholders.

*Discount rate*

Life insurance liabilities are determined as the sum of discounted value of the expected benefits and future administration expenses directly related to the contract, less discounted value of the expected premiums that would be required to meet these future cash outflows. Discount rates are based on the current industry risk rates, adjusted for the Company's own risk exposure.

A decrease in the discount rates will increase the value of the insurance liability and therefore reduce profits for the shareholders.

*Sensitivity*

The analysis which follows is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net insurance contract liabilities and profit before tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

**December 31, 2013**

| In thousands of tenge | Change in assumptions | Increase/ (decrease) on gross insurance contract liabilities | Increase/ (decrease) on net insurance contract liabilities | Impact on profit before tax |
|---|---|---|---|---|
| Mortality | 20% | **(90,390)** | **(90,390)** | **90,390** |
| Expenses | 20% | **(133,987)** | **(133,987)** | **133,987** |
| Discount rate | -10% | **703,629** | **703,629** | **(703,629)** |
| Indexation of insurance payments | -20% | **(175,489)** | **(175,489)** | **175,489** |

The effect on gross and net insurance contract liabilities due to changes in assumptions is the same since life insurance reserves ceded to reinsurers is not calculated.

**December 31, 2012**

| In thousands of tenge | Change in assumptions | Increase/ (decrease) on gross insurance contract liabilities | Increase/ (decrease) on net insurance contract liabilities | Impact on profit before tax |
|---|---|---|---|---|
| Mortality | 20% | (260,458) | (260,458) | 260,458 |
| Expenses | 20% | (87,322) | (87,322) | 87,322 |
| Discount rate | -10% | 523,601 | 523,601 | (523,601) |
| Indexation of insurance payments | -10% | (36,830) | (36,830) | 36,830 |

## 26. RISK MANAGEMENT (CONTINUED)

The principal assumption underlying the liability estimates is the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs and claim numbers for each accident year.

For insurance contracts, claims provisions (comprising provisions for claims incurred but not settled and claims incurred but not reported by policyholders, IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on information available at the reporting date, including potential outstanding loss notifications, experience with similar claims and case law at the reporting date. The Company has used all possible and currently available information to estimate provision for claims reported by policyholders including claims' adjustment expenses according to every class of insurance contract.

As of December 31, 2013 the Company does not have enough statistical data for calculation of other insurance risks.

### Credit risk

The Company regularly monitors repayment of receivables for insurance and reinsurance. In the financial statements there are reserves for all doubtful amounts. Reinsurance counterparties are reliable insurers.

*The maximum exposure to credit risk*

The maximum exposure to credit risk of the Company may significantly vary depending on the individual risks of certain assets and general market risks.

For financial assets, the maximum exposure to credit risk is equal to the carrying amount of these assets before the effect of mitigation through the use of netting or collateral.

The following table details the financial assets of the Company's credit ratings by Standard and Poor's, Fitch's and Moody's as of December 31, 2013 and 2012.

| In thousands of tenge | «BBB-» to «BBB+» | «BB-» to «BB+» | «B-» to «B+» | Credit risk not assigned | December 31, 2013 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 899 | 36,358 | 129,759 | 128,161 | **295,177** |
| Amounts due from credit institutions | 1,906,750 | 2,070,080 | 7,165,086 | - | **11,141,916** |
| Reverse REPO operations | 1,064,499 | - | - | - | **1,064,499** |
| Available-for-sale investment securities | 1,385,806 | 2,037,158 | 32,350 | 90,516 | **3,545,830** |
| Held-to-maturity investment securities | 769,849 | 485,088 | 91,635 | 150,582 | **1,497,154** |
| Insurance and reinsurance receivables | - | - | - | 2,246,726 | **2,246,726** |
| | **5,127,803** | **4,628,684** | **7,418,830** | **2,615,985** | **19,791,302** |

## 26. RISK MANAGEMENT (CONTINUED)

### Credit risk (continued)

*The maximum exposure to credit risk (continued)*

| In thousands of tenge | «BBB-» to «BBB+» | «BB-» to «BB+» | «B-» to «B+» | Credit risk not assigned | December 31, 2012 |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | 134,958 | 285,636 | 161 | **420,755** |
| Amounts due from credit institutions | 1,185,987 | - | 4,213,240 | 231,400 | **5,630,627** |
| Available-for-sale investment securities | 394,290 | 438,382 | 786,937 | 101,314 | **1,720,923** |
| Held-to-maturity investment securities | 50,124 | 879,426 | 284,097 | 153,985 | **1,367,632** |
| Insurance and reinsurance receivables | - | - | - | 2,689,631 | **2,689,631** |
| | **1,630,401** | **1,452,766** | **5,569,910** | **3,176,491** | **11,829,568** |

Organization of the insurance industry is generally exposed to credit risk related to financial instruments. Company's credit risk is concentrated in the Republic of Kazakhstan. The exposure is monitored in order to ensure compliance with the limits on financial instruments and creditworthiness with guidelines established by the Company's risk management policy.

The following table shows the carrying value of impaired assets and unimpaired assets that are classified as past due debt:

| In thousands of tenge | Current assets impaired | Financial assets past due, unimpaired | Impaired financial assets | December 31, 2013 |
|---|---|---|---|---|
| Cash and cash equivalents | 295,177 | - | - | 295,177 |
| Amounts due from credit institutions | 11,141,916 | - | - | 11,141,916 |
| Reverse REPO operations | 1,064,499 | - | - | 1,064,499 |
| Available-for-sale investment securities | 3,545,830 | - | - | 3,545,830 |
| Held-to-maturity investment securities | 1,497,154 | - | 178,851 | 1,676,005 |
| Insurance and reinsurance receivables | 2,246,726 | - | - | 2,246,726 |
| | **19,791,302** | - | **178,851** | **19,970,153** |

| In thousands of tenge | Current assets impaired | Financial assets past due, unimpaired | Impaired financial assets | December 31, 2013 |
|---|---|---|---|---|
| Cash and cash equivalents | 420,755 | - | - | 420,755 |
| Amounts due from credit institutions | 5,630,627 | - | - | 5,630,627 |
| Available-for-sale investment securities | 1,720,923 | - | - | 1,720,923 |
| Held-to-maturity investment securities | 1,367,632 | - | 165,330 | 1,532,962 |
| Insurance and reinsurance receivables | 2,689,631 | - | - | 2,689,631 |
| | **11,829,568** | - | **165,330** | **11,994,898** |

## 26. RISK MANAGEMENT (CONTINUED)

### Geographical concentration

The geographical concentration of Company's assets and liabilities is presented below:

| In thousands of tenge | Kazakhstan | OECD countries | December 31, 2013 |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | 295,177 | - | **295,177** |
| Amounts due from credit institutions | 11,141,916 | - | **11,141,916** |
| Reverse REPO operations | 1,064,499 | - | **1,064,499** |
| Available-for-sale investment securities | 3,545,830 | - | **3,545,830** |
| Held-to-maturity investment securities | 1,497,154 | - | **1,497,154** |
| Insurance and reinsurance receivables | 2,246,726 | - | **2,246,726** |
| **Total financial assets** | **19,791,302** | - | **19,791,302** |
| **Liabilities:** | | | |
| Insurance and reinsurance payables | 682,722 | 155,952 | **838,674** |
| Other financial liabilities | 17,698 | - | **17,698** |
| **Total financial liabilities** | **700,420** | **155,952** | **856,372** |

| In thousands of tenge | Kazakhstan | OECD countries | December 31, 2013 |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | 420,755 | - | **420,755** |
| Amounts due from credit institutions | 5,630,627 | - | **5,630,627** |
| Available-for-sale investment securities | 1,720,923 | - | **1,720,923** |
| Held-to-maturity investment securities | 1,367,632 | - | **1,367,632** |
| Insurance and reinsurance receivables | 2,689,631 | - | **2,689,631** |
| **Total financial assets** | **11,829,568** | - | **11,829,568** |
| **Liabilities:** | | | |
| Insurance and reinsurance payables | 491,606 | 24,277 | **515,883** |
| Other financial liabilities | 51,579 | - | **51,579** |
| **Total financial liabilities** | **543,185** | **24,277** | **567,462** |

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The main liquidity risk facing the company is the daily demands on its available cash resources in respect to claims arising under insurance contracts.

The Company manages liquidity risk through the Company's policy on liquidity risk management, which defines what is liquidity risk for the Company, establishes minimum reserve funds to meet emergency demands for payment, establishes contingency funding plans, identifies sources of funding and the events that lead to the action plan, the concentration of funding sources, reporting on exposure to liquidity risk and violations to the supervisory authorities, monitoring of compliance with the policy on liquidity risk and review of policies for managing liquidity risk, compliance with the significance and with the changes in environmental conditions.

## 26. RISK MANAGEMENT (CONTINUED)

| In thousands of tenge | Average rate | 1-3 months | 3 month to 1 year | 1-5 years | More than 5 years | December 31, 2013 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Amounts due from credit institutions | 4% - 9% | 1,529,690 | 2,528,003 | 7,084,223 | - | **11,141,916** |
| Reverse REPO operations | 5% - 11% | 1,064,499 | - | - | - | **1,064,499** |
| Available-for-sale investment securities | 5.6% - 19,2% | 3,545,723 | - | - | - | **3,545,723** |
| Held-to-maturity investment securities | 8% - 16% | 56,981 | - | 1,440,066 | - | **1,497,047** |
| **Total interest bearing financial assets** | | **6,196,893** | **2,528,003** | **8,524,289** | - | **17,249,185** |
| Cash and cash equivalents | | 295,177 | - | - | - | **295,177** |
| Available-for-sale investment securities | | 2,246,726 | - | - | - | **2,246,726** |
| Insurance and reinsurance receivables | | - | - | - | 107 | **107** |
| **Total financial assets** | | **8,738,796** | **2,528,003** | **8,524,289** | **107** | **19,791,195** |
| **Financial liabilities** | | | | | | |
| Insurance and reinsurance payables | | 838,674 | - | - | - | **838,674** |
| Other financial liabilities | | 17,698 | - | - | - | **17,698** |
| **Total financial liabilities** | | **856,372** | - | - | - | **856,372** |
| Difference between financial assets and financial liabilities | | 7,882,531 | 2,528,003 | 8,524,289 | 107 | |
| Difference between interest bearing financial assets and interest bearing financial liabilities | | 6,197,000 | 2,528,003 | 8,524,289 | - | |
| **Difference between interest bearing financial assets and interest bearing financial liabilities, cumulative total** | | **6,197,000** | **8,725,003** | **17,249,292** | | |
| **Difference between interest bearing financial assets and interest bearing financial liabilities, in % of total financial assets, cumulative total** | | **31.31%** | **44.09%** | **87.16%** | | |

## 26. RISK MANAGEMENT (CONTINUED)

| In thousands of tenge | Average rate | 1-3 months | 3 month to 1 year | 1-5 years | More than 5 years | December 31, 2013 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Amounts due from credit institutions | 4% - 9% | 231,400 | 1,820,676 | 3,578,551 | - | **5,630,627** |
| Available-for-sale investment securities | 6% - 10% | 1,720,816 | - | - | - | **1,720,816** |
| Held-to-maturity investment securities | 8% - 16% | 156,687 | - | 1,210,945 | - | **1,367,632** |
| **Total interest bearing financial assets** | | **2,108,903** | **1,820,676** | **4,789,496** | - | **8,719,075** |
| Cash and cash equivalents | | 420,755 | - | - | - | **420,755** |
| Available-for-sale investment securities | | - | - | - | 107 | **107** |
| Insurance and reinsurance receivables | | 2,689,631 | - | - | - | **2,689,631** |
| **Total financial assets** | | **5,219,289** | **1,820,676** | **4,789,496** | **107** | **11,829,568** |
| **Financial liabilities** | | | | | | |
| Insurance and reinsurance payables | | 515,883 | - | - | - | **515,883** |
| Other financial liabilities | | 51,579 | - | - | - | **51,579** |
| **Total financial liabilities** | | **567,462** | - | - | - | **567,462** |
| | | | | | | |
| Difference between financial assets and financial liabilities | | 4,651,934 | 1,820,676 | 4,789,496 | 107 | |
| Difference between interest bearing financial assets and interest bearing financial liabilities | | 2,109,010 | 1,820,676 | 4,789,496 | - | |
| **Difference between interest bearing financial assets and interest bearing financial liabilities, cumulative total** | | **2,109,010** | **3,929,686** | **8,719,182** | | |
| **Difference between interest bearing financial assets and interest bearing financial liabilities, in % of total financial assets, cumulative total** | | **17.83%** | **33.22%** | **73.71%** | | |

## 26. RISK MANAGEMENT (CONTINUED)

The Company does not include insurance reserves in analysis of liquidity, including amounts from reinsures classified as reinsurers' assets, due to fact that reserves do not have estimated maturity date. Moreover, actual amount may differ from reserve amount and are not included in the table above.

### Market risk

The Company is also subject to market risk related to open positions in interest rate and currency influenced by general and specific fluctuations on market. The Company manage market risk by periodic estimate of potential expenses resulted from negative changes in market conditions, as well as setting and support of adequate limits on allowable losses and requirements in regard to rate of return.

| In thousands of tenge | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Change in market price | Change in market price | Change in market price | Change in market price |
| | **10%** | **-10%** | **10%** | **-10%** |
| Impact of on equity | **354,583** | **(354,583)** | 172,092 | (172,092) |

### Currency risk

In 2013 the financial assets were denominated in Tenge. Currency risk is the risk of change in value of financial instrument due to changes in foreign exchange rates that have effect on financial position and cash flow. As of reporting date most of the financial assets and liabilities were denominated in foreign currency, effect from change in foreign currency was non-significant on the statement of comprehensive income.

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of the internal audit.

## 27. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties or operations with related parties in accordance with definition under IFRS 24 "Related party Disclosure" are shown below. During consideration of existence of related party transactions attention is paid to nature of the relationships and not only to juridical relationships.

## 27. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2012, 2011 and January 1, 2011 the Company had the following related party transactions:

The outstanding balances of related party transactions are as follows:

| In thousands of tenge | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Operations with related parties | Total category as per financial statements | Operations with related parties | Total category as per financial statements |
| Insurance and reinsurance payables | **36,565** | **838,674** | **1,083** | **515,883** |
| *- other related parties* | 36,565 | - | 1,083 | - |
| **Other liabilities** | **2,531** | **235,419** | **322** | **248,573** |
| *- other related parties* | 2,121 | - | 185 | - |
| *- key management personnel of the Company* | 410 | - | 137 | - |
| **Unearned premiums reserve** | - | **5,685,973** | **2,872** | **4,960,151** |

In the statement of comprehensive income for the years ended December 31, 2013 and 2012 the following amounts which arose due to transactions with related parties were reflected:

| In thousands of tenge | 2013 | | 2012 | |
|---|---|---|---|---|
| | Operations with related parties | Total category as per financial statements | Operations with related parties | Operations with related parties |
| **Gross earned premiums** | **385** | **18,433,325** | 2 | **18,434,165** |
| *- other related parties* | 154 | - | 2 | - |
| *- key management personnel of the Company* | 231 | - | - | - |
| **Premium ceded to reinsurers** | - | **(4,442,430)** | **644,790** | **(4,059,541)** |
| *- other related parties* | | | 644,790 | |
| **Paid claims, gross** | - | **(2,749,464)** | - | **(6,742,929)** |
| **Payroll and other expenses** | **52,168** | **(472,519)** | **53,041** | **(353,422)** |
| *- key management personnel of the Company* | 52,168 | - | 53,041 | - |
| **Administrative and operating expenses** | **44,309** | **(517,637)** | - | **(496,356)** |
| *- other related parties* | 2,121 | - | - | - |
| *- key management personnel of the Company* | 42,188 | - | - | - |

Wages, salaries and other benefits paid to key management personnel represent the short term compensation.

## 28. SOLVENCY MARGIN ADEQUACY RATIO

### Regulatory solvency ratio

The Financial Market Supervision Committee (the "FMSC") requires insurance companies to maintain solvency margin at the level of no less than one, which is calculated based on the financial statements of the Company prepared in accordance with the FMSC instructions. As of 31 December 2013 and 2012, the Company complies with the solvency margins adequacy ratio which is as in the following table:

| In thousands of tenge | 2013 | 2012 |
|---|---|---|
| Actual solvency margin | 2,710,550 | 1,203,995 |
| Minimum solvency margin | 1,440,889 | 1,100,661 |
| **Solvency margin** | **1.88** | **1.09** |

## 29. SUBSEQUENT EVENTS

On February 11, 2014 the National Bank of the Republic of Kazakhstan decided not to maintain an exchange rate of tenge at its level. Thus, the dollar and euro rates as of date of the approval of these financial statements equal to 182.06 tenge and increased by 20%. The devaluation has no significant effect on the financial statements as of December 31, 2013 and for the year then ended.