# JOINT STOCK COMPANY
# "EXIMBANK KAZAKHSTAN"

**Financial Statements**
For the Year Ended 31 December 2012

## JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

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## JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management is responsible for the preparation of the financial statements that present fairly the financial position of Joint Stock Company "Eximbank Kazakhstan" ("the Bank") as at 31 December 2012, and the results of its operations, cash flows and changes in 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;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements for the year ended 31 December 2012 were approved by the Management Board of the Bank on 15 April 2013.

**On behalf of the Management Board:**

| | |
|---|---|
| **Prikhozhan D.A.** | **Krivtsova T.L.** |
| **Chairman of the Board** | **Chief Accountant** |
| 15 April 2013 | 15 April 2013 |
| Almaty, Kazakhstan | Almaty, Kazakhstan |

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# INDEPENDENT AUDITORS' REPORT

To: Shareholders and Board of Directors of Joint Stock Company "Eximbank Kazakhstan"

We have audited the accompanying financial statements of Joint Stock Company "Eximbank Kazakhstan" ("the Bank"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

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

**Auditors' responsibility**

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company "Eximbank Kazakhstan" as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP

Deloitte.

Deloitte, LLP
State license on auditing of the Republic of Kazakhstan
No. 0000015, type MFU-2, given by
the Ministry of Finance of the Republic of Kazakhstan
dated 13 September 2006

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

15 April 2013
Almaty, Kazakhstan

# JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2012

*(in thousands of Kazakhstani Tenge, except for earnings per share which are in Tenge)*

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| Interest income | 3, 24 | 7,066,075 | 8,253,657 |
| Interest expense | 3, 24 | (3,488,416) | (4,688,161) |
| NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 3,577,659 | 3,565,496 |
| Provision for impairment losses on interest bearing assets | 4, 24 | (2,641,209) | (2,940,322) |
| NET INTEREST INCOME | | 936,450 | 625,174 |
| Net gain/(loss) on financial assets and liabilities at fair value through profit or loss | 5 | 66,448 | (41,812) |
| Income from repurchase of debt securities issued | | - | 32,484 |
| Net gain on foreign exchange operations | 6 | 434,928 | 506,181 |
| Fee and commission income | 7, 24 | 1,046,983 | 717,532 |
| Fee and commission expense | 7 | (9,211) | (8,761) |
| Recovery of provision for impairment losses on other operations | 4 | 3,167 | 115,546 |
| Other (expenses)/income | | (8,451) | 3,400 |
| NET NON-INTEREST INCOME | | 1,533,864 | 1,324,570 |
| OPERATING INCOME | | 2,470,314 | 1,949,744 |
| OPERATING EXPENSES | 8, 24 | (1,674,599) | (1,417,072) |
| PROFIT BEFORE INCOME TAX | | 795,715 | 532,672 |
| Income tax expense | 9 | (284,456) | (132,861) |
| NET PROFIT | | 511,259 | 399,811 |
| OTHER COMPREHENSIVE INCOME | | | |
| Revaluation of property and equipment, net of tax of 17,803 thousand tenge | | 11,870 | - |
| OTHER COMPREHENSIVE INCOME AFTER INCOME TAX | | 11,870 | - |
| TOTAL COMPREHENSIVE INCOME | | 523,129 | 399,811 |
| EARNINGS PER SHARE | | | |
| Basic and diluted (KZT) | 10 | 53.95 | 42.17 |

**On behalf of the Management Board:**

| | |
|---|---|
| **Prikhozhan D.A.** | **Krivtsova T.L.** |
| **Chairman of the Board** | **Chief Accountant** |
| 15 April 2013 | 15 April 2013 |
| Almaty, Kazakhstan | Almaty, Kazakhstan |

The notes on pages 9-60 form an integral part of these financial statements.

# JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2012
*(in thousands of Kazakhstani Tenge)*

| | Notes | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 11 | 8,536,418 | 11,639,533 |
| Financial assets at fair value through profit or loss | 12 | 1,013,018 | 1,438,283 |
| Due from banks | 13 | 383,460 | 2,338,179 |
| Loans to customers | 14, 24 | 65,267,856 | 68,549,708 |
| Property, equipment and intangible assets | 15 | 1,753,659 | 1,822,963 |
| Current income tax assets | | - | 111,343 |
| Other assets | 16, 24 | 126,759 | 147,871 |
| TOTAL ASSETS | | 77,081,170 | 86,047,880 |
| **LIABILITIES AND EQUITY:** | | | |
| LIABILITIES: | | | |
| Due to banks | 17 | 4,351,018 | 1,102,536 |
| Customer accounts | 18, 24 | 45,447,135 | 54,488,630 |
| Debt securities issued | 19 | 12,562,835 | 16,292,855 |
| Deferred income tax liabilities | 9 | 94,999 | 97,384 |
| Current income tax liabilities | | 75,322 | - |
| Other liabilities | 20 | 156,104 | 190,312 |
| | | 62,687,413 | 72,171,717 |
| Subordinated debt | 21 | 1,998,384 | 1,998,956 |
| Total liabilities | | 64,685,797 | 74,170,673 |
| EQUITY: | | | |
| Share capital | 22 | 11,900,000 | 11,900,000 |
| Treasury shares | | (166,151) | (160,673) |
| Negative reserve, liability component of preferred shares | | (1,800,341) | (1,800,856) |
| Property and equipment revaluation reserve | | 512,548 | 513,982 |
| Retained earnings | | 1,949,317 | 1,424,754 |
| Total equity | | 12,395,373 | 11,877,207 |
| TOTAL LIABILITIES AND EQUITY | | 77,081,170 | 86,047,880 |

**On behalf of the Management Board:**

**Prikhozhan D.A.**
**Chairman of the Board**

15 April 2013
Almaty, Kazakhstan

**Krivtsova T.L.**
**Chief Accountant**

15 April 2013
Almaty, Kazakhstan

The notes on pages 9-60 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

*(in thousands of Kazakhstani Tenge)*

| | Share capital: ordinary shares | Share capital: preferred shares | Share capital: total | Treasury shares: ordinary shares | Treasury shares: preferred shares | Treasury shares: total | Negative reserve, liability component of preferred shares | Property and equipment revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2010** | 9,700,000 | 2,200,000 | 11,900,000 | (140,938) | (20,623) | (161,561) | (1,800,196) | 524,417 | 1,014,508 | 11,477,168 |
| Total comprehensive income for the year | - | - | - | - | - | - | - | - | 399,811 | 399,811 |
| Treasury shares purchased | - | - | - | (10) | - | (10) | - | - | - | (10) |
| Treasury shares sold | - | - | - | - | 898 | 898 | - | - | - | 898 |
| Changes in negative reserve, liability component of preferred shares | - | - | - | - | - | - | (660) | - | - | (660) |
| Depreciation of property and equipment revaluation reserve | - | - | - | - | - | - | - | (10,435) | 10,435 | - |
| **As at 31 December 2011** | 9,700,000 | 2,200,000 | 11,900,000 | (140,948) | (19,725) | (160,673) | (1,800,856) | 513,982 | 1,424,754 | 11,877,207 |
| Total comprehensive income for the year | - | - | - | - | - | - | - | 11,870 | 511,259 | 523,129 |
| Treasury shares purchased | - | - | - | (4,855) | (623) | (5,478) | - | - | - | (5,478) |
| Changes in negative reserve, liability component of preferred shares | - | - | - | - | - | - | 515 | - | - | 515 |
| Depreciation of property and equipment revaluation reserve | - | - | - | - | - | - | - | (13,304) | 13,304 | - |
| **As at 31 December 2012** | 9,700,000 | 2,200,000 | 11,900,000 | (145,803) | (20,348) | (166,151) | (1,800,341) | 512,548 | 1,949,317 | 12,395,373 |

**On behalf of the Management Board:**

**Prikhozhan D.A.**
**Chairman of the Board**

15 April 2013
Almaty, Kazakhstan

**Krivtsova T.L.**
**Chief Accountant**

15 April 2013
Almaty, Kazakhstan

The notes on pages 9-60 form an integral part of these financial statements.

# JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2012
*(in thousands of Kazakhstani Tenge)*

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Interest and income received from financial assets at fair value through profit or loss | | 42,900 | 1,515 |
| Interest received on due from banks | | 2,134 | 873 |
| Interest received on loans to customers | | 3,756,301 | 3,681,235 |
| Interest paid on due to banks | | (60,082) | (109,949) |
| Interest paid on customer accounts | | (2,030,655) | (2,186,020) |
| Interest paid on debt securities issued | | (1,243,515) | (1,479,152) |
| Fee and commission received | | 1,041,470 | 713,461 |
| Fee and commission paid | | (9,211) | (8,761) |
| Dealing gain received on foreign exchange operations | | 457,387 | 527,608 |
| Other income | | - | 3,980 |
| Operating expenses paid | | (1,460,826) | (1,288,150) |
| Cash inflow/(outflow) from operating activities before changes in operating assets and liabilities | | 495,903 | (143,360) |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Financial assets at fair value through profit or loss | | 493,209 | (1,320,227) |
| Loans to customers | | 3,961,510 | 466,488 |
| Other assets | | (6,635) | 160,717 |
| Increase/(decrease) in operating liabilities: | | | |
| Due to banks | | 3,175,600 | 74,150 |
| Customer accounts | | (8,745,538) | 1,180,429 |
| Other liabilities | | (30,184) | (114,310) |
| Cash (outflow)/inflow from operating activities before taxation | | (656,135) | 303,887 |
| Income taxes paid | | (125,922) | (232,299) |
| Net cash (outflow)/inflow from operating activities | | (782,057) | 71,588 |

## STATEMENTS OF CASH FLOWS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2012
*(in thousands of Kazakhstani Tenge)*

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| **CASH FLOWS USED IN INVESTING ACTIVITIES:** | | | |
| Purchase of property, equipment and intangible assets | | (96,234) | (364,576) |
| Proceeds on sale of property and equipment | | 5,000 | 321,484 |
| Net cash outflow from investing activities | | (91,234) | (43,092) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from debt securities issued | | 1,202,005 | 298,900 |
| Repurchase of debt securities issued | | - | (544,746) |
| Maturity of debt securities issued | | (5,187,000) | - |
| Dividends paid on preferred shares | | (198,044) | (198,027) |
| Proceeds on re-sale of preferred treasury shares | | - | 898 |
| Repurchase of ordinary shares | | (4,855) | (10) |
| Repurchase of preferred shares | | (623) | - |
| Net cash outflow from financing activities | | (4,188,517) | (442,985) |
| *Effect of changes in foreign exchange rate on cash and cash equivalents* | | 3,974 | (2,794) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (5,057,834) | (417,283) |
| CASH AND CASH EQUIVALENTS, beginning of the year | 11 | 13,977,712 | 14,394,995 |
| CASH AND CASH EQUIVALENTS, end of the year | 11 | 8,919,878 | 13,977,712 |

**On behalf of the Management Board:**

**Prikhozhan D.A.**
**Chairman of the Board**

15 April 2013
Almaty, Kazakhstan

**Krivtsova T.L.**
**Chief Accountant**

15 April 2013
Almaty, Kazakhstan

The notes on pages 9-60 form an integral part of these financial statements.

*(in thousands of Kazakhstani Tenge)*

## 1. ORGANISATION

Joint Stock Company "Eximbank Kazakhstan" ("the Bank") is a joint-stock company and operates in the Republic of Kazakhstan since 1994. The Bank is regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") and by the Committee for Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan ("FMSC" – previously known as Agency for Regulation and Supervision of Financial Market and Financial Organizations of the Republic of Kazakhstan or the "FMSA") under license #232 dated 20 June 2008 for activities regulated by banking law in national and foreign currency. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank's registered legal address is 80 Bogenbay Batyr street, Almaty, Republic of Kazakhstan.

As at 31 December 2012 and 2011, the Bank had 4 branches in the Republic of Kazakhstan. The total number of employees of the Bank as at 31 December 2012 and 2011 was 279 and 260 respectively.

In December 2012 JSC "Central-Asian Power-Energy Company", the major shareholder of the Bank, sold 4,008,281 shares of the Bank (41.33% of its ownership share), which resulted in decrease of its ownership share to 24.41%. However, as at 31 December 2012 the ultimate shareholders of the Bank remained the same. The Bank is ultimately controlled by Alexander Klebanov, Sergey Kan and Erkyn Amirkhanov.

As at 31 December 2012 and 2011, the following shareholders owned the issued ordinary shares of the Bank:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | **Number of shares** | **% of direct ownership** | **Number of shares** | **% of direct ownership** |
| JSC "Central-Asian Power-Energy Company" | 2,368,090 | 24.41 | 6,376,371 | 65.74 |
| JSC "APF Astana" | 947,581 | 9.77 | 947,966 | 9.77 |
| LLP "Centerstroyenergy" | 927,095 | 9.56 | 812,533 | 8.38 |
| LLP "Impuls-R" | 921,112 | 9.50 | - | - |
| LLP "Trusttechnoinvest" | 920,200 | 9.49 | - | - |
| LLP "AG Invest" | 898,118 | 9.26 | - | - |
| LLP "Alatau Kaztechnokom" | 657,335 | 6.77 | - | - |
| LLP "Kazdieselastyk" | 599,530 | 6.18 | 599,530 | 6.18 |
| LLP "Agroopttorg-07" | 529,412 | 5.46 | - | - |
| JSC "Investment Technologies" | - | - | 225,738 | 2.33 |
| Other shareholders owning less than 5% of shares | 707,676 | 7.30 | 518,465 | 5.34 |
| Shares repurchased | 223,851 | 2.30 | 219,397 | 2.26 |
| **Total** | 9,700,000 | 100.00 | 9,700,000 | 100.00 |

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

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

### Other basis of presentation criteria

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

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 28.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

### Functional currency

These financial statements are presented in thousands of Kazakhstani tenge ("KZT" or "Tenge"), unless otherwise indicated. Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that Bank (the "functional currency"). The functional currency of the financial statements is Kazakhstani tenge.

The principal accounting policies are set out below.

### Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss (FVTPL).

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

Interest earned on assets at fair value is classified within interest income.

**Recognition of fee and commission income and expense**

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided or received.

**Financial instruments**

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

**Financial assets**

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments ("HTM"), available-for-sale financial assets ("AFS") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 26.

**Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank 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 impairment.

If the Bank 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 have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

**Available-for-sale investments**

Available-for-sale investments 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 held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized 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, and foreign exchange gains and losses on monetary assets, which are recognized 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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

**Loans and receivables**

Due from banks, loans to customers, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Renegotiated loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to impairment assessment, calculated using the loan's original effective interest rate.

**Write off of loans and advances**

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

**Derecognition of financial assets**

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecogntion of a financial asset other than it is entirety (e.g. when the Bank retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Derivative financial instrument is a financial liability classified as held for trading.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 26.

**Other financial liabilities**

Other financial liabilities, including due to banks, customer accounts, debt securities issued, other borrowed funds, other liabilities and subordinated debt are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Derecognition of financial liabilities**

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

**Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

**Derivative financial instruments**

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the statement of financial position. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income if material, otherwise in Net gain/loss on foreign exchange operations.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan and due from banks with original maturity within 90 days.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**Property, equipment and intangible assets**

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization, and recognized impairment loss, if any, except for the land and buildings, which are carried at revalued amounts less accumulated depreciation and impairment loss, if any.

Depreciation and amortization are charged on the carrying value of property, equipment and intangible assets and are designed to write off assets over their useful economic lives. Depreciation and amortization are calculated on a straight line basis at the following annual prescribed rates:

| | |
|---|---|
| Buildings | 2.5% |
| Computers | 40% |
| Vehicles | 25% |
| Other fixed assets | 15% |
| Intangible assets | 15% |

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

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

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

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

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**Current and deferred tax for the year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

**Operating taxes**

The Republic of Kazakhstan where the Bank operates also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

**Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Contingencies**

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

**Foreign currencies**

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| KZT/1 US Dollar | 150.74 | 148.40 |
| KZT/1 Euro | 199.22 | 191.72 |

**Collateral**

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

**Share capital and equity reserves**

Contributions to share capital are recognized at cost. Costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is either charged to additional paid-in capital (if positive) or to retained earnings (if negative).

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

The reserves recorded in equity on the Bank's statement of financial position include 'other capital reserve' which comprises changes in fair value of property and equipment.

**Preferred shares**

Preferred shares, for which dividends are set, are considered as combined financial instruments according to the nature of a contractual agreement, accordingly the components of the liability and equity are presented separately in the statement of financial position. Upon the initial recognition the component of the equity is assigned the net book value after deduction from initial carrying value of the instrument of the fair value of the component of the liability. Upon the initial recognition the fair value of the component of the liability is measured by discounting the expected future cash flows at the market rate similar to a debt instrument. Subsequently the component of the liability is measured according to the same principles as the subordinated debt and the component of the equity is measured according to the same principles as for the share capital.

**Retirement and other benefit obligation**

In accordance with the requirements of the legislation of the Republic of Kazakhstan, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Bank's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Impairment of loans and receivables*

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

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

As at 31 December 2012 and 2011 the gross loans to customers totalled KZT 75,709,423 thousand and KZT 79,828,899 thousand, respectively, and allowance for impairment losses amounted to KZT 10,441,567 thousand and KZT 11,279,191 thousand, respectively.

*Property and equipment*

Certain property (land and buildings) are measured at revalued amounts. The latest revaluation was conducted as at 1 October 2012. The next revaluation is preliminarily planned to be performed in 2015. As at 31 December 2012 and 2011, the carrying amount of revalued property amounted to KZT 947,301 thousand and KZT 969,026 thousand, respectively.

**Segment reporting**

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Bank measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the Bank's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the Bank's revenue is included in reportable segments.

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

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Bank's annual financial statements for the year ended 31 December 2012:

IFRS 7 "Financial Instruments: Disclosures". The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

Amendments to IAS 12 Income Taxes "Deferred tax: Recovery of Underlying Assets".
The Bank has applied the amendments to IAS 12 Income taxes "Deferred tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 Income taxes "Deferred tax: Recovery of Underlying Assets" did not have an effect on the Bank's financial statements.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Bank.

**New and revised IFRSs in issue but not yet effective**

At the date of authorization of these financial statements, the following new standards and interpretations were in issue, but not yet effective, and which the Bank has not early adopted:

- IFRS 9 "Financial Instruments";
- IFRS 10 "Consolidated Financial Statements"[2];
- IFRS 11 "Joint Arrangements"[2];
- IFRS 12 "Disclosure of Interest in Other Entities"[2];
- IFRS 13 "Fair Value Measurement"[1];
- Amendments to IFRS 7 Financial Instruments: Disclosures – "Disclosures – Offsetting Financial Assets and Financial Liabilities"[1];
- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"[3];
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interest in Other Entities – "Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance"[1];
- IAS 19 (as revised in 2011) Employee Benefits[1];
- IAS 27 (as revised in 2011) Separate Financial Statements[2];
- IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures[2];
- Amendments to IAS 32 Financial Instruments: Presentation – "Offsetting Financial Assets and Financial Liabilities"[4];
- Amendments to IFRSs – Annual Improvements to IFRSs (2009-2011 cycle)[1].

[1] Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
[2] Each of the five standards becomes effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).
[3] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
[4] Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

### *IFRS 9 Financial Instruments*

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

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Bank management anticipates that IFRS 9 that will be adopted in the Bank's financial statement for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### *IFRS 10 Consolidated Financial Statements*

Replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

*IFRS 11 Joint Arrangements*

Replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.

- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.

- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

*IFRS 12 Disclosure of Interests in Other Entities*

Requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

*IFRS 13 Fair Value Measurement*

Establishes a single source of guidance for fair value measurements and disclosures about fair value measurements.. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 *Fair Value Measurement* are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 *Fair Value Measurement* to cover all assets and liabilities within its scope.

The Bank is currently assessing the impact of the new and amended standards on its financial statements.

***Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation – "Offsetting Financial Assets and Financial Liabilities and the related disclosures"***

The amendments to IAS 32 Financial Instruments: Presentation clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 Financial Instruments: Disclosures require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The disclosures should be provided retrospectively for all comparative periods.

The Bank management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

***IAS 19 Employee Benefits***

The amendments to IAS 19 Employee Benefits change the accounting for defined benefit plans and termination benefits and a definition of short-term benefits. The most significant change relates to

the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 Employee Benefits and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 Employee Benefits are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 Employee Benefits require retrospective application. The Bank management does not anticipate that the revision of IAS 19 Employee Benefits will have a significant effect on the Bank's financial statements as the Bank has not defined benefit plans.

***IAS 27 (2011) Separate Financial Statements***

Includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

***IAS 28 (2011) Investments in Associates and Joint Ventures***

Now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

***Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012***

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. Amendments to IFRSs include:

***Amendments to IAS 32 Financial Instruments: Presentation***

The amendments to IAS 32 Financial Instruments: Presentation clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The Bank management anticipates that the amendments to IAS 32 Financial Instruments: Presentation will have no effect on the Bank's financial statements as the Bank has already adopted this treatment.

***Amendments to IAS 1 Presentation of Financial Statements***

Revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The Bank does not expect this amendment to have a material impact on its financial position or results of operations.

## 3. NET INTEREST INCOME

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Interest income comprises:** | | |
| Interest income on financial assets recorded at amortized cost: | | |
| - interest income on impaired financial assets | 3,120,379 | 4,103,743 |
| - interest income on unimpaired financial assets | 3,906,608 | 4,148,399 |
| Interest on financial assets at fair value | 39,087 | 1,515 |
| Interest income on financial assets held to maturity | 1 | - |
| **Total interest income** | 7,066,075 | 8,253,657 |
| Interest income on financial assets recorded at amortized cost comprises: | | |
| Interest on loans to customers | 7,024,847 | 8,251,272 |
| Interest on due from banks | 2,140 | 870 |
| Interest on financial assets held to maturity | 1 | - |
| Total interest income on financial assets recorded at amortized cost | 7,026,988 | 8,252,142 |
| Interest income on financial assets at fair value: | | |
| Interest income on financial assets at fair value through profit or loss | 39,087 | 1,515 |
| Total interest income on financial assets at fair value | 39,087 | 1,515 |
| **Total interest income** | 7,066,075 | 8,253,657 |
| **Interest expense comprises:** | | |
| Interest expense on financial liabilities at amortized cost | (3,488,416) | (4,688,161) |
| **Total interest expense** | (3,488,416) | (4,688,161) |
| Interest expense on financial liabilities at amortized cost comprise: | | |
| Interest on customer accounts | (1,660,397) | (2,524,216) |
| Interest on debt securities issued | (1,498,490) | (1,862,095) |
| Interest (dividends) on subordinated debt (preferred shares) | (197,987) | (198,100) |
| Interest on due to banks | (131,542) | (103,750) |
| Total interest expense on financial liabilities recorded at amortized cost | (3,488,416) | (4,688,161) |
| **Net interest income before provision for impairment losses on interest bearing financial assets** | 3,577,659 | 3,565,496 |

## 4. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on interest bearing assets were as follows:

| | 2012 | 2011 |
|---|---|---|
| **Loans to customers** (Note 14) | | |
| **As at 1 January** | 11,279,191 | 8,311,178 |
| Additional provision recognized | 2,641,209 | 2,940,322 |
| Write-off of loans | (3,479,784) | - |
| Recovery of loans previously written off | 951 | 27,691 |
| **As at 31 December** | 10,441,567 | 11,279,191 |

The carrying amount and net carrying amount of the loans written-off comprised KZT 3,479,784 thousand and KZT Nil, respectively. Though the amounts were written-off, the Bank did not stop its efforts to collect those loans by repossessing existing property or cash through judicial or extrajudicial procedure for purposes of overdue loans repayment or filing bankruptcy procedures..

The movements in allowances for impairment losses on other operations were as follows:

| | **Other assets** (Note 16) | **Contingent liabilities** (Note 23) | **Total** |
|---|---|---|---|
| **31 December 2010** | 315,979 | 96,593 | 412,572 |
| Recovery of provision | (19,044) | (96,502) | (115,546) |
| Write-off of provision | (293,265) | - | (293,265) |
| **31 December 2011** | 3,670 | 91 | 3,761 |
| (Recovery of provision)/additional provision recognized | (3,693) | 526 | (3,167) |
| Recovery of provision previously written off | 23 | - | 23 |
| **31 December 2012** | - | 617 | 617 |

## 5. NET GAIN/(LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| **Net gain/(loss) on financial assets and liabilities held for trading:** | | |
| Net gain/(loss) on operations with securities | 66,448 | (41,812) |
| **Total net gain/(loss) on financial assets and liabilities held for trading** | 66,448 | (41,812) |
| **Net gain/(loss) on operations with securities:** | | |
| Dealing, net | 75,693 | 9,880 |
| Dividends received | 54,380 | 6,910 |
| Fair value adjustment | (63,625) | (58,602) |
| **Total net gain/(loss) on operations with securities** | 66,448 | (41,812) |

## 6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Dealing, net | 457,387 | 527,608 |
| Translation differences, net | (22,459) | (21,427) |
| **Total net gain on foreign exchange operations** | 434,928 | 506,181 |

## 7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income comprise:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Bank guarantees issued | 827,422 | 504,655 |
| Settlements | 117,547 | 106,129 |
| Cash operations | 50,348 | 52,300 |
| Foreign exchange operations | 41,359 | 42,242 |
| Opening and maintaining customer accounts | 6,411 | 5,095 |
| Letters of credit | - | 3,835 |
| Other | 3,896 | 3,276 |
| **Total fee and commission income** | 1,046,983 | 717,532 |

Fee and commission expense comprise:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Settlements | 5,427 | 5,620 |
| Card account services | 1,462 | 1,187 |
| Information services and updates | 973 | 1,019 |
| Opening and maintaining customer accounts | 931 | 751 |
| Bank guarantees issued | 406 | 98 |
| Cash services | 2 | 82 |
| Other | 10 | 4 |
| **Total fee and commission expense** | 9,211 | 8,761 |

## 8. OPERATING EXPENSES

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Salary and bonuses | 749,636 | 694,033 |
| Security expenses | 142,939 | 125,355 |
| Depreciation and amortization | 141,716 | 124,887 |
| Telecommunications | 83,380 | 84,904 |
| Social tax | 74,978 | 48,959 |
| Taxes, other than income tax | 70,775 | 31,783 |
| Rent expenses | 70,456 | 62,479 |
| Business trip expenses | 48,502 | 28,981 |
| Value added tax | 46,239 | 39,936 |
| Professional services | 41,187 | 33,153 |
| Transportation expenses | 39,880 | 32,884 |
| Impairment loss of property and equipment | 32,143 | - |
| Property and equipment maintenance | 25,483 | 20,599 |
| Training and information services | 21,693 | 20,496 |
| Charity and sponsorship expenses | 12,100 | 17,580 |
| Insurance expenses | 4,776 | 4,136 |
| Advertising costs | 4,720 | 3,392 |
| Mail and courier expenses | 3,889 | 5,107 |
| Stationery | 3,744 | 4,509 |
| Representative expenses | 384 | 2,226 |
| Other expenses | 55,979 | 31,673 |
| **Total operating expense** | 1,674,599 | 1,417,072 |

## 9. INCOME TAX

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Kazakhstan which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012 and 2011 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% for the years ended 31 December 2012 and 2011, payable by corporate entities in the Republic of Kazakhstan on taxable profits (as defined) under tax law in that jurisdiction.

Temporary differences as at 31 December 2012 and 2011 comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Taxable/(deductible) temporary differences:** | | |
| Property, equipment and intangible assets | 557,989 | 507,049 |
| Allowance for impairment losses (loans to customers) | 16,039 | 78,421 |
| Provisions for vacations and bonuses on prior year results | (47,207) | (38,312) |
| Unrealized expense from revaluation of securities | (51,825) | (60,240) |
| **Total taxable temporary differences** | 474,996 | 486,918 |
| Net deferred taxable temporary differences | (474,996) | (486,918) |
| Net deferred tax liability at statutory tax rate | (94,999) | (97,384) |
| **Net deferred income tax liabilities** | (94,999) | (97,384) |

Reconciliation between income tax expense and accounting profit for the years ended 31 December 2012 and 2011, is as follows:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Profit before income tax | 795,715 | 532,672 |
| Tax at the statutory tax rate | 159,143 | 106,534 |
| Adjustments for current income tax of prior periods recognised in the current period | (14,370) | (42,988) |
| Tax effect of permanent differences | 139,683 | 69,315 |
| Income tax expense | 284,456 | 132,861 |
| | | |
| Current income tax expense | 319,014 | 177,558 |
| Adjustments for current income tax of prior periods recognised in the current period | (14,370) | (42,988) |
| Decrease of deferred income tax expenses | (20,188) | (1,709) |
| Income tax expense | 284,456 | 132,861 |

| **Deferred income tax liabilities** | **2012** | **2011** |
|---|---|---|
| **As at 1 January** | 97,384 | 99,093 |
| Change in deferred income tax recognized in profit or loss | (20,188) | (1,709) |
| Change in deferred income tax recognized in other comprehensive income | 17,803 | - |
| **As at 31 December** | 94,999 | 97,384 |

## 10. EARNINGS PER SHARE

According to Kazakhstan legislation on Joint Stock Companies dividend payments per ordinary share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preferred shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Profit:** | | |
| Net income | 511,259 | 399,811 |
| Less: Additional dividends that would be paid on full distribution of profit to the preferred shareholders* | - | - |
| Net profit for the year attributable to the shareholders owning ordinary shares | 511,259 | 399,811 |
| Weighted average number of ordinary shares for purposes of determining basic and diluted earnings per share | 9,476,454 | 9,480,612 |
| **Basic and diluted earnings per share (KZT)** | 53.95 | 42.17 |

* The calculation of basic and diluted earnings per share includes only earnings attributable to holders of ordinary shares because dividends already paid on preferred shares are greater than that would be paid on full distribution of current period earnings.

On 8 November 2010, Kazakhstan Stock Exchange enacted new rules for listed companies that require presentation of book value of one share in the financial statements of the listed companies.

The book value of one share per each class of shares as at 31 December 2012 and 2011 is as follows.

| | | 31 December 2012 | |
|---|---|---|---|
| **Class of shares** | **Outstanding shares** | **Equity** | **Book value of one share, in KZT** |
| Ordinary | 9,476,149 | 11,961,165 | 1,262.24 |
| Preferred | 1,980,434 | 2,377,695 | 1,200.59 |
| | | 14,338,860 | |

| | | 31 December 2011 | |
|---|---|---|---|
| **Class of shares** | **Outstanding shares** | **Equity** | **Book value of one share, in KZT** |
| Ordinary | 9,480,603 | 11,416,804 | 1,204.23 |
| Preferred | 1,981,000 | 2,378,375 | 1,200.59 |
| | | 13,795,179 | |

## 11. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Balances with the National Bank of the Republic of Kazakshtan | 8,310,649 | 11,356,410 |
| Cash on hand | 225,769 | 283,123 |
| **Total cash and balances with the National Bank of the Republic of Kazakhstan** | 8,536,418 | 11,639,533 |

The balances with the National Bank of the Republic of Kazakhstan as at 31 December 2012 and 2011 include KZT 730,465 thousand and KZT 2,120,462 thousand, respectively, which represents the minimum reserve deposits required by the NBRK. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Balances with the NBRK | 8,536,418 | 11,639,533 |
| Due from banks | 383,460 | 2,338,179 |
| **Total cash and cash equivalents** | 8,919,878 | 13,977,712 |

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Financial assets held for trading:** | | |
| Debt securities | 887,767 | 1,125,394 |
| Equity securities | 125,251 | 312,889 |
| **Total financial assets at fair value through profit or loss** | 1,013,018 | 1,438,283 |

Financial assets held for trading comprise:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Nominal interest rate, % | Fair value | Nominal interest rate, % | Fair value |
| **Debt securities:** | | | | |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan | 4.30 – 5.00 | 887,767 | 4.30 -5.00 | 928,748 |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan* | - | - | - | 196,646 |
| **Total debt securities** | | 887,767 | | 1,125,394 |

* - As at 31 December 2012, Treasury bills of the Ministry of Finance of the Republic of Kazakhstan, which have no nominal interest rate, matured. As at 31 December 2011, the yield on those bonds amounted to 1.48%.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Ownership interest, % | Fair value | Ownership interest, % | Fair value |
| **Equity securities:** | | | | |
| Kazakhmys PLC | 0.02 | 85,177 | 0.02 | 215,722 |
| JSC Kazakhtelecom | 0.02 | 33,078 | - | - |
| ENRC PLC | 0.00 | 6,996 | - | - |
| OJSC Sberbank of Russia | - | - | 0.00 | 97,167 |
| **Total equity securities** | | 125,251 | | 312,889 |
| **Total financial assets held for trading** | | 1,013,018 | | 1,438,283 |

As at 31 December 2012 and 2011, accrued interest included in the financial assets at fair value through profit or loss amounted to KZT 11,008 thousand and KZT 11,008 thousand, respectively.

## 13. DUE FROM BANKS

Due from banks comprises:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Time deposits with other banks | 314,376 | 2,322,742 |
| Correspondent accounts with other banks | 69,084 | 15,437 |
| **Total due from banks** | 383,460 | 2,338,179 |

As at 31 December 2012 and 2011, accrued interest included in due from banks amounted to KZT 13 thousand and KZT 7 thousand, respectively.

## 14. LOANS TO CUSTOMERS

Loans to customers comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Loans to customers | 74,353,180 | 78,613,422 |
| Overdrafts | 1,356,243 | 1,215,477 |
| | 75,709,423 | 79,828,899 |
| Less: allowance for impairment losses | (10,441,567) | (11,279,191) |
| **Total loans to customers** | 65,267,856 | 68,549,708 |

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

As at 31 December 2012 and 2011, accrued interest included in loans to customers, amounted to KZT 16,886,008 thousand and KZT 13,617,709 thousand, respectively.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Loans collateralized by real estate and title thereto | 38,751,464 | 33,261,939 |
| Loans collateralized by equipment and inventories | 13,343,216 | 14,259,077 |
| Loans collateralized by shares and bonds of other companies | 10,383,552 | 9,319,761 |
| Loans collateralized by vehicles | 7,895,984 | 5,963,144 |
| Loans collateralized by cash or the Republic of Kazakhstan Government guarantees | 4,666,436 | 14,897,144 |
| Loans collateralized by guarantees of enterprises | 61,176 | 43,176 |
| Loans collateralized by right for accounts receivable | 27,871 | 49,596 |
| Unsecured loans | 579,724 | 2,035,062 |
| | 75,709,423 | 79,828,899 |
| Less: allowance for impairment losses | (10,441,567) | (11,279,191) |
| **Total loans to customers** | 65,267,856 | 68,549,708 |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Analysis by sector of economy:** | | |
| Trading | 28,331,634 | 30,828,605 |
| Construction | 18,047,344 | 13,938,660 |
| Agriculture | 8,715,950 | 12,920,750 |
| Chemical industry | 3,617,463 | 5,050,445 |
| Investments and finance sector | 3,577,588 | 2,713,179 |
| Individuals | 2,966,882 | 2,752,088 |
| Transport and communication | 2,857,366 | 2,782,870 |
| Computer related activities | 2,137,829 | 2,039,531 |
| Energy | 2,038,187 | 373,817 |
| Real estate | 1,974,508 | 1,978,970 |
| Machinery construction | 416,725 | 334,960 |
| Consulting | - | 1,570,629 |
| Hotel and restaurant business | - | 1,585,878 |
| Mining | - | 73,952 |
| Other | 1,027,947 | 884,565 |
| | 75,709,423 | 79,828,899 |
| Less: allowance for impairment losses | (10,441,567) | (11,279,191) |
| **Total loans to customers** | 65,267,856 | 68,549,708 |

Loans to individuals comprise the following products:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Consumer loans | 2,488,351 | 2,312,939 |
| Mortgage loans | 320,729 | 375,314 |
| Car loans | 14,015 | 4,737 |
| Other | 143,787 | 59,098 |
| | 2,966,882 | 2,752,088 |
| Less: allowance for impairment losses | (1,068,974) | (16,889) |
| **Total loans to individuals** | 1,897,908 | 2,735,199 |

As at 31 December 2012 and 2011, the Bank originated loans to 26 and 26 borrowers, amounting to KZT 60,818,796 thousand and KZT 65,074,302 thousand, respectively, which individually exceed 10% of the Bank's equity.

As at 31 December 2012 and 2011, all loans to customers were issued to legal entities and individuals in the Republic of Kazakhstan, which represents a significant geographic concentration.

As at 31 December 2012 and 2011, loans to customers included loans, before allowance for impairment, amounting to KZT 57,468,922 thousand and KZT 51,497,295 thousand, respectively, whose terms have been renegotiated. These amounts include both impaired and unimpaired loans.

As at 31 December 2012 and 2011, the maximum credit risk exposure of loans to customers amounted to KZT 65,267,856 thousand and KZT 68,549,708 thousand, respectively.

As at 31 December 2012 and 2011, loans to customers before allowance for impairment included loans of KZT 38,892,656 thousand and KZT 38,860,597 thousand, respectively, that were determined to be impaired due to worsening of financial status, quality of collateral, overdue in repayment, and prolongation.

The tables below summarize an analysis of loans to customers by impairment:

| | 31 December 2012 Carrying amount before allowance | Allowance for impairment losses | Carrying amount |
|---|---|---|---|
| Loans to customers determined to be impaired | 38,892,656 | (10,441,567) | 28,451,089 |
| Unimpaired loans | 36,816,767 | - | 36,816,767 |
| **Total** | 75,709,423 | (10,441,567) | 65,267,856 |

| | 31 December 2011 Carrying amount before allowance | Allowance for impairment losses | Carrying amount |
|---|---|---|---|
| Loans to customers determined to be impaired | 38,860,597 | (11,279,191) | 27,581,406 |
| Unimpaired loans | 40,968,302 | - | 40,968,302 |
| **Total** | 79,828,899 | (11,279,191) | 68,549,708 |

The tables below summarize an analysis of loans issued to the Bank's shareholders owning less than 10% of the ordinary shares of the Bank:

| | 31 December 2012 Loan principal | Accrued interest income | Allowance on impairment | Carrying amount |
|---|---|---|---|---|
| Bank's shareholders owning less than 10% of the ordinary shares of the Bank | 4,214,533 | 947,042 | 484,272 | 4,677,303 |

| | 31 December 2011 Loan principal | Accrued interest income | Allowance on impairment | Carrying amount |
|---|---|---|---|---|
| Bank's shareholders owning less than 10% of the ordinary shares of the Bank | 2,542,520 | 801,129 | 568,420 | 2,775,229 |

These loans to the Bank's shareholders were issued by the Bank during 2009 – 2012 years.

## 15. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

| | Land, buildings and constructions | Computers | Vehicles | Other fixed assets | Intangible assets | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **At original / revalued cost** | | | | | | | |
| 31 December 2010 | 1,068,312 | 324,773 | 196,008 | 206,285 | 135,970 | 364,390 | 2,295,738 |
| Additions | - | 23,132 | 165,255 | 21,047 | 23,229 | 148,711 | 381,374 |
| Disposals | - | (132) | (59,558) | (2,032) | - | - | (61,722) |
| 31 December 2011 | 1,068,312 | 347,773 | 301,705 | 225,300 | 159,199 | 513,101 | 2,615,390 |
| Additions | 4,431 | 4,617 | 68,182 | 17,460 | 1,507 | 36 | 96,233 |
| Revaluation | 89,017 | - | - | - | - | - | 89,017 |
| Impairment | (91,485) | - | - | - | - | - | (91,485) |
| Transfers | - | - | - | 3,553 | (3,553) | - | - |
| Disposals | - | (6,949) | (21,012) | (43,315) | (8,362) | - | (79,638) |
| 31 December 2012 | 1,070,275 | 345,441 | 348,875 | 202,998 | 148,791 | 513,137 | 2,629,517 |
| **Accumulated depreciation** | | | | | | | |
| 31 December 2010 | 80,217 | 312,129 | 152,237 | 96,502 | 60,713 | - | 701,798 |
| Charge for the year | 19,069 | 14,802 | 38,216 | 35,298 | 17,502 | - | 124,887 |
| Eliminated on disposals | - | (132) | (32,297) | (1,829) | - | - | (34,258) |
| 31 December 2011 | 99,286 | 326,799 | 158,156 | 129,971 | 78,215 | - | 792,427 |
| Charge for the year | 19,257 | 14,555 | 55,443 | 29,658 | 22,803 | - | 141,716 |
| Transfers | - | - | - | 2,694 | (2,694) | - | - |
| Eliminated on disposals | - | (6,835) | (17,762) | (29,258) | (4,430) | - | (58,285) |
| 31 December 2012 | 118,543 | 334,519 | 195,837 | 133,065 | 93,894 | - | 875,858 |
| **Net book value** | | | | | | | |
| As at 31 December 2012 | 951,732 | 10,922 | 153,038 | 69,933 | 54,897 | 513,137 | 1,753,659 |
| As at 31 December 2011 | 969,026 | 20,974 | 143,549 | 95,329 | 80,984 | 513,101 | 1,822,963 |

As at 31 December 2012 and 2011, included in property, equipment and intangible assets were fully depreciated assets with historical cost of KZT 461,180 thousand and KZT 422,451 thousand, respectively.

As at 31 December 2012, land and buildings owned by the Bank were carried at revalued amounts in accordance with report of the independent appraiser. The carrying value of these land and buildings totalled KZT 947,301 thousand. If the buildings were accounted for at historical cost less accumulated depreciation and impairment losses, its carrying value would be KZT 914,996 thousand as at 31 December 2012.

As at 1 October 2012, land and buildings owned by the Bank were revalued by the independent appraiser – LLP Baycos. The fair value was determined using the method of comparative sales which assumes the analysis of the selling prices of the similar property. During the valuation of the living space appraisers were using the adjustments for the bargain (for the bid price). During the valuation of the administrative building there were used following adjustments: adjustment for the bargain (for the bid price), adjustment for the technical conditions, adjustment for the size of the land plot, adjustment for the service life, adjustment for the location, adjustment for the purpose and adjustment for the construction type.

As at 31 December 2012 the Bank recognized impairment loss of the property and equipment for amount of KZT 32,143 thousand, as it is shown in Note 8. It includes the impairment of the land for amount of KZT 32,143 thousand.

## 16. OTHER ASSETS

Other assets comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Other financial assets recorded as loans and receivables in accordance with IAS 39:** | | |
| Accrued commission income | 14,539 | 9,026 |
| Investments in non-marketable securities | 200 | 200 |
| Investments held-to-maturity | 26 | 26 |
| Debtors under concession agreement | - | 73,404 |
| | 14,765 | 82,656 |
| Less: allowance for impairment losses | - | (3,670) |
| | 14,765 | 78,986 |
| **Other non-financial assets:** | | |
| Prepayments and other debtors | 46,963 | 16,218 |
| Assets held for sale | 27,591 | 27,591 |
| Inventory | 14,320 | 11,602 |
| Prepayments for professional services | 9,853 | 8,824 |
| Tax settlements, other than income tax | 8,714 | 1,687 |
| Prepayment for purchase of property and equipment | 4,500 | 145 |
| Settlements with employees | 53 | 2,818 |
| | 111,994 | 68,885 |
| **Total other assets** | 126,759 | 147,871 |

Movements in allowances for impairment losses on other assets for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

During 2011, after the default of one counterparty included into the loans to customers, the Bank has recognized the foreclosed property pledged as collateral for the loan as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to sell or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan has been initiated. The asset recognized is represented by residential premises. During 2012 the Bank was unable to secure a buyer for this asset. It is intended that the fair value of this asset would be recovered principally through a sale transaction during 2013.

## 17. DUE TO BANKS

Due to banks comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Recorded at amoritized cost:** | | |
| Time deposits of banks and other financial institutions | 3,474,643 | 1,028,250 |
| Loans under repurchase agreements | 800,231 | - |
| Loans received from banks | 76,144 | 74,286 |
| **Total due to banks** | 4,351,018 | 1,102,536 |

As at 31 December 2012 and 2011, accrued interest included in due to banks, amounting to KZT 99,796 thousand and KZT 28,336 thousand, respectively.

As at 31 December 2012, due to banks of KZT 3,550,787 thousand (82%) were due to two banks, which represent significant concentration.

As at 31 December 2011, due to banks of KZT 1,102,536 thousand (100%) were due to two banks, which represent significant concentration.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2012 and 2011 are presented as follows:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Fair value of collateral | Carrying value of loans | Fair value of collateral | Carrying value of loans |
| Treasury bills of the Ministry of Finance of Republic of Kazakhstan | 879,840 | 800,231 | - | - |
| | 879,840 | 800,231 | - | - |

## 18. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Recorded at amoritized cost:** | | |
| Term deposits | 32,738,814 | 24,381,780 |
| Current / settlement accounts and deposits on demand | 11,167,645 | 19,233,778 |
| Deposits as collateral on loans issued | 1,536,909 | 10,855,579 |
| Deposits – guarantees | 3,767 | 17,493 |
| **Total customer accounts** | 45,447,135 | 54,488,630 |

As at 31 December 2012 and 2011, customer accounts included accrued interest amounting to KZT 524,195 thousand and KZT 894,453 thousand, respectively.

As at 31 December 2012 and 2011, customer accounts amounting to KZT 38,851,512 thousand (85%) and KZT 47,281,065 thousand (87%), respectively, were due to 12 and 14 customers, which represents significant concentration.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Analysis by sector:** | | |
| Construction | 8,971,826 | 5,667,589 |
| Finance sector | 8,611,402 | 14,482,164 |
| Trade | 6,688,543 | 2,773,713 |
| Energy | 5,833,083 | 7,974,242 |
| Culture and art | 5,687,820 | 7,972,210 |
| Transport and communication | 5,515,926 | 7,092,732 |
| Mining and metallurgy | 1,813,604 | 868,033 |
| Education | 1,100,244 | 1,103,911 |
| Collection, processing and distribution of water | 396,801 | 221,796 |
| Research and development | 340,737 | 188,832 |
| Services | 165,478 | 238,588 |
| Machinery construction | 75,620 | 335,609 |
| State management | 63,310 | 53,408 |
| Chemical industry | 41,281 | 310,844 |
| Hotel and restaurant business | 37,510 | 129,849 |
| Computer related activities | 30,063 | 6,529 |
| Manufacturing other non-metal mineral products | 21,677 | 21,677 |
| Public organizations and funds | 11,275 | 13,464 |
| Real estate | 10,139 | - |
| Agriculture | 9,442 | 5,015,781 |
| Manufacturing finished metal products | 4,686 | 2,691 |
| Other | 16,668 | 14,968 |
| **Total customer accounts** | 45,447,135 | 54,488,630 |

## 19. DEBT SECURITIES ISSUED

Debt securities issued comprise:

| | Maturity date | Interest rate, % | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|
| Bonds of 1st issue | November 2013 | 9.00 | 8,659,872 | 8,589,867 |
| Bonds of 2nd issue | June 2012 | 9.00 | - | 5,100,223 |
| Bonds of 3rd issue | July 2015 | 7.50 | 3,902,963 | 2,602,765 |
| **Total debt securities issued** | | | 12,562,835 | 16,292,855 |

As at 31 December 2012 and 2011, debt securities issued include accrued interest amounting to KZT 253,469 thousand and KZT 251,342 thousand, respectively.

In June 2012 bonds of the 2nd issue were fully redeemed at maturity.

## 20. OTHER LIABILITIES

Other liabilities comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Other financial liabilities:** | | |
| Reserves on vacations | 47,207 | 38,312 |
| Settlements with employees | 7,666 | 11,559 |
| Accrued expenses | 5,019 | 5,400 |
| Accounts payable | 2,412 | 11,703 |
| Total other financial liabilities | 62,304 | 66,974 |
| **Other non-financial liabilities:** | | |
| Taxes other than income tax | 44,600 | 74,727 |
| Liabilities on issued guarantees | 36,461 | - |
| Prepaid commissions | 12,122 | 48,520 |
| Provisions for losses on contingent liabilities | 617 | 91 |
| Total other non-financial liabilities | 93,800 | 123,338 |
| **Total other liabilities** | 156,104 | 190,312 |

Movements in provision for contingent liabilities for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

## 21. SUBORDINATED DEBT

| | Currency | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| Liability component of preferred shares | KZT | 1,800,341 | 1,800,856 |
| Dividends accrued on preferred shares | KZT | 198,043 | 198,100 |
| **Total subordinated debt** | | 1,998,384 | 1,998,956 |

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 22. SHARE CAPITAL

The Bank's share capital comprises:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** | **Number of shares** | **Amount** |
| Ordinary shares | 9,700,000 | 9,700,000 | 9,700,000 | 9,700,000 |
| Preferred shares | 2,000,000 | 2,200,000 | 2,000,000 | 2,200,000 |
| **Total share capital** | 11,700,000 | 11,900,000 | 11,700,000 | 11,900,000 |

The Bank's treasury shares comprise:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | **Number of shares repurchased** | **Amount** | **Number of shares repurchased** | **Amount** |
| Ordinary shares | 223,851 | 145,803 | 219,397 | 140,948 |
| Preferred shares | 19,566 | 20,348 | 19,000 | 19,725 |
| **Total treasury shares** | 243,417 | 166,151 | 238,397 | 160,673 |

The dividends declared during 2012 and 2011, on preferred shares amounted to KZT 100 per share.

Preferred shares are compound instruments that contain both liability and equity elements. Initial carrying amount of a compound financial instrument amounting to KZT 2,200,000 thousand is allocated to its equity and liability components. The equity component is assigned the residual amount of KZT 381,872 thousand after deducting from the fair value of the instrument as a whole, the amount separately determined for the liability component in the amount of KZT 1,818,128 thousand. In 2009, the Bank repurchased 19,726 preferred shares for the amount of KZT 20,623 thousand, of which KZT 17,932 thousand represents liability component and accordingly deducted from liability component of preferred shares. In 2011, the Bank sold part of the previously repurchased preferred shares in the quantity of 726 shares amounting to KZT 898 thousand, of which KZT 660 thousand represents liability component and accordingly added to liability component of preferred shares, as disclosed in Note 21. In 2012 the Bank repurchased 566 preferred shares in amount of KZT 623 thousand, of which KZT 515 thousand represents liability component and accordingly deducted from liability component of preferred shares, as disclosed in Note 21.

As at 31 December 2012 and 2011, property and equipment revaluation reserve includes the revaluation of land and buildings amounting to KZT 512,548 thousand and KZT 513,982 thousand, respectively, net of deferred tax effect.

The Statutory reserve which reflects the difference between provisions for impairment losses accrued under IFRS and provisions for impairment losses reported to the regulator in accordance with statutory requirements amounted to KZT 16,039 thousand. The difference results mostly from fundamental methodological deviations in the calculation of the provision on loans to customers including the impact of discounted future cash flows and the impact which certain forms of collateral have on the level of provisions. This reserve is required by legislation of the Republic of Kazakhstan and is created through an appropriation of retained earnings.

## 23. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance financial instruments.

Provision for losses on contingent liabilities amounted to KZT 617 thousand and KZT 91 thousand as at 31 December 2012 and 2011, respectively.

Movements in provisions for financial contingent liabilities and other commitments for the years ended 31 December 2012 and 2011 are disclosed in Note 4.

As at 31 December 2012 and 2011, contingent liabilities comprise:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Contingent liabilities and credit commitments:** | | |
| Guarantees issued and similar commitments | 8,498,074 | 15,125,864 |
| Commitments on loans and unused credit lines | 2,546,282 | 2,337,871 |
| | 11,044,356 | 17,463,735 |
| Less: allowance for impairment losses | (617) | (91) |
| **Total contingent liabilities and credit commitments** | 11,043,739 | 17,463,644 |

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

### Capital commitments

The Bank had no material commitments for capital expenditure outstanding as at 31 December 2012 and 2011.

### Operating lease commitments

No material operating lease commitments were outstanding as at 31 December 2012 and 2011.

### Legal proceedings

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

### Taxes

Due to the presence in Kazakhstani tax legislation of provisions allowing more than one interpretation, the tax authorities can make decisions based on their own arbitrary judgment. It often requires the taxpayer to defend its interests in the court due to an interpretation of tax law by the tax authorities differing from the taxpayer's position. It should be noted that for the purpose of interpreting the activity of the Bank the tax authorities can, in particular, use explanations of the court bodies fixing notions of "unreasonable tax benefit" and "actual economic sense of an operation" and the criterion of "business purpose" of the deal.

Such uncertainty may relate to the valuation of financial instruments and determination of the market level for the pricing of deals. It can also lead to interpretation by tax authorities of arising temporary tax differences on formation and recovery of provisions for possible losses on loans and liability equated to borrowing as an understatement of the taxable basis. The management of the Bank believes that it provided for all the required tax accruals and, accordingly, no allowances are required in the financial statements.

Tax authorities can audit tax reports for the last five years. However, conducting a tax audit does not mean that the superior tax authority cannot conduct a recurring audit. In addition, according to explanations of the judicial bodies the period for which the tax reports can be audited can be recovered in principle, if the court recognizes the fact of impeding the audit by the tax authorities.

**Operating environment**

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

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

## 24. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

Details of transactions between the Bank and other related parties are disclosed below:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | **Related party balances** | **Total category as per financial statements caption** | **Related party balances** | **Total category as per financial statements caption** |
| Loans to customers | 4,909,422 | 75,709,423 | 1,481,189 | 79,828,899 |
| *- key management personnel of the Bank* | 603,478 | | - | |
| *- other related parties* | 4,305,944 | | 1,481,189 | |
| Allowance for impairment losses on loans to customers | (10,205) | (10,441,567) | (10,177) | (11,279,191) |
| *- other related parties* | (10,205) | | (10,177) | |
| Other assets | 4,517 | 126,759 | 2,715 | 147,871 |
| *- key management personnel of the Bank* | 3 | | - | |
| *- other related parties* | 4,514 | | 2,715 | |
| Customer accounts | 10,839,158 | 45,447,135 | 17,054,811 | 54,488,630 |
| *- the parent* | - | | 2,771,081 | |
| *- entities with joint control or significant influence over the Bank* | 552,433 | | - | |
| *- other related parties* | 10,286,725 | | 14,283,730 | |
| Commitments on loans and unused credit lines | 79,618 | 2,546,282 | 39,085 | 2,337,871 |
| *- key management personnel of the Bank* | 10,177 | | - | |
| *- other related parties* | 69,441 | | 39,085 | |
| Guarantees issued and similar commitments | 853,698 | 8,498,074 | 74,200 | 15,125,864 |
| *- other related parties* | 853,698 | | 74,200 | |

The remuneration of key management personnel was as follows:

| | Year ended 31 December 2012 | | Year ended 31 December 2011 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| **Key management personnel compensation:** | | | | |
| Salary and bonuses | 186,673 | 749,636 | 182,538 | 694,033 |
| **Total** | 186,673 | 749,636 | 182,538 | 694,033 |

Included in the statement of comprehensive income for the years ended 31 December 2012 and 2011, are the following amounts which were recognized in transactions with related parties:

| | **Year ended 31 December 2012** | | **Year ended 31 December 2012** | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Interest income | 503,085 | 7,066,075 | 197,190 | 8,253,657 |
| *- key management personnel of the Bank* | 81,420 | | - | |
| *- other related parties* | 421,665 | | 197,190 | |
| Interest expense | (679,350) | (3,488,416) | (1,363,182) | (4,688,161) |
| *- the parent* | - | | (352,525) | |
| *- entities with joint control or significant influence over the Bank* | (75,561) | | - | |
| *- other related parties* | (603,789) | | (1,010,657) | |
| Provision for impairment losses on interest bearing assets | (28) | (2,641,209) | (10,177) | (2,940,322) |
| *- other related parties* | (28) | | (10,177) | |
| Fee and commission income | 70,911 | 1,046,983 | 70,731 | 717,532 |
| *- the parent* | - | | 17,986 | |
| *- entities with joint control or significant influence over the Bank* | 1,528 | | - | |
| *- other related parties* | 69,383 | | 52,745 | |
| Operating expenses | (14,424) | (1,674,599) | (14,360) | (1,417,072) |
| *- the parent* | - | | (10,768) | |
| *- entities with joint control or significant influence over the Bank* | (10,838) | | - | |
| *- other related parties* | (3,586) | | (3,592) | |

## 25. SEGMENT REPORTING

The Bank currently does not identify separate operating segments in its activity and considers management information on income and expenses for the year ended 31 December 2012 as a whole. It is caused by the fact that the Bank's income is mainly generated by servicing corporate customers, the share of other operating segments being immaterial in the total scope of the Bank's operations.

Currently the Bank does not have a license for servicing individuals by opening and maintaining customer accounts. The Bank services individuals only in the form of lending to its employees and employees of the entities that are other related parties to the Bank. As at 31 December 2012 and 2011, the portfolio of loans issued to individuals amounted to KZT 1,897,908 thousand and KZT 2,735,199 thousand, respectively. Thus the share of loans to individuals amounts to 2.91% and 3.99%, respectively, of the Bank's total loan portfolio.

As at 31 December 2012 and 2011, the Bank's investments in financial instruments at fair value through profit or loss amounted to KZT 1,013,018 thousand and KZT 1,438,283 thousand, respectively, which makes up to 1.31% and 1.67%, respectively, of the total assets of the Bank.

The structure of the investments in financial instruments at fair value through profit or loss of the Bank is as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Debt securities of the Ministry of Finance of the Republic of Kazakhstan | 887,767 | 1,125,394 |
| Equity securities of other companies | 125,251 | 312,889 |
| **Total** | 1,013,018 | 1,438,283 |

As at 31 December 2012 and 2011, the Bank had no investments available-for-sale.

As at 31 December 2012 and 2011, the Bank had investments in debt securities of the Ministry of Finance of the Republic of Kazakhstan, recognized as investments held-to-maturity amounting to KZT 26 thousand and KZT 26 thousand, respectively (Note 16).

More than 90% of the Bank's operations are conducted within the Republic of Kazakhstan.

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current market between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities that are not carried at fair value in the statement of financial position compared with the corresponding carrying value in the financial statements of the Bank is presented below:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Debt securities issued | 12,562,835 | 12,295,488 | 16,292,855 | 15,735,168 |
| Subordinated debt | 1,998,384 | 1,799,371 | 1,998,956 | 1,799,226 |

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the statement of financial position. The carrying amounts of cash and balances with the NBRK, due from banks, other financial assets, due to banks and other financial liabilities approximate fair value due to the short-term nature of such financial instruments.

There is no active secondary market in Kazakhstan for loans to customers and customer accounts, and there is no reliable market value available for this portfolio.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Class of financial asset:

| | **31 December 2012** Level 1 | **31 December 2011** Level 1 |
|---|---|---|
| Financial assets at fair value through profit or loss | 1,013,018 | 1,438,283 |

## 27. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBRK in supervising the Bank.

During the years ended at 31 December 2012 and 2011, the Bank had complied in full with all its externally imposed capital requirements.

The capital structure of the Bank consists of debt, which includes debt securities issued (Note 19), subordinated debt (Note 21), and equity, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the overall capital structure is balanced through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The general policy of the Bank regarding risks relating to capital management remains unchanged from 2010.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basle Committee:

| | **2012** | **2011** |
|---|---|---|
| Movement in tier 1 capital: | | |
| 1 January | 10,963,413 | 10,722,702 |
| Change in reserves | 392,112 | 240,711 |
| 31 December | 11,355,525 | 10,963,413 |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Composition of regulatory capital: | | |
| Tier 1 capital: | | |
| Share capital | 9,933,508 | 9,938,471 |
| Disclosed reserves | 1,934,565 | 1,538,924 |
| Less: Revaluation reserve | (512,548) | (513,982) |
| Total qualifying tier 1 capital | 11,355,525 | 10,963,413 |
| Revaluation reserve | 512,548 | 513,982 |
| Subordinated debt | 1,800,341 | 1,800,856 |
| Total regulatory capital | 13,668,414 | 13,278,251 |
| Capital Ratios: | | |
| Tier 1 capital | 17.22% | 14.75% |
| Total capital | 20.72% | 17.86% |

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

As at 31 December 2012 and 2011, the Bank included subordinated debt, limited to 50% of Tier 1 capital, in the computation of Total capital for Capital adequacy purposes. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 28. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business. The main risks inherent to the Bank's operations are as follows:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

### Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

**Maximum exposure of credit risk**

Maximum size of credit risk of the Bank can significantly vary depending on individual risks inherent in certain assets and general market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments is the maximum amount the Bank would have to pay in the event of non-performance by the other party or in case of withdrawal of loans under credit lines.

| | **Maximum exposure** | **Offset** | **Net exposure after offset** | **Collateral pledged** | **31 December 2012 Net exposure after offset and collateral** |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 1,013,018 | - | 1,013,018 | - | 1,013,018 |
| Due from banks | 383,460 | - | 383,460 | - | 383,460 |
| Loans to customers | 65,267,856 | - | 65,267,856 | (44,532,824) | 20,735,032 |
| Other financial assets | 14,765 | - | 14,765 | - | 14,765 |

| | **Maximum exposure** | **Offset** | **Net exposure after offset** | **Collateral pledged** | **31 December 2011 Net exposure after offset and collateral** |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 1,438,283 | - | 1,438,283 | - | 1,438,283 |
| Due from banks | 2,338,179 | - | 2,338,179 | - | 2,338,179 |
| Loans to customers | 68,549,708 | - | 68,549,708 | (39,891,571) | 28,658,137 |
| Other financial assets | 78,986 | - | 78,986 | - | 78,986 |

Financial assets are graded according to the current credit rating assigned by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at 31 December 2012 and 2011 the balances with the NBRK amounted to KZT 8,310,649 thousand and KZT 11,356,410 thousand, respectively. The credit rating of the Republic of Kazakhstan according to the international rating agencies corresponded to investment level BBB+.

The following is the classification of financial assets of the Bank by credit ratings as at 31 December 2012 and 2011:

| | **AA** | **A** | **BBB** | **<BBB** | **Credit rating unassigned** | **31 December 2012 Total** |
|---|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | - | - | 887,767 | 40,074 | 85,177 | 1,013,018 |
| Due from banks | 314,376 | 21,844 | 40,939 | 6,290 | 11 | 383,460 |
| Loans to customers | - | - | - | - | 65,267,856 | 65,267,856 |
| Other financial assets | - | - | 26 | - | 14,739 | 14,765 |

| | **AA** | **A** | **BBB** | **<BBB** | **Credit rating unassigned** | **31 December 2011 Total** |
|---|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | - | - | 1,222,561 | - | 215,722 | 1,438,283 |
| Due from banks | 2,322,787 | 7,965 | 6,568 | 859 | - | 2,338,179 |
| Loans to customers | - | - | - | - | 68,549,708 | 68,549,708 |
| Other financial assets | - | - | 26 | - | 78,960 | 78,986 |

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. With regard to the loans to customers this risk exposure is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Classification of loans to customers by types and provision recognised for impairment losses is performed in accordance with IAS 39.

Rating of customers is formed by using the number of points assigned to customers. The number of points is calculated based on the following factors: financial position of customers, overdue of payments, quality of collateral, number of prolongation, other overdue liabilities, share of funds used not for the stated purpose, write-off of liabilities against other creditors, availability of the rating of the customer.

Loans to customers are classified based on internal assessments and other information. Loans are classified according to their risk and the exposure that they potentially present to the Bank, and this classification is verified by the Risk Management function. At present, the Risk Management function uses classifications as follows:

*Standard loans*

The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are some minor negative indicators, the Bank has confidence that the borrower will be able to cope with such (temporary) difficulties. Interest and principal are repaid in full and in a timely fashion. The borrower is considered as having the ability to repay the loan in accordance with its terms and conditions. Security provided for the loan must cover at least 100% of the outstanding amount, not less than 75% in case of highly liquid collateral (which may include a Government guarantee, bank guarantee with an individual rating not lower than AA - from one of the rating agencies, corporate guarantee with an individual rating not lower than AA, cash collateral, Government securities or precious metals, the value of which covers 100% of the exposure).

*Doubtful 1st category*

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower repays the loan principal and the interest without delay and in full. The value of collateral covers at least 50% of the Bank's exposure.

*Doubtful 2nd category*

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. However, due to temporary difficulties the borrower repays the loan with delays and/or not in full. The value of collateral covers at least 50% of the Bank's exposure.

*Doubtful 3rd category*

There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to improve its current financial performance, thus casting doubt on the borrower's ability to repay the loan and the interest in full. However, despite severe deterioration of financial health the borrower manages to repay the loan and interest in full and without delay. The value of collateral covers at least 50% of the Bank's exposure.

*Doubtful 4th category*

There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to stabilize and improve its current financial performance and impairs the borrower's ability to repay the loan and the interest in full. The borrower repays the loan late and/or not in full. The value of collateral covers at least 50% of the Bank's exposure.

*Doubtful 5th category*

The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The quality of collateral can be classified as satisfactory (normally not highly liquid but covering not less than 100% of the borrower's outstanding debt) or unsatisfactory (the value of which covers nearly but not less than 50% of the borrower's outstanding debt).

*Loss*

In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralized or the value of the collateral covers less than 50% of the borrowers' outstanding debt.

| | **31 December 2012** | **31 December 2011** |
|---|---|---|
| Standard loans | 36,816,767 | 31,111,772 |
| Doubtful up to 5%/ 1st category | 9,365,697 | 7,835,195 |
| Doubtful from 5% to 10%/ 2nd category | 1,741,213 | 4,649,395 |
| Doubtful from 10% to 20%/ 3rd category | 9,127,140 | 18,688,059 |
| Doubtful from 20% to 25%/ 4th category | 7,714,197 | 195 |
| Doubtful from 25% to 50%/ 5th category | 3,895,977 | 12,103,756 |
| Loss from 50% | 7,048,432 | 5,440,527 |
| | 75,709,423 | 79,828,899 |

The following table details the ageing of financial assets that are past due but not impaired:

| | | **Financial assets past due but not impaired** | | | | | |
|---|---|---|---|---|---|---|---|
| | **Neither past due nor impaired** | **0-3 months** | **3-6 months** | **6 months to 1 year** | **Greater than one year** | **Financial assets that have been impaired** | **31 December 2012 Total** |
| Financial assets at fair value through profit or loss | 1,013,018 | - | - | - | - | - | 1,013,018 |
| Due from banks | 383,460 | - | - | - | - | - | 383,460 |
| Loans to customers | 36,788,495 | 679 | 9 | - | 27,584 | 28,451,089 | 65,267,856 |
| Other financial assets | 14,765 | - | - | - | - | - | 14,765 |

| | | **Financial assets past due but not impaired** | | | | | |
|---|---|---|---|---|---|---|---|
| | **Neither past due nor impaired** | **0-3 months** | **3-6 months** | **6 months to 1 year** | **Greater than one year** | **Financial assets that have been impaired** | **31 December 2011 Total** |
| Financial assets at fair value through profit or loss | 1,438,283 | - | - | - | - | - | 1,438,[illegible] |
| Due from banks | 2,338,179 | - | - | - | - | - | 2,338,179 |
| Loans to customers | 40,729,153 | 8,839 | - | 221,651 | 8,659 | 27,581,406 | 68,549,708 |
| Other financial assets | 9,252 | - | - | - | - | 69,734 | 78,986 |

## Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

The geographical concentration of financial assets and liabilities is set out below:

| | Kazakhstan | OECD countries | Non-OECD countries | 31 December 2012 Total |
|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 8,536,418 | - | - | 8,536,418 |
| Financial assets at fair value through profit or loss | 920,845 | 92,173 | - | 1,013,018 |
| Due from banks | 2,069 | 336,220 | 45,171 | 383,460 |
| Loans to customers | 65,267,856 | - | - | 65,267,856 |
| Other financial assets | 14,764 | 1 | - | 14,765 |
| TOTAL FINANCIAL ASSETS | 74,741,952 | 428,394 | 45,171 | 75,215,517 |
| **FINANCIAL LIABILITIES:** | | | | |
| Due to banks | 4,351,018 | - | - | 4,351,018 |
| Customer accounts | 45,435,428 | 300 | 11,407 | 45,447,135 |
| Debt securities issued | 12,562,835 | - | - | 12,562,835 |
| Other financial liabilities | 61,748 | - | 556 | 62,304 |
| Subordinated debt | 1,998,384 | - | - | 1,998,384 |
| TOTAL FINANCIAL LIABILITIES | 64,409,413 | 300 | 11,963 | 64,421,676 |
| NET POSITION | 10,332,539 | 428,094 | 33,208 | |

| | Kazakhstan | OECD countries | Non-OECD countries | 31 December 2011 Total |
|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 11,639,533 | - | - | 11,639,533 |
| Financial assets at fair value through profit or loss | 1,125,394 | 215,722 | 97,167 | 1,438,283 |
| Due from banks | 2,665 | 2,330,752 | 4,762 | 2,338,179 |
| Loans to customers | 68,549,708 | - | - | 68,549,708 |
| Other financial assets | 78,985 | 1 | - | 78,986 |
| TOTAL FINANCIAL ASSETS | 81,396,285 | 2,546,475 | 101,929 | 84,044,689 |
| **FINANCIAL LIABILITIES:** | | | | |
| Due to banks | 1,102,536 | - | - | 1,102,536 |
| Customer accounts | 54,485,855 | 299 | 2,476 | 54,488,630 |
| Debt securities issued | 16,292,855 | - | - | 16,292,855 |
| Other financial liabilities | 66,931 | - | 43 | 66,974 |
| Subordinated debt | 1,998,956 | - | - | 1,998,956 |
| TOTAL FINANCIAL LIABILITIES | 73,947,133 | 299 | 2,519 | 73,949,951 |
| NET POSITION | 7,449,152 | 2,546,176 | 99,410 | |

## 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 lead to financial loss. Risk management is an integral part of responsibilities imposed on the Bank's management of all levels, which is reflected in the daily applied controls, awareness of the Bank's management and employees of the potential operational risks and management style. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks.

Controls include effective segregations of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. To manage the operational risks more efficiently, the Bank has established the Operational Risk Management Department. The main task of said Department to provide assistance to the management and different departments of the Bank in detection and efficient management of operational risk occurrences, self assessment of operational risks by the Bank's departments, assessment of changes in the processes, systems and products offered and organizational changes taking place in the Bank for their exposure to operational risks and existence of the appropriate controls.

**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALMC controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability,
(b) term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Bank will be liable to redeem the liability, and
(c) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the entity.

| | *Up to* 1 month | *1 month to* 3 months | *3 months -* 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2012 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | | |
| Financial assets at fair value through profit or loss | 1,013,018 | - | - | - | - | - | 1,013,018 |
| Due from banks | 353,532 | - | - | - | - | - | 353,532 |
| Loans to customers | 9,772,649 | 9,050,763 | 13,236,386 | 30,711,656 | 2,496,402 | - | 65,267,856 |
| Total interest bearing financial assets | 11,139,199 | 9,050,763 | 13,236,386 | 30,711,656 | 2,496,402 | - | 66,634,406 |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 8,536,418 | - | - | - | - | - | 8,536,418 |
| Due from banks | 29,928 | - | - | - | - | - | 29,928 |
| Other financial assets | 7 | 9 | 14,538 | 5 | 6 | 200 | 14,765 |
| TOTAL FINANCIAL ASSETS | 19,705,552 | 9,050,772 | 13,250,924 | 30,711,661 | 2,496,408 | 200 | 75,215,517 |
| **FINANCIAL LIABILITIES:** | | | | | | | |
| Due to banks | 800,231 | 1,450,893 | 76,144 | 2,023,750 | - | - | 4,351,018 |
| Customer accounts | 12,460,896 | 10,193,407 | 3,468,734 | 14,347,336 | 523,981 | - | 40,994,354 |
| Debt securities issued | 150,085 | - | 8,659,873 | 3,752,877 | - | - | 12,562,835 |
| Subordinated debt | - | - | 198,043 | - | - | 1,800,341 | 1,998,384 |
| Total interest bearing financial **liabilities** | 13,411,212 | 11,644,300 | 12,402,794 | 20,123,963 | 523,981 | 1,800,341 | 59,906,591 |
| Customer accounts | 4,452,781 | - | - | - | - | - | 4,452,781 |
| Other financial liabilities | - | - | 62,304 | - | - | - | 62,304 |
| TOTAL FINANCIAL LIABILITIES | 17,863,993 | 11,644,300 | 12,465,098 | 20,123,963 | 523,981 | 1,800,341 | 64,421,676 |
| Liquidity gap | 1,841,559 | (2,593,528) | 785,826 | 10,587,698 | 1,972,427 | (1,800,141) | |
| Interest sensitivity gap | (2,272,013) | (2,593,537) | 833,592 | 10,587,693 | 1,972,421 | (1,800,341) | |
| **Cumulative interest sensitivity gap** | (2,272,013) | (4,865,550) | (4,031,958) | 6,555,735 | 8,528,156 | 6,727,815 | |
| **Cumulative interest sensitivity gap as a percentage of total financial assets** | (2.95%) | (6.31%) | (5.23%) | 8.50% | 11.06% | 8.73% | |
| Guarantees issued and similar commitments | 1,252,663 | 1,108,726 | 101,257 | 5,256,484 | 778,327 | - | 8,497,457 |
| Commitments on loans and unused credit lines | - | 30,000 | 215,740 | 1,946,522 | 354,020 | - | 2,546,282 |
| **Total commitments and contingencies** | 1,252,663 | 1,138,726 | 316,997 | 7,203,006 | 1,132,347 | - | 11,043,739 |

| | Up to 1 month | 1 month to 3 months | 3 months - 1 year | 1 year to 5 years | Over 5 years | 1aturity undefine | 31 December 2011 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | | |
| Financial assets at fair value through profit or loss | 1,438,283 | - | - | - | - | - | 1,438,283 |
| Due from banks | 2,327,504 | - | - | - | - | - | 2,327,504 |
| Loans to customers | 5,901,888 | 10,203,490 | 20,958,784 | 27,196,384 | 4,289,162 | - | 68,549,708 |
| Total interest bearing financial assets | 9,667,675 | 10,203,490 | 20,958,784 | 27,196,384 | 4,289,162 | - | 72,315,495 |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 11,639,533 | - | - | - | - | - | 11,639,533 |
| Due from banks | 10,675 | - | - | - | - | - | 10,675 |
| Other financial assets | 2,789 | 5,579 | 34,130 | 36,282 | 6 | 200 | 78,986 |
| TOTAL FINANCIAL ASSETS | 21,320,672 | 10,209,069 | 20,992,914 | 27,232,666 | 4,289,168 | 200 | 84,044,689 |
| **FINANCIAL LIABILITIES:** | | | | | | | |
| Due to banks | - | 1,028,250 | 74,286 | - | - | - | 1,102,536 |
| Customer accounts | 8,391,820 | 9,236,017 | 22,826,098 | 814,381 | 349,650 | - | 41,617,966 |
| Debt securities issued | 118,350 | - | 5,203,585 | 10,970,920 | - | - | 16,292,855 |
| Subordinated debt | - | - | 198,100 | - | - | 1,800,856 | 1,998,956 |
| Total interest bearing financial liabilities | 8,510,170 | 10,264,267 | 28,302,069 | 11,785,301 | 349,650 | 1,800,856 | 61,012,313 |
| Customer accounts | 12,870,664 | - | - | - | - | - | 12,870,664 |
| Other financial liabilities | - | - | 66,974 | - | - | - | 66,974 |
| TOTAL FINANCIAL LIABILITIES | 21,380,834 | 10,264,267 | 28,369,043 | 11,785,301 | 349,650 | 1,800,856 | 73,949,951 |
| Liquidity gap | (60,162) | (55,198) | (7,376,129) | 15,447,365 | 3,939,518 | (1,800,656) | |
| Interest sensitivity gap | 1,157,505 | (60,777) | (7,343,285) | 15,411,083 | 3,939,512 | (1,800,856) | |
| **Cumulative interest sensitivity gap** | 1,157,505 | 1,096,728 | (6,246,557) | 9,164,526 | 13,104,038 | 11,303,182 | |
| **Cumulative interest sensitivity gap as a percentage of total financial assets** | 1.35% | 1.27% | (7.26%) | 10.65% | 15.23% | 13.14% | |
| Guarantees issued and similar commitments | 44,297 | 133,194 | 11,001,571 | 3,180,465 | 766,246 | - | 15,125,773 |
| Commitments on loans and unused credit lines | 156,822 | 78,110 | 1,152,135 | 950,031 | 773 | - | 2,337,871 |
| **Total commitments and contingencies** | 201,119 | 211,304 | 12,153,706 | 4,130,496 | 767,019 | - | 17,463,644 |

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicates, that these deposits provide a long-term and stable source of funding for the Bank. Therefore a substantial part of current accounts are considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2012 Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to banks | 8.88% | 802,050 | 1,547,741 | 79,860 | 2,601,667 | - | - | 5,031,318 |
| Customer accounts | 5.25% | 12,535,669 | 10,222,054 | 3,802,999 | 16,887,363 | 849,010 | - | 44,297,095 |
| Debt securities issued | 8.55% | 150,085 | - | 8,659,873 | 3,752,877 | - | - | 12,562,835 |
| Subordinated debt | 10.00% | - | - | 198,043 | 792,400 | 990,500 | 1,800,341 | 3,781,284* |
| Total interest bearing financial liabilities | | 13,487,804 | 11,769,795 | 12,740,775 | 24,034,307 | 1,839,510 | 1,800,341 | 65,672,532 |
| Customer accounts | | 4,452,781 | - | - | - | - | - | 4,452,781 |
| Other financial liabilities | | - | - | 62,304 | - | - | - | 62,304 |
| **Total financial liabilities** | | 17,940,585 | 11,769,795 | 12,803,079 | 24,034,307 | 1,839,510 | 1,800,341 | 70,187,617 |

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | 31 December 2011 Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to banks | 6.86% | - | - | 1,091,039 | - | - | - | 1,091,039 |
| Customer accounts | 8.04% | 8,448,045 | 9,421,661 | 24,661,316 | 1,076,286 | 490,209 | - | 44,097,517 |
| Debt securities issued | 9.07% | 118,350 | - | 5,843,517 | 13,819,065 | - | - | 19,780,932 |
| Subordinated debt | 10.00% | - | - | 198,100 | 792,400 | 990,500 | 1,800,856 | 3,781,856* |
| Total interest bearing financial liabilities | | 8,566,395 | 9,421,661 | 31,793,972 | 15,687,751 | 1,480,709 | 1,800,856 | 68,751,344 |
| Customer accounts | | 12,870,664 | - | - | - | - | - | 12,870,664 |
| Other financial liabilities | | - | - | 66,974 | - | - | - | 66,974 |
| **Total financial liabilities** | | 21,437,059 | 9,421,661 | 31,860,946 | 15,687,751 | 1,480,709 | 1,800,856 | 81,688,982 |

* The contractual payments on subordinated debt, which is a liability component of preferred shares with undefined maturity, is calculated for 10 years ahead due to the fact that maturity of these financial investments is undefined.

## Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed.

The ALMC manages interest rate and market risks by matching the Bank's interest rate position,which provides the Bank with a positive interest margin. The Treasury Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

All of the Bank's loan contracts and other financial assets and liabilities that bear interest are fixed. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

### Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Treasury Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at 31 December 2012 and 2011 is presented below:

| | **31 December 2012** | | **31 December 2011** | |
|---|---|---|---|---|
| | **Interest rate +3%** | **Interest rate -3%** | **Interest rate +3%** | **Interest rate -3%** |
| Financial assets at fair value through profit or loss | 109,177 | (123,837) | 139,817 | (149,399) |
| **Net impact on profit before tax** | 109,177 | (123,837) | 139,817 | (149,399) |

Interest rate sensitivity has no direct impact on equity.

## Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Financial committee controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBRK.

The Bank's exposure to foreign currency exchange rate risk is presented in the tables below:

| | KZT | USD<br>USD 1 =<br>KZT 150.74 | EUR<br>EUR 1 =<br>KZT 199.22 | Other currencies | 31 December 2012<br>Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 8,475,763 | 31,322 | 15,977 | 13,356 | 8,536,418 |
| Financial assets at fair value through profit or loss | 920,845 | 75,688 | - | 16,485 | 1,013,018 |
| Due from banks | 1,951 | 328,519 | 9,164 | 43,826 | 383,460 |
| Loans to customers | 61,649,562 | 3,618,294 | - | - | 65,267,856 |
| Other financial assets | 14,765 | - | - | - | 14,765 |
| TOTAL FINANCIAL ASSETS | 71,062,886 | 4,053,823 | 25,141 | 73,667 | 75,215,517 |
| **FINANCIAL LIABILITIES:** | | | | | |
| Due to banks | 3,897,731 | 453,287 | - | - | 4,351,018 |
| Customer accounts | 43,113,005 | 2,303,548 | 6,267 | 24,315 | 45,447,135 |
| Debt securities issued | 12,562,835 | - | - | - | 12,562,835 |
| Other financial liabilities | 61,843 | - | - | 461 | 62,304 |
| Subordinated debt | 1,998,384 | - | - | - | 1,998,384 |
| TOTAL FINANCIAL LIABILITIES | 61,633,798 | 2,756,835 | 6,267 | 24,776 | 64,421,676 |
| NET BALANCE SHEET POSITION | 9,429,088 | 1,296,988 | 18,874 | 48,891 | |

| | KZT | USD<br>USD 1 =<br>KZT 148.40 | EUR<br>EUR 1 =<br>KZT 191.72 | Other currencies | 31 December 2011<br>Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 11,602,411 | 19,680 | 7,873 | 9,569 | 11,639,533 |
| Financial assets at fair value through profit or loss | 1,125,394 | 312,889 | - | - | 1,438,283 |
| Due from banks | 1,975 | 2,327,433 | 3,812 | 4,959 | 2,338,179 |
| Loans to customers | 64,438,230 | 4,111,478 | - | - | 68,549,708 |
| Other financial assets | 78,986 | - | - | - | 78,986 |
| TOTAL FINANCIAL ASSETS | 77,246,996 | 6,771,480 | 11,685 | 14,528 | 84,044,689 |
| **FINANCIAL LIABILITIES:** | | | | | |
| Due to banks | 1,028,250 | 74,286 | - | - | 1,102,536 |
| Customer accounts | 47,167,648 | 7,314,976 | 3,249 | 2,757 | 54,488,630 |
| Debt securities issued | 16,292,855 | - | - | - | 16,292,855 |
| Other financial liabilities | 66,974 | - | - | - | 66,974 |
| Subordinated debt | 1,998,956 | - | - | - | 1,998,956 |
| TOTAL FINANCIAL LIABILITIES | 66,554,683 | 7,389,262 | 3,249 | 2,757 | 73,949,951 |
| NET BALANCE SHEET POSITION | 10,692,313 | (617,782) | 8,436 | 11,771 | |

**Currency risk sensitivity**

The following table gives an analysis of sensitivity of the Bank to increase or decrease in USD and EUR exchange rate against the KZT. +10% and -15% change is the sensitivity rate used inside the bank in preparation of currency risk reports for key management personnel of the Bank and represents an evaluation by the management of the Bank of a possible change in exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2012 and 2011, for +10% and -15% change in foreign currency rates compared to effective ones. The sensitivity analysis includes loans to customers of the Bank, if such loans are issued in the currency other than the functional currency of the creditor or borrower.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | KZT/USD +10% | KZT/USD -15% | KZT/USD +10% | KZT/USD -15% |
| Impact on profit before tax | 129,699 | (194,548) | (61,778) | 92,667 |

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | KZT/EUR +10% | KZT/EUR -15% | KZT/EUR +10% | KZT/EUR -15% |
| Impact on profit before tax | 1,887 | (2,831) | 844 | (1,265) |

**Limitations of the sensitivity analysis**

The above tables reflect the effect of change based on the main assumption whereas other assumptions remain unchanged. In fact, there is a connection between assumptions and other factors. It should also be noted that sensitivity does not have a linear nature, therefore interpolation or extrapolation of received results should not be performed.

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

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

**Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in equity securities at the reporting date.

The results of the analysis of the sensitivity of the Bank's profit before tax and other comprehensive income for the year to changes in prices of securities on a simplified scenario of 10% symmetrical increase or decrease in all securities prices are given in the table below:

| | **31 December 2012** | | **31 December 2011** | |
|---|---|---|---|---|
| | **10% increase in securities price** | **10% decrease in securities price** | **10% increase in securities price** | **10% decrease in securities price** |
| Impact on equity profit before income tax | 100,201 | (100,201) | 142,728 | (142,728) |

## 29. SUBSEQUENT EVENTS

Up to the date of issue of these financial statements Management have not identified any significant subsequent events which require disclosure.