

**“Shinhan Bank Kazakhstan” JSC**

Financial Statements

for the year ended

31 December 2013

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## **Independent Auditors' Report**

To the Board of Directors and Management Board of “Shinhan Bank Kazakhstan” JSC

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

840,324  
(34,564)  
805,360

*Opinion*

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

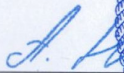


Yelena Kim  
Certified Auditor  
of the Republic of Kazakhstan  
Auditor's Qualification Certificate  
No.МФ-0000042 of 8 August 2011

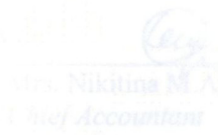


**KPMG Audit LLC**

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



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



Mrs. Nikitina M.A.  
Chief Accountant

27 March 2014

**“Shinhan Bank Kazakhstan” JSC**  
*Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013*

	Note	2013 KZT'000	2012 KZT'000
Interest income	4	890,797	840,924
Interest expense	4	(27,900)	(34,564)
<b>Net interest income</b>		<b>862,897</b>	<b>806,360</b>
Fee and commission income	5	46,166	44,205
Fee and commission expense	6	(9,318)	(7,006)
<b>Net fee and commission income</b>		<b>36,848</b>	<b>37,199</b>
Net foreign exchange income	7	66,315	37,801
Other operating expenses, net		(1,453)	(738)
<b>Operating income</b>		<b>964,607</b>	<b>880,622</b>
Recovery of impairment losses on loans to customers		-	63
General administrative expenses	8	(482,430)	(469,680)
<b>Profit before income tax</b>		<b>482,177</b>	<b>411,005</b>
Income tax expense	9	(57,173)	(42,375)
<b>Profit for the year</b>		<b>425,004</b>	<b>368,630</b>
<b>Other comprehensive income/(loss), net of income tax</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		179,292	(105,835)
<b>Total comprehensive income for the year</b>		<b>604,296</b>	<b>262,795</b>

The financial statements as set out on pages 5 to 50 were approved by Management on 27 March 2014 and were signed on its behalf by:

Mr. Jeong Ji-Ho  
 Chairman



Mrs. Nikitina M.A.  
 Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9-50.

*“Shinhan Bank Kazakhstan” JSC*  
*Statement of Financial Position as at 31 December 2013*

	Note	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>ASSETS</b>			
Cash and cash equivalents	10	1,949,537	4,458,083
Placements with banks	11	240	320
Available-for-sale financial assets	12	3,449,674	2,493,016
Loans to banks	13	1,473,543	128,626
Loans to customers	14	8,595,995	7,261,243
Held-to-maturity investments	15	1,938,092	1,944,747
Property, equipment and intangible assets	16	49,960	60,138
Current tax asset		49,553	-
Deferred tax asset	9	-	2,069
Other assets		20,288	18,868
<b>Total assets</b>		<b>17,526,882</b>	<b>16,367,110</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	17	1,112,834	2,078,604
Current accounts and deposits from customers	18	5,125,779	3,608,265
Current tax liability		-	46,654
Deferred tax liability	9	49,007	-
Other liabilities		25,368	23,989
<b>Total liabilities</b>		<b>6,312,988</b>	<b>5,757,512</b>
<b>EQUITY</b>			
	19		
Share capital		10,028,720	10,028,720
Additional paid-in capital		144,196	144,196
Statutory reserve		279,516	242,653
Dynamic reserve		268,199	-
Revaluation reserve for available-for-sale financial assets		38,435	(140,857)
Retained earnings		454,828	334,886
<b>Total equity</b>		<b>11,213,894</b>	<b>10,609,598</b>
<b>Total liabilities and equity</b>		<b>17,526,882</b>	<b>16,367,110</b>

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9-50.

*“Shinhan Bank Kazakhstan” JSC*  
*Statement of Cash Flows for the year ended 31 December 2013*

	<b>2013</b>	<b>2012</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	901,651	1,060,700
Interest payments	(21,045)	(50,044)
Fee and commission receipts	48,852	45,820
Fee and commission payments	(9,305)	(6,936)
Net receipts from foreign exchange	59,035	36,274
Other operating expenses payments	(1,453)	(738)
General administrative expenses payments	(471,417)	(436,592)
<b>(Increase)/decrease in operating assets</b>		
Placements with banks	2,875	5,085,600
Loans to banks	(1,331,204)	1,425,685
Loans to customers	(1,283,952)	(4,863,836)
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances from banks	(1,016,194)	534,771
Current accounts and deposits from customers	1,487,384	(2,078,253)
<b>Net cash (used in)/provided from operating activities before income tax paid</b>	<b>(1,634,773)</b>	<b>752,457</b>
Income tax paid	(102,243)	(7,684)
<b>Cash flows (used in)/from operating activities</b>	<b>(1,737,016)</b>	<b>744,773</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment and intangible assets	(4,389)	(4,067)
Purchases of available-for-sale financial assets	(787,244)	-
<b>Cash flows used in investing activities</b>	<b>(791,633)</b>	<b>(4,067)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,528,649)</b>	<b>740,700</b>
Effect of changes in exchange rates on cash and cash equivalents	20,103	38,311
Cash and cash equivalents as at the beginning of the year	4,458,082	3,679,066
<b>Cash and cash equivalents as at the end of the year (note 10)</b>	<b>1,949,537</b>	<b>4,458,083</b>

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9-50.

*“Shinhan Bank Kazakhstan” JSC*  
Statement of Changes in Equity for the year ended 31 December 2013

KZT'000	Share capital	Additional paid-in capital	Statutory reserve	Dynamic reserve	Revaluation reserve for available-for- sale financial assets	Retained earnings	Total equity
<b>Balance at 1 January 2012</b>	<b>10,028,720</b>	<b>144,196</b>	<b>1,251</b>	-	<b>(35,022)</b>	<b>207,658</b>	<b>10,346,803</b>
Profit for the year	-	-	-	-	-	368,630	368,630
<b>Other comprehensive loss</b>							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	-	(105,835)	-	(105,835)
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>(105,835)</b>	<b>368,630</b>	<b>262,795</b>
Transfer to statutory reserve (note 19(b))	-	-	241,402	-	-	(241,402)	-
<b>Balance at 31 December 2012</b>	<b>10,028,720</b>	<b>144,196</b>	<b>242,653</b>	-	<b>(140,857)</b>	<b>334,886</b>	<b>10,609,598</b>
<b>Balance at 1 January 2013</b>	<b>10,028,720</b>	<b>144,196</b>	<b>242,653</b>	-	<b>(140,857)</b>	<b>334,886</b>	<b>10,609,598</b>
Profit for the year	-	-	-	-	-	425,004	425,004
<b>Other comprehensive income</b>							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	-	179,292	-	179,292
<b>Total other comprehensive income for the year</b>	-	-	-	-	<b>179,292</b>	<b>425,004</b>	<b>604,296</b>
Transfer to statutory and dynamic reserves (note 19(b))	-	-	36,863	268,199	-	(305,062)	-
<b>Balance at 31 December 2013</b>	<b>10,028,720</b>	<b>144,196</b>	<b>279,516</b>	<b>268,199</b>	<b>38,435</b>	<b>454,828</b>	<b>11,213,894</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9-50.



## **1 Background**

### **(a) Organisation and operations**

The Bank was established in the Republic of Kazakhstan as a Joint Stock Company in 2008. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations, and transactions with securities and foreign exchange. The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Committee (“the FMSC”) and the National Bank of the Republic of Kazakhstan (“the NBRK”).

The official status of the Bank is established by the state registration as a legal entity at the Ministry of Justice of the Republic of Kazakhstan (Legal Entity State Registration Certificate No. 5037-1900-AO (HY)) and the Financial Markets and Organisations Supervisory and Regulatory Agency (“the FMSA”) for banking operations (License for banking and other operations No. 1.1.258 dated 28 November 2008).

The Bank’s registered office is 123/7 Dostyk avenue, Almaty, Republic of Kazakhstan.

The Bank has no branches. The majority of the assets and liabilities are located in the Republic of Kazakhstan.

The Bank is wholly-owned by Shinhan Bank (Seoul, Republic of Korea) (the “Parent Bank” or the “Shareholder”), which, in turn, is a member of the Shinhan Financial Bank. Related party transactions are detailed in note 25.

### **(b) Kazakhstan business environment**

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

## **2 Basis of preparation**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

### **(c) Functional and presentation currency**

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

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

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

## **2 Basis of preparation, continued**

### **(d) Use of estimates and judgments**

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the note 14 – loan impairment estimates.

### **(e) Changes in accounting policies and presentation**

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

- IFRS 13 *Fair Value Measurements* (see (i))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) (see (ii))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (iii))

The nature and the effect of the changes are explained below.

#### **(i) Fair value measurement**

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures* (see note 26).

As a result, the Bank adopted a new definition of fair value, as set out in note 3 (c) (v). The change had no significant impact on the measurements of assets and liabilities. However, the Bank included new disclosures in the financial statements that are required under IFRS 13, comparatives not restated.

#### **(ii) Presentation of items of other comprehensive income**

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

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

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

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

The Bank included new disclosures in the financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures.

### **3 Significant accounting policies**

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

#### **(a) Foreign currency**

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

#### **(b) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments.

#### **(c) Financial instruments**

##### **(i) Classification**

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

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

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

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

### **3 Significant accounting policies, continued**

#### **(c) Financial instruments, continued**

##### **(i) Classification, continued**

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

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

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

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

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

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

##### **(ii) Recognition**

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

##### **(iii) Measurement**

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

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

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

### **3 Significant accounting policies, continued**

#### **(c) Financial instruments, continued**

##### **(iii) Measurement, continued**

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

##### **(iv) Amortised cost**

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

##### **(v) Fair value measurement principles**

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

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

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

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

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

##### **(vi) Gains and losses on subsequent measurement**

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

### 3 Significant accounting policies, continued

#### (c) Financial instruments, continued

##### (vi) *Gains and losses on subsequent measurement, continued*

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

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

##### (vii) *Derecognition*

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

##### (viii) *Repurchase and reverse repurchase agreements*

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

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

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

##### (ix) *Offsetting*

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

### **3 Significant accounting policies, continued**

#### **(d) Property and equipment**

##### **(i) Owned assets**

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

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

##### **(ii) Depreciation**

Depreciation is charged to profit or loss on a diminishing balance basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful life is 5 years for all items of property and equipment. If the Bank makes capital investments in the leased property, plant and equipment, such costs are amortised on straight-line basis during the lower of the period of leasing or useful life of leasehold improvement.

#### **(e) Intangible assets**

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

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

Amortisation is charged to profit or loss on a diminishing balance basis over the estimated useful lives of intangible assets. The estimated useful life is 5 years.

#### **(f) Impairment**

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

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

##### **(i) Financial assets carried at amortised cost**

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

### **3 Significant accounting policies, continued**

#### **(f) Impairment, continued**

##### **(i) *Financial assets carried at amortised cost, continued***

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

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

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

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

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

##### **(ii) *Available-for-sale financial assets***

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

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



### **3 Significant accounting policies, continued**

#### **(f) Impairment, continued**

##### **(iii) Non financial assets**

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

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

#### **(g) Credit related commitments**

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

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

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

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

Loan commitments are not recognised, except for the following:

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

#### **(h) Share capital**

##### **(i) Ordinary shares**

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

### **3 Significant accounting policies, continued**

#### **(h) Share capital, continued**

##### **(ii) Dividends**

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

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

##### **(i) Taxation**

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred taxes reflects the tax consequences that would follow 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.

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

##### **(j) Income and expense recognition**

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

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

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

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

##### **(k) Comparative information**

###### ***Prior period reclassification***

Comparative information is reclassified to conform to changes in presentation in the current year.

During the preparation of the Bank's financial statements for the year ended 31 December 2013, management made certain reclassifications affecting the corresponding figures to conform to the presentation of financial statements for the year ended 31 December 2013.

### 3 Significant accounting policies, continued

#### (k) Comparative information, continued

##### *Prior period reclassification, continued*

In the statement of financial position as at 31 December 2012 mandatory reserve with the NBRK of KZT 198,661 thousand was reclassified to cash and cash equivalents. Management believes that this presentation is more appropriate presentation in accordance with IFRS. The effect of reclassifications on the corresponding figures can be summarised as follows:

KZT'000	As reclassified	Effect of reclassifications	As previously reported
<b>Statement of financial position as at 31 December 2012</b>			
Cash and cash equivalents	4,458,083	198,661	4,259,422
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	(198,661)	198,661
<b>Statement of cash flows for the year ended 31 December 2012</b>			
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	(77,534)	77,534
Cash flows from operating activities	744,773	(77,534)	822,307
Net increase in cash and cash equivalents	740,706	(77,534)	818,240
Cash and cash equivalents as at the beginning of the year	3,679,066	276,195	3,402,871
Cash and cash equivalents as at the end of the year	<u>4,458,083</u>	<u>198,661</u>	<u>4,259,422</u>

The above reclassifications do not impact the Bank's results or equity.

#### (l) New standards and interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

### 3 Significant accounting policies, continued

#### (l) New standards and interpretations not yet adopted, continued

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

### 4 Net interest income

	2013 KZT'000	2012 KZT'000
<b>Interest income</b>		
Loans to customers	645,248	405,720
Held-to-maturity investment	104,820	105,136
Available-for-sale financial assets	100,038	104,020
Loans to banks	28,830	70,285
Cash and cash equivalents	10,434	733
Placements with banks	1,427	155,030
	<b>890,797</b>	<b>840,924</b>
<b>Interest expense</b>		
Deposits and balances from banks	(14,879)	(21,834)
Current accounts and deposits from customers	(10,476)	(7,452)
Amounts payable under repurchase agreements	(2,545)	(5,278)
	<b>(27,900)</b>	<b>(34,564)</b>
	<b>862,897</b>	<b>806,360</b>

### 5 Fee and commission income

	2013 KZT'000	2012 KZT'000
Transfer operations	30,406	26,760
Cash transactions	8,680	10,063
Guarantee	2,991	3,927
Letter of credit	1,524	779
Other	2,565	2,676
	<b>46,166</b>	<b>44,205</b>

### 6 Fee and commission expense

	2013 KZT'000	2012 KZT'000
Transfer operations	5,691	4,270
Brokerage	1,530	1,606
Other	2,097	1,130
	<b>9,318</b>	<b>7,006</b>

## 7 Net foreign exchange income

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
Realised gain from dealing operations, net	59,035	36,275
Unrealised gain from revaluation of foreign currency, net	7,280	1,526
	<b>66,315</b>	<b>37,801</b>

## 8 General administrative expenses

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
Payroll and related taxes	310,265	291,183
Operating lease expense	72,352	66,624
Communications and information services	23,874	24,207
Depreciation and amortisation	14,567	30,291
Professional services	8,780	12,790
Security	7,459	6,283
Transportation	6,461	6,341
Advertising and marketing	4,728	4,114
Representative expenses	2,809	3,977
Business trips	1,334	6,051
Repairs and maintenance	173	2,626
Other	29,628	15,193
	<b>482,430</b>	<b>469,680</b>

## 9 Income tax expense

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>Current year tax expense</b>		
Current year	6,097	47,303
Deferred taxation movement due to origination and reversal of temporary differences	51,076	(4,928)
<b>Total income tax expense</b>	<b>57,173</b>	<b>42,375</b>

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

### Reconciliation of effective tax rate:

	<b>2013</b> <b>KZT'000</b>	<b>%</b>	<b>2012</b> <b>KZT'000</b>	<b>%</b>
<b>Profit before income tax</b>	<b>482,177</b>	<b>100</b>	<b>411,005</b>	<b>100</b>
Income tax at the applicable tax rate	96,435	20.0	82,201	20.0
Non-taxable income from securities	(40,972)	(8.5)	(41,645)	(10.1)
Other non-deductible costs	1,710	0.4	1,819	0.4
	<b>57,173</b>	<b>11.9</b>	<b>42,375</b>	<b>10.3</b>

## 9 Income tax expense, continued

### Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2013 and deferred tax assets as at 31 December 2012.

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

<b>2013</b> <b>KZT'000</b>	<b>Balance</b> <b>1 January 2013</b>	<b>Recognised</b> <b>in profit</b> <b>or loss</b>	<b>Balance</b> <b>31 December</b> <b>2013</b>
Loans to customers	-	(53,640)	(53,640)
Property, equipment and intangible assets	(1,296)	841	(455)
Deposits and balances from banks	-	1,448	1,448
Other liabilities	3,365	275	3,640
	<b>2,069</b>	<b>(51,076)</b>	<b>(49,007)</b>
<b>2012</b> <b>KZT'000</b>	<b>Balance</b> <b>1 January 2012</b>	<b>Recognised</b> <b>in profit</b> <b>or loss</b>	<b>Balance</b> <b>31 December</b> <b>2012</b>
Property, equipment and intangible assets	(5,195)	3,899	(1,296)
Other assets	437	(437)	-
Other liabilities	1,899	1,466	3,365
	<b>(2,859)</b>	<b>4,928</b>	<b>2,069</b>

## 10 Cash and cash equivalents

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>Cash on hand</b>	<b>217,941</b>	<b>229,402</b>
<b>Nostro accounts with the NBRK</b>	<b>576,246</b>	<b>391,900</b>
<b>Nostro accounts with other banks:</b>		
- rated from A- to A+	1,155,131	1,631,788
- rated BBB	219	238
<b>Total nostro accounts with other banks</b>	<b>1,155,350</b>	<b>1,632,026</b>
<b>Cash equivalents</b>		
<b>Term deposits with the NBRK</b>	<b>-</b>	<b>1,300,114</b>
<b>Term deposits with other banks</b>		
- rated from A- to A+	-	904,641
<b>Total term deposits with other banks</b>	<b>-</b>	<b>904,641</b>
<b>Total cash equivalents and nostro accounts</b>	<b>1,731,596</b>	<b>4,228,681</b>
<b>Total cash and cash equivalents</b>	<b>1,949,537</b>	<b>4,458,083</b>

No cash and cash equivalents are impaired or past due.

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale.

## 10 Cash and cash equivalents, continued

### Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. These requirements are complied with by keeping certain minimum balance of cash on hand and on a current account with the NBRK. As at 31 December 2013, the minimum reserve is KZT 321,449 thousand (2012: KZT 198,661 thousand).

### Concentration of cash and cash equivalents

As at 31 December 2013 the Bank has no banks (2012: two banks), whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2012 is KZT 3,074,567 thousand.

## 11 Placements with banks

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>Term deposits with banks</b>		
- rated BBB	240	240
- rated from B- to B+	-	80
	<b>240</b>	<b>320</b>

No placements with banks are impaired or past due.

## 12 Available-for-sale financial assets

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>Held by the Bank</b>		
<b>Debt financial instruments</b>		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	3,196,645	2,238,955
- Bonds of Sovereign Wealth Fund "Samruk-Kazyna" JSC	253,029	254,061
<b>Total available-for-sale financial assets</b>	<b>3,449,674</b>	<b>2,493,016</b>

No available-for-sale financial assets are impaired or past due as at 31 December 2013 and 31 December 2012.

As at 31 December 2013 the Bank has Treasury bills of the Ministry of Finance of the Republic of Kazakhstan of KZT 956,765 thousand (31 December 2012: KZT 987,722 thousand) with floating coupon rate, which equals to the annual inflation rate as at coupon payment date plus fixed interest of 0.07% per annum.

## 13 Loans to banks

As at 31 December 2013 and 31 December 2012 the loans to banks comprised loans to one local commercial bank with credit rating B+ in the amount of KZT 1,473,543 thousand and KZT 128,626 thousand, respectively.

As at 31 December 2013 and 2012 no loans to banks are past due or impaired.

## 14 Loans to customers

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>Loans to corporate customers</b>		
Loans to large corporates	1,091,335	2,195,221
Loans to small and medium size companies	4,944,425	3,302,138
<b>Total loans to corporate customers</b>	<b>6,035,760</b>	<b>5,497,359</b>
<b>Loans to retail customers</b>		
Consumer loans	2,390,416	1,571,921
Other	169,819	191,963
<b>Total loans to retail customers</b>	<b>2,560,235</b>	<b>1,763,884</b>
	<b>8,595,995</b>	<b>7,261,243</b>

As at 31 December 2013 and 2012 all loans to customers are not past due. During 2013, one loan was restructured and this restructure was recognised by the Bank as an impairment indicator, however, the loan was fully covered by the guarantee from its Parent company (2012: none). No collective provision was recognised in respect of loans to customers as all possible risks have been considered in individual impairment test and the Bank does not have history of losses from loans issued to customers. Accordingly, no impairment is provided.

Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to customers as at 31 December 2013 would be KZT 85,960 thousand higher (31 December 2012: KZT 72,612 thousand).

**(a) Analysis of collateral and other credit enhancements**

**(i) Loans to corporate customers**

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



## 14 Loans to customers, continued

### (a) Analysis of collateral and other credit enhancements, continued

#### (i) Loans to corporate customers, continued

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers by types of collateral:

31 December 2013 KZT'000	Loans to customers, carrying amount	Fair value of collateral- for collateral assessed as of reporting date	Fair value of collateral- for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Corporate guarantees (provided by the Parent Bank, rated A+)	1,672,897	-	-	1,672,897
Real estate	1,463,589	789,584	674,005	-
Cash and deposits	471,183	471,183	-	-
Other collateral	193,995	-	193,995	-
	<b>3,801,664</b>	<b>1,260,767</b>	<b>868,000</b>	<b>1,672,897</b>
Loans with individual signs of impairment				
Corporate guarantees (rated BBB)	2,234,096	-	-	2,234,096
	<b>2,234,096</b>	<b>-</b>	<b>-</b>	<b>2,234,096</b>
<b>Total loans to corporate customers</b>	<b>6,035,760</b>	<b>1,260,767</b>	<b>868,000</b>	<b>3,906,993</b>

31 December 2012 KZT'000	Loans to customers, carrying amount	Fair value of collateral- for collateral assessed as of reporting date	Fair value of collateral- for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Corporate guarantees (provided by the Parent Bank, rated A)	3,086,676	-	-	3,086,676
Corporate guarantees (rated BB-)	1,208,059	-	-	1,208,059
Cash and deposits	250,525	250,525	-	-
Real estate	893,426	29,928	863,498	-
Other collateral	58,673	-	58,673	-
	<b>5,497,359</b>	<b>280,453</b>	<b>922,171</b>	<b>4,294,735</b>
<b>Total loans to corporate customers</b>	<b>5,497,359</b>	<b>280,453</b>	<b>922,171</b>	<b>4,294,735</b>

The tables above exclude overcollateralisation.

As the recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, the Bank does not necessarily update the valuation of collateral as at each reporting date.

## 14 Loans to customers, continued

### (a) Analysis of collateral and other credit enhancements, continued

#### (i) Loans to corporate customers, continued

The Bank has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

Guarantees received as credit enhancements have been considered as an integral part of loans provided therefore have been taken into account at the assessment of loan impairment provision.

#### (ii) Loans to retail customers

Loans to retail customers are secured mainly by housing real estate. The Bank’s policy is to issue loans to retail customers with a loan-to-value ratio of a maximum of 70%.

The following tables provides information on real estate collateral securing loans to individuals, net of impairment:

31 December 2013 KZT’000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	2,560,235	186,348	2,042,549	331,338
<b>Total loans to retail customers</b>	<b>2,560,235</b>	<b>186,348</b>	<b>2,042,549</b>	<b>331,338</b>

31 December 2012 KZT’000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	1,763,884	192,236	1,569,635	2,013
<b>Total loans to retail customers</b>	<b>1,763,884</b>	<b>192,236</b>	<b>1,569,635</b>	<b>2,013</b>

The table above excludes overcollateralisation.

## 14 Loans to customers, continued

### (b) Industry and geographical analysis of the loan portfolio

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

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
Loans to retail customers	2,560,235	1,763,884
Mining/metallurgy	2,234,096	1,208,059
Trade	1,508,649	442,480
Construction	1,127,052	2,501,839
Transport	648,689	658,394
Real estate	208,384	280,824
Advertising activity	175,716	150,208
Finance	82,091	62,723
Other	51,083	192,832
	<b>8,595,995</b>	<b>7,261,243</b>

### (c) Significant credit exposures

As at 31 December 2013 the Bank has one borrower (2012: two), whose loan balances exceeds 10% of equity. The gross value of this borrower as at 31 December 2013 is KZT 2,234,096 thousand (2012: KZT 3,403,280 thousand).

### (d) Loan maturities

The maturity of the loan portfolio is presented in note 20 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the term based on contractual terms.

## 15 Held-to-maturity investments

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>Held by the Bank</b>		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,938,092	1,944,747
	<b>1,938,092</b>	<b>1,944,747</b>

No held-to-maturity investments are impaired or past due as at 31 December 2013 and 2012.

## 16 Property, equipment and intangible assets

KZT'000	Leasehold improve- ments	Computers	Motor vehicles	Other	Intangible assets	Total
<i>Cost</i>						
Balance at 1 January 2013	78,886	29,022	12,586	62,982	16,267	199,743
Additions	-	2,469	-	870	1,050	4,389
Disposals	(78,886)	-	-	-	-	(78,886)
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>31,491</b>	<b>12,586</b>	<b>63,852</b>	<b>17,317</b>	<b>125,246</b>
<i>Depreciation and amortisation</i>						
Balance at 1 January 2013	(74,886)	(13,808)	(7,707)	(34,556)	(8,648)	(139,605)
Depreciation and amortisation for the year	(4,000)	(3,081)	(891)	(5,186)	(1,409)	(14,567)
Disposals	78,886	-	-	-	-	78,886
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>(16,889)</b>	<b>(8,598)</b>	<b>(39,742)</b>	<b>(10,057)</b>	<b>(75,286)</b>
<i>Carrying amount</i>						
<b>At 31 December 2013</b>	<b>-</b>	<b>14,602</b>	<b>3,988</b>	<b>24,110</b>	<b>7,260</b>	<b>49,960</b>
<i>Cost</i>						
Balance at 1 January 2012	78,886	26,010	12,586	62,020	16,174	195,676
Additions	-	3,012	-	962	93	4,067
<b>Balance at 31 December 2012</b>	<b>78,886</b>	<b>29,022</b>	<b>12,586</b>	<b>62,982</b>	<b>16,267</b>	<b>199,743</b>
<i>Depreciation and amortisation</i>						
Balance at 1 January 2012	(56,766)	(10,636)	(6,616)	(28,342)	(6,954)	(109,314)
Depreciation and amortisation for the year	(18,120)	(3,172)	(1,091)	(6,214)	(1,694)	(30,291)
<b>Balance at 31 December 2012</b>	<b>(74,886)</b>	<b>(13,808)</b>	<b>(7,707)</b>	<b>(34,556)</b>	<b>(8,648)</b>	<b>(139,605)</b>
<i>Carrying amount</i>						
<b>At 31 December 2012</b>	<b>4,000</b>	<b>15,214</b>	<b>4,879</b>	<b>28,426</b>	<b>7,619</b>	<b>60,138</b>

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

## 17 Deposits and balances from banks

	2013 KZT'000	2012 KZT'000
Vostro accounts	28,111	2,078,604
Term deposits	1,084,723	-
	<b>1,112,834</b>	<b>2,078,604</b>

As at 31 December 2012 the Bank has one bank, whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2012 is KZT 2,078,604 thousand.

## 18 Current accounts and deposits from customers

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
Current accounts and demand deposits		
- Retail	808,794	208,064
- Corporate	2,738,350	2,925,919
Term deposits		
- Retail	544,804	8,184
- Corporate	1,033,831	466,098
	<b>5,125,779</b>	<b>3,608,265</b>

### **Blocked amounts**

As at 31 December 2013, the Bank maintained customer deposit balances of KZT 716,986 thousand (2012: KZT 466,098 thousand) that serve as collateral for loans to customers and off-balance sheet credit instruments granted by the Bank.

### **Concentrations of current accounts and deposits from customers**

As at 31 December 2013, the Bank has one customer (2012: one), whose balances exceeds 10% of equity. This balance as at 31 December 2013 is KZT 1,186,412 thousand (2012: KZT 1,155,376 thousand).

## 19 Share capital

### **(a) Issued and additional paid-in capital**

The authorised, issued and outstanding share capital comprises 1,002,872 ordinary shares (2012: 1,002,872). All shares have a nominal value of KZT 10,000. There were no issuance of ordinary shares during 2013 and 2012.

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

### **(b) Nature and purpose of reserves**

#### *Statutory reserve*

In accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSA on 31 January 2011, the Bank should establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities (as defined in the Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FMSA on 25 December 2006) during the preceding year. Such percentage increase should be not less than 10% and not more than 100%. In March 2013, the shareholders approved to transfer of KZT 36,863 thousand to the reserve capital (2012: KZT 241,402 thousand).

The Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks and the Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities ceased to be in force during 2013 with any further transfer from the statutory reserve at the consideration of the general shareholders' meeting.

## **19 Share capital, continued**

### **(c) Dynamic reserve**

In accordance with the Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank should establish a dynamic reserve calculated using a formula determined in the Resolution and the value should not be less than zero. The Resolution has been effective from 1 January 2013. As at 31 December 2013 dynamic reserve provided by the Bank amounted to KZT 268,199 thousand.

The dynamic reserve is non-distributable.

### **Revaluation reserve for available-for-sale financial assets**

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

### **(d) Dividends**

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. No dividends were declared for 2013 and 2012.

## **20 Risk management**

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

### **(a) Risk management policies and procedures**

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

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

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Management Board of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a Credit Committees and an Asset and Liability Management Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Management Board of the Bank monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

## **20 Risk management, continued**

### **(b) Market risk**

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

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

### **(i) Interest rate risk**

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

## 20 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Interest rate gap analysis*

Interest rate risk is managed principally through monitoring interest rate gaps. As at 31 December 2013 a summary of the interest gap position for major interest bearing financial instruments is as follows:

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
<b>31 December 2013</b>							
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	1,949,537	1,949,537
Placements with banks	-	-	-	240	-	-	240
Available-for-sale financial assets	-	960,732	48,430	1,353,604	1,086,908	-	3,449,674
Loans to banks	-	115,719	1,357,824	-	-	-	1,473,543
Loans to customers	206,409	530,906	4,256,982	1,519,384	2,082,314	-	8,595,995
Held-to-maturity investments	-	-	61,416	1,488,217	388,459	-	1,938,092
	<b>206,409</b>	<b>1,607,357</b>	<b>5,724,652</b>	<b>4,361,445</b>	<b>3,557,681</b>	<b>1,949,537</b>	<b>17,407,081</b>
<b>LIABILITIES</b>							
Deposits and balances from banks	-	-	1,084,723	-	-	28,111	1,112,834
Current accounts and deposits from customers	770,345	8,438	94,045	134,006	-	4,118,945	5,125,779
	<b>770,345</b>	<b>8,438</b>	<b>1,178,768</b>	<b>134,006</b>	<b>-</b>	<b>4,147,056</b>	<b>6,238,613</b>
	<b>(563,936)</b>	<b>1,598,919</b>	<b>4,545,884</b>	<b>4,227,439</b>	<b>3,557,681</b>	<b>(2,197,519)</b>	<b>11,168,468</b>



## 20 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Interest rate gap analysis*

As at 31 December 2012 a summary of the interest gap position for major interest bearing financial instruments is as follows:

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
<b>31 December 2012</b>							
<b>ASSETS</b>							
Cash equivalents	2,204,755	-	-	-	-	2,253,328	4,458,083
Placements with banks	-	-	80	240	-	-	320
Available-for-sale financial assets	-	991,690	43,542	-	1,457,784	-	2,493,016
Loans to banks	5,953	58,473	64,200	-	-	-	128,626
Loans to customers	91,353	1,367,388	394,403	3,898,884	1,509,215	-	7,261,243
Held-to-maturity investments	-	-	61,416	979,227	904,104	-	1,944,747
	<b>2,302,061</b>	<b>2,417,551</b>	<b>563,641</b>	<b>4,878,351</b>	<b>3,871,103</b>	<b>2,253,328</b>	<b>16,286,035</b>
<b>LIABILITIES</b>							
Deposits and balances from banks	-	-	-	-	-	2,078,604	2,078,604
Current accounts and deposits from customers	110,699	-	7,800	-	-	3,489,766	3,608,265
	<b>110,699</b>	<b>-</b>	<b>7,800</b>	<b>-</b>	<b>-</b>	<b>5,568,370</b>	<b>5,686,869</b>
	<b>2,191,362</b>	<b>2,417,551</b>	<b>555,841</b>	<b>4,878,351</b>	<b>3,871,103</b>	<b>(3,315,042)</b>	<b>10,599,166</b>

## 20 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Average interest rates*

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012.

	2013		2012	
	Average effective interest rate, %		Average effective interest rate, %	
	KZT	USD	KZT	USD
<b>Interest bearing assets</b>				
Cash and cash equivalents				
- Placements with the NBRK with original maturity less than three months	-	-	0.7	-
- Placements with other banks with original maturity less than three months	0.10	-	0.3	-
Loans to banks	5.38	-	5.4	-
Available-for-sale financial assets	5.01	-	4.0	-
Loans to customers	8.91	2.97	8.4	3.0
Held-to-maturity investments	5.48	-	5.5	-
<b>Interest bearing liabilities</b>				
Deposits and balances from banks				
- Term deposits	-	1.25	-	-
Current accounts and deposits from customers				
- Term deposits	5.42	1.48	5.00	-

##### *Interest rate sensitivity analysis*

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

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	(19,974)	(19,974)	(34,585)	(34,585)
100 bp parallel rise	19,974	19,974	34,585	34,585

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

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	-	230,683	-	125,368
100 bp parallel rise	-	(204,898)	-	(115,433)

## 20 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk

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

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

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

	<b>KZT</b> <b>KZT'000</b>	<b>USD</b> <b>KZT'000</b>	<b>EUR</b> <b>KZT'000</b>	<b>Total</b> <b>KZT'000</b>
<b>ASSETS</b>				
Cash and cash equivalents	659,623	1,269,498	20,416	1,949,537
Placements with banks	240	-	-	240
Available-for-sale financial assets	3,449,674	-	-	3,449,674
Loans to banks	1,473,543	-	-	1,473,543
Loans to customers	6,361,900	2,234,095	-	8,595,995
Held-to-maturity investments	1,938,092	-	-	1,938,092
Other financial assets	1,244	-	-	1,244
<b>Total assets</b>	<b>13,884,316</b>	<b>3,503,593</b>	<b>20,416</b>	<b>17,408,325</b>
<b>LIABILITIES</b>				
Deposits and balances from banks	637	1,089,529	22,668	1,112,834
Current accounts and deposits from customers	2,851,542	2,272,275	1,962	5,125,779
Other financial liabilities	8,615	-	-	8,615
<b>Total liabilities</b>	<b>2,860,794</b>	<b>3,361,804</b>	<b>24,630</b>	<b>6,247,228</b>
<b>Net position</b>	<b>11,023,522</b>	<b>141,789</b>	<b>(4,214)</b>	<b>11,161,097</b>

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

	<b>KZT</b> <b>KZT'000</b>	<b>USD</b> <b>KZT'000</b>	<b>EUR</b> <b>KZT'000</b>	<b>Total</b> <b>KZT'000</b>
<b>ASSETS</b>				
Cash and cash equivalents	1,857,698	2,593,334	7,051	4,458,083
Placements with banks	320	-	-	320
Available-for-sale financial assets	2,493,016	-	-	2,493,016
Loans to banks	128,626	-	-	128,626
Loans to customers	6,053,184	1,208,059	-	7,261,243
Held-to-maturity investments	1,944,747	-	-	1,944,747
Other financial assets	5,798	-	-	5,798
<b>Total assets</b>	<b>12,483,389</b>	<b>3,801,393</b>	<b>7,051</b>	<b>16,291,833</b>
<b>LIABILITIES</b>				
Deposits and balances from banks	537	2,071,933	6,134	2,078,604
Current accounts and deposits from customers	2,002,792	1,605,473	-	3,608,265
Other financial liabilities	3,023	-	-	3,023
<b>Total liabilities</b>	<b>2,006,352</b>	<b>3,677,406</b>	<b>6,134</b>	<b>5,689,892</b>
<b>Net position</b>	<b>10,477,037</b>	<b>123,987</b>	<b>917</b>	<b>10,601,941</b>

## 20 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

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

	2013		2012	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
20% appreciation of USD against KZT	22,686	22,686	19,838	19,838
20% appreciation of other currency against KZT	(674)	(674)	146	146

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

### (c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

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

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. In this case decision on granting each credit is made by the Credit Committee after all necessary procedures have been completed, and this, in its turn, makes possible to control the entire credit process given a small number of incoming loan applications.

## 20 Risk management, continued

### (c) Credit risk, continued

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

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

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

	<b>2013</b>	<b>2012</b>
	<b>KZT’000</b>	<b>KZT’000</b>
<b>ASSETS</b>		
Cash and cash equivalents	1,731,596	4,228,681
Placements with banks	240	320
Available-for-sale financial assets	3,449,674	2,493,016
Loans to banks	1,473,543	128,626
Loans to customers	8,595,995	7,261,243
Held-to-maturity investments	1,938,092	1,944,747
Other financial assets	1,244	5,798
<b>Total maximum exposure</b>	<b>17,190,384</b>	<b>16,062,431</b>

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 14.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 22.

As at 31 December 2013 the Bank has two debtors (2012: two), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for this customer as at 31 December 2013 is KZT 7,368,833 thousand (2012: KZT 6,378,923 thousand).

#### **Offsetting financial assets and financial liabilities**

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank’s statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of cash in respect of loans to customers.

The Bank has an unconditional right to debit the debtor’s account in case of default of the counterparty.

## 20 Risk management, continued

### (c) Credit risk, continued

#### Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amounts of recognised financial assets/liabilities offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
<b>Financial assets</b>						
Loans to customers	471,183	-	471,183	-	(471,183)	-
<b>Financial liabilities</b>						
Current accounts and deposits from customers	471,183	-	471,183	(471,183)	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2012:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amounts of recognised financial assets/liabilities offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
<b>Financial assets</b>						
Loans to customers	250,525	-	250,525	-	(250,525)	-
<b>Financial liabilities</b>						
Current accounts and deposits from customers	250,525	-	250,525	(250,525)	-	-

### (d) Liquidity risk

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

## **20 Risk management, continued**

### **(d) Liquidity risk, continued**

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. Corporate risk management policy contains a section, which deals with the liquidity risk management issues. This policy is approved by the Board of Directors.

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

The section of the corporate risk management policy, which deals with the liquid risk management, consists of:

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

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

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

## 20 Risk management, continued

### (d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	29,081	1,940	1,086,263	-	-	1,117,284	1,112,834
Current accounts and deposits from customers	4,891,077	10,610	28,441	71,191	144,415	5,145,734	5,125,779
Other financial liabilities	8,615	-	-	-	-	8,615	8,615
<b>Total liabilities</b>	<b>4,928,773</b>	<b>12,550</b>	<b>1,114,704</b>	<b>71,191</b>	<b>144,415</b>	<b>6,271,633</b>	<b>6,247,228</b>
<b>Credit related commitments</b>	<b>1,768,677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,768,677</b>	<b>1,768,677</b>

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	2,078,604	-	-	-	-	2,078,604	2,078,604
Current accounts and deposits from customers	3,329,799	40,192	7,800	-	230,474	3,608,265	3,608,265
Other financial liabilities	3,023	-	-	-	-	3,023	3,023
<b>Total liabilities</b>	<b>5,411,426</b>	<b>40,192</b>	<b>7,800</b>	<b>-</b>	<b>230,474</b>	<b>5,689,892</b>	<b>5,689,892</b>
<b>Credit related commitments</b>	<b>2,197,137</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,197,137</b>	<b>2,197,137</b>

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

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



## 20 Risk management, continued

### (d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
<b>Non-derivative assets</b>							
Cash and cash equivalents	1,949,537	-	-	-	-	-	1,949,537
Placements with banks	-	-	-	240	-	-	240
Available-for-sale financial assets	-	38,347	48,430	1,353,604	2,009,293	-	3,449,674
Loans to banks	-	115,719	1,357,824	-	-	-	1,473,543
Loans to customers	206,409	530,906	4,256,982	1,519,384	2,082,314	-	8,595,995
Held-to-maturity investments	-	-	61,416	1,488,217	388,459	-	1,938,092
Property, equipment and intangible assets	-	-	-	-	-	49,960	49,960
Current tax asset	49,553	-	-	-	-	-	49,553
Other assets	1,244	-	-	-	-	19,044	20,288
<b>Total assets</b>	<b>2,206,743</b>	<b>684,972</b>	<b>5,724,652</b>	<b>4,361,445</b>	<b>4,480,066</b>	<b>69,004</b>	<b>17,526,882</b>
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	28,111	-	1,084,723	-	-	-	1,112,834
Current accounts and deposits from customers	4,889,290	8,438	94,045	134,006	-	-	5,125,779
Deferred tax liability	-	-	-	49,007	-	-	49,007
Other liabilities	8,615	-	16,753	-	-	-	25,368
<b>Total liabilities</b>	<b>4,926,016</b>	<b>8,438</b>	<b>1,195,521</b>	<b>183,013</b>	<b>-</b>	<b>-</b>	<b>6,312,988</b>
<b>Net position</b>	<b>(2,719,273)</b>	<b>676,534</b>	<b>4,529,131</b>	<b>4,178,432</b>	<b>4,480,066</b>	<b>69,004</b>	<b>11,213,894</b>

## 20 Risk management, continued

### (d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
<b>Non-derivative assets</b>							
Cash and cash equivalents	4,458,083	-	-	-	-	-	4,458,083
Placements with banks	-	-	80	240	-	-	320
Available-for-sale financial assets	-	55,909	43,542	935,781	1,457,784	-	2,493,016
Loans to banks	5,953	58,473	64,200	-	-	-	128,626
Loans to customers	91,353	1,367,388	394,403	3,898,884	1,509,215	-	7,261,243
Held-to-maturity investments	-	-	61,416	979,227	904,104	-	1,944,747
Property, equipment and intangible assets	-	-	-	-	-	60,138	60,138
Deferred tax asset	-	-	-	-	-	2,069	2,069
Other assets	8,140	-	-	-	-	10,728	18,868
<b>Total assets</b>	<b>4,563,529</b>	<b>1,481,770</b>	<b>563,641</b>	<b>5,814,132</b>	<b>3,871,103</b>	<b>72,935</b>	<b>16,367,110</b>
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	2,078,604	-	-	-	-	-	2,078,604
Current accounts and deposits from customers	3,329,799	40,192	7,800	230,474	-	-	3,608,265
Current tax liabilities	46,654	-	-	-	-	-	46,654
Other liabilities	4,344	-	19,645	-	-	-	23,989
<b>Total liabilities</b>	<b>5,459,401</b>	<b>40,192</b>	<b>27,445</b>	<b>230,474</b>	<b>-</b>	<b>-</b>	<b>5,757,512</b>
<b>Net position</b>	<b>(895,872)</b>	<b>1,441,578</b>	<b>536,196</b>	<b>5,583,658</b>	<b>3,871,103</b>	<b>72,935</b>	<b>10,609,598</b>

## **21 Capital management**

The FMSC of the NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSC banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2013, this minimum level of tier 1 capital to total assets is 5% (2012: 5%) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 10% (2012: 10%). The Bank was in compliance with the statutory capital ratios as at 31 December 2013 and 2012, with the minimum level tier 1 capital to total assets of 63% (2012: 63%) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk of 123% (2012: 125%).

## **22 Credit related commitments**

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

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

As at 31 December 2013 the Bank has outstanding contractual credit related commitments on credit line commitments of KZT 1,552,211 thousand (2012: KZT 1,993,539 thousand) and guarantees and letters of credit of KZT 216,466 thousand (2012: KZT 203,598 thousand).

## **23 Operating leases**

### **Leases as lessee**

The Bank leases an office under an operating lease. Non-cancellable operating lease rentals as at 31 December 2013 amounted to KZT 18,000 thousand (2012: KZT 35,464 thousand). The lease runs for an initial period of 11 months, with an option to renew the lease after that date. The lease does not include contingent rentals. During the year ended 31 December 2013 KZT 72,352 thousand was recognised as expense in profit or loss in respect of operating leases (2012: KZT 66,624 thousand).

## **24 Contingencies**

### **(a) Insurance**

The insurance industry in the Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

### **(b) Litigation**

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

## 24 Contingencies, continued

### (c) Taxation contingencies

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

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

## 25 Related party transactions

### (a) Control relationships

The Bank’s parent company is Shinhan Bank (Seoul, Republic of Korea). Publicly available financial statements are produced by the Parent Bank.

Ultimate controlling party of the Bank is Shinhan Financial Group Co., Ltd for which financial statements are publicly available.

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

Total remuneration included in personnel expenses for the years ended 31 December 2013 and 2012 is as follows:

	<b>2013</b> <b>KZT’000</b>	<b>2012</b> <b>KZT’000</b>
Board of Directors	40,297	17,709
Members of the Management Board	73,244	46,931
	<b>113,541</b>	<b>64,640</b>

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

	<b>2013</b> <b>KZT’000</b>	<b>Average</b> <b>interest rate,</b> <b>%</b>	<b>2012</b> <b>KZT’000</b>	<b>Average</b> <b>interest rate,</b> <b>%</b>
<b>Statement of financial position</b>				
Loans to customers	9,978	10	12,875	10
Current accounts and deposits	47	5	-	-

All loans provided are in tenge and repayable by the end of 2016.

## 25 Related party transactions, continued

### (c) Transactions with other related parties

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

	<b>2013</b> <b>KZT'000</b>	<b>2012</b> <b>KZT'000</b>
<b>Profit or loss</b>		
Interest income	1,108	1,440
Interest expense	2	-

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

	<b>The Parent Bank</b>		
	<b>KZT'000</b>	<b>Average interest rate, %</b>	<b>Total KZT'000</b>
<b>Statement of financial position</b>			
<b>ASSETS</b>			
Cash and cash equivalents			
- In other currencies	927	-	927
<b>LIABILITIES</b>			
Deposits and balances from banks			
- In KZT	637	-	637
- In USD	1,089,529	1.25	1,089,529
- In other currency	22,668	-	22,668
<b>Items not recognised in the statement of financial position</b>			
Guarantees received	3,451,862	-	3,451,862
<b>Profit/(loss)</b>			
Interest expense	14,856	-	14,856

## 25 Related party transactions, continued

### (c) Transactions with other related parties, continued

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

	<b>The Parent Bank</b>		<b>Total KZT'000</b>
	<b>KZT'000</b>	<b>Average interest rate, %</b>	
<b>Statement of financial position</b>			
<b>ASSETS</b>			
Cash and cash equivalents			
- In USD	904,641	0.32	904,641
- In other currency	871	-	871
<b>LIABILITIES</b>			
Deposits and balances from banks			
- In Tenge	537	-	537
- In USD	2,071,933	-	2,071,933
- In other currency	6,134	-	6,134
<b>Items not recognised in the statement of financial position</b>			
Guarantees received	3,086,676	-	3,086,676
<b>Profit/(loss)</b>			
Interest expense	514	-	514

## 26 Financial assets and liabilities: fair values and accounting classifications

### (a) Accounting classifications and fair values

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

<b>KZT'000</b>	<b>Held-to-maturity</b>	<b>Loans and receivables</b>	<b>Available-for-sale</b>	<b>Other amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	-	1,949,537	-	-	1,949,537	1,949,537
Placements with banks	-	240	-	-	240	240
Available-for-sale financial assets	-	-	3,449,674	-	3,449,674	3,449,674
Loans to banks	-	1,473,543	-	-	1,473,543	1,467,033
Loans customers:						
Loans to legal entities	-	6,035,760	-	-	6,035,760	5,938,808
Loans to retail customers	-	2,560,235	-	-	2,560,235	2,484,880
Held-to-maturity investments	1,938,092	-	-	-	1,938,092	1,943,861
Other financial assets	-	1,244	-	-	1,244	1,244
	<b>1,938,092</b>	<b>12,020,559</b>	<b>3,449,674</b>	<b>-</b>	<b>17,408,325</b>	<b>17,235,277</b>
Deposits and balances from banks	-	-	-	1,112,834	1,112,834	1,112,834
Current accounts and deposits from customers	-	-	-	5,125,779	5,125,779	5,125,779
Other financial liabilities	-	-	-	8,615	8,615	8,615
	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,247,228</b>	<b>6,247,228</b>	<b>6,247,228</b>

## 26 Financial assets and liabilities: fair values and accounting classifications, continued

### (a) Accounting classifications and fair values, continued

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

<b>KZT'000</b>	<b>Held-to-maturity</b>	<b>Loans and receivables</b>	<b>Available-for-sale</b>	<b>Other amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	-	4,458,083	-	-	4,458,083	4,458,083
Placements with banks	-	320	-	-	320	320
Available-for-sale financial assets	-	-	2,493,016	-	2,493,016	2,493,016
Loans to banks	-	128,626	-	-	128,626	128,626
Loans customers:	-					
Loans to legal entities	-	5,497,359	-	-	5,497,359	5,488,055
Loans to retail customers	-	1,763,884	-	-	1,763,884	1,763,884
Held-to-maturity investments	1,944,747	-	-	-	1,944,747	1,901,710
Other financial assets	-	5,798	-	-	5,798	5,798
	<b>1,944,747</b>	<b>11,854,070</b>	<b>2,493,016</b>	<b>-</b>	<b>16,291,833</b>	<b>16,239,492</b>
Deposits and balances from banks	-	-	-	2,078,604	2,078,604	2,078,604
Current accounts and deposits from customers	-	-	-	3,608,265	3,608,265	3,608,265
Other financial liabilities	-	-	-	3,023	3,023	3,023
	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,689,892</b>	<b>5,689,892</b>	<b>5,689,892</b>

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The management used assumption on discount rate of 8.76% (2012: 9.96%) used for discounting future cash flows to estimate the fair values of loans to customers.

## **26 Financial assets and liabilities: fair values and accounting classifications, continued**

### **(b) Fair value hierarchy**

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

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

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

- verification of observable pricing
- re-performance of model valuations
- review and approval process for new models and changes to models involving Risk Management department
- quarterly calibration and back testing of models against observed market transactions
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by a Management Board.

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

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

Significant valuation issues are reported to the Management Board.



## 26 Financial assets and liabilities: fair values and accounting classifications, continued

### (b) Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2013 and 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

<b>KZT'000</b>	<b>Level 2</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Available-for-sale financial assets		
- Debt securities	3,449,674	2,493,016
	<b>3,449,674</b>	<b>2,493,016</b>

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

<b>KZT'000</b>	<b>Level 2</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
<b>Assets</b>			
Cash and cash equivalents	1,949,537	1,949,537	1,949,537
Placements with banks	240	240	240
Loans to banks	1,467,033	1,467,033	1,473,543
Loans to customers	8,423,688	8,423,688	8,595,995
Held-to-maturity investments	1,943,861	1,943,861	1,938,092
Other financial assets	1,244	1,244	1,244
<b>Liabilities</b>			
Deposits and balances from banks	1,112,834	1,112,834	1,112,834
Current accounts and deposits from customers	5,125,779	5,125,779	5,125,779
Other financial liabilities	8615	8,615	8,615

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2012:

<b>KZT'000</b>	<b>Level 2</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
<b>Assets</b>			
Cash and cash equivalents	4,458,083	4,458,083	4,458,083
Placements with banks	320	320	320
Loans to banks	128,626	128,626	128,626
Loans to customers	7,251,939	7,251,939	7,261,243
Held-to-maturity investments	1,901,710	1,901,710	1,944,747
Other financial assets	5,798	5,798	5,798
<b>Liabilities</b>			
Deposits and balances from banks	2,078,604	2,078,604	2,078,604
Current accounts and deposits from customers	3,608,265	3,608,265	3,608,265
Other financial liabilities	3,023	3,023	3,023

## **27 Events after the reporting period**

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

Management has evaluated the effects of the devaluation on the Bank and does not expect the operational impact to be significant. See note 26 (b) for details of the Bank’s exposure to foreign currency risk at the reporting date. Management’s current assessment is that the devaluation will not affect the Bank’s ability to meet its existing contractual obligations.