“Shinhan Bank Kazakhstan” JSC

Financial Statements

for the year ended
31 December 2012

Contents

Opinion

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

Kim Y.V.
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

Nigay A. N.
General Director of KPMG Audit LLC
acting on the basis of the Charter

12 March 2013

	Note	2012 KZT'000	2011 KZT'000
Interest income	4	840,924	628,455
Interest expense	4	(34,564)	(40,798)
Net interest income		**806,360**	**587,657**
Fee and commission income	5	44,205	46,958
Fee and commission expense	6	(7,006)	(5,407)
Net fee and commission income		**37,199**	**41,551**
Net foreign exchange income	7	37,801	32,042
Other operating expenses, net		(738)	(1,344)
Operating income		**880,622**	**659,906**
Recovery of/(charge for) impairment losses on loans to customers	14	63	(524)
General administrative expenses	8	(469,680)	(391,607)
Profit before income tax		**411,005**	**267,775**
Income tax expense	9	(42,375)	(26,373)
Profit for the year		**368,630**	**241,402**
Other comprehensive loss, net of income tax			
Net change in fair value of available-for-sale financial assets		(105,835)	(35,022)
Other comprehensive loss for the year, net of income tax		**(105,835)**	**(35,022)**
Total comprehensive income for the year		**262,795**	**206,380**

The financial statements as set out on pages 5 to 43 were approved by Management on 12 March 2013 and were signed on its behalf by:

Mr. Jeong Ji-Ho
Chairman

Mrs. Nikitina M.A.
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9-43.

	Note	2012 KZT'000	2011 KZT'000
ASSETS			
Cash and cash equivalents	10	4,259,422	3,402,871
Placements with banks	11	320	5,281,230
Available-for-sale financial assets	12	2,493,016	2,630,257
Mandatory reserve with the National Bank of the Republic of Kazakhstan	10	198,661	276,195
Loans to banks	13	128,626	1,563,724
Loans to customers	14	7,261,243	2,362,729
Held-to-maturity investments	15	1,944,747	1,949,052
Property, equipment and intangible assets	16	60,138	86,362
Deferred tax asset	9	2,069	-
Other assets		18,868	18,137
Total assets		**16,367,110**	**17,570,557**
LIABILITIES			
Deposits and balances from banks	17	2,078,604	1,522,743
Current accounts and deposits from customers	18	3,608,265	5,672,355
Current tax liability		46,654	7,035
Deferred tax liability	9	-	2,859
Other liabilities		23,989	18,762
Total liabilities		**5,757,512**	**7,223,754**
EQUITY			
Share capital	19	10,028,720	10,028,720
Additional paid-in capital		144,196	144,196
Statutory reserve		242,653	1,251
Revaluation reserve for available-for-sale financial assets		(140,857)	(35,022)
Retained earnings		334,886	207,658
Total equity		**10,609,598**	**10,346,803**
Total liabilities and equity		**16,367,110**	**17,570,557**

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 9-43.

	2012 KZT’000	2011 KZT’000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	1,060,700	525,423
Interest payments	(50,044)	(24,934)
Fee and commission receipts	45,826	42,577
Fee and commission payments	(6,936)	(5,407)
Net receipts from foreign exchange	36,274	33,187
Other operating expenses payments	(738)	(1,344)
General administrative expenses payments	(436,592)	(356,171)
Increase/(decrease) in operating assets		
Mandatory reserve with the National Bank of the Republic of Kazakhstan	77,534	(265,262)
Placements with banks	5,085,600	(2,649,990)
Loans to banks	1,425,685	(1,470,019)
Loans to customers	(4,863,836)	(2,306,271)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	534,771	1,467,437
Current accounts and deposits from customers	(2,078,253)	5,350,264
Net cash provided from operating activities before income tax paid	**829,991**	**339,490**
Income tax paid	(7,684)	-
Cash flows from operating activities	**822,307**	**339,490**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(4,067)	(5,357)
Purchases of available-for-sale financial assets	-	(2,627,707)
Proceeds from maturity of held-to-maturity investments	-	395,000
Cash flows used in investing activities	**(4,067)**	**(2,238,064)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	-	5,000,000
Cash flows from financing activities	**-**	**5,000,000**
Net increase in cash and cash equivalents	**818,240**	**3,101,426**
Effect of changes in exchange rates on cash and cash equivalents	38,311	(327)
Cash and cash equivalents as at the beginning of the year	3,402,871	301,772
Cash and cash equivalents as at the end of the year (Note 10)	**4,259,422**	**3,402,871**

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 9-43.

KZT’000	Share capital	Additional paid-in capital	Statutory reserve	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance at 1 January 2011	**5,028,720**	**144,196**	**-**	**-**	**(32,493)**	**5,140,423**
Profit for the year	-	-	-	-	241,402	241,402
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	(35,022)	-	(35,022)
Total other comprehensive income for the year	**-**	**-**	**-**	**(35,022)**	**241,402**	**206,380**
Shares issued	5,000,000	-	-	-	-	5,000,000
Transfer to statutory reserve (Note 19 (b))	-	-	1,251	-	(1,251)	-
Balance at 31 December 2011	**10,028,720**	**144,196**	**1,251**	**(35,022)**	**207,658**	**10,346,803**
Balance at 1 January 2012	**10,028,720**	**144,196**	**1,251**	**(35,022)**	**207,658**	**10,346,803**
Profit for the year	-	-	-	-	368,630	368,630
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	(105,835)	-	(105,835)
Total other comprehensive income for the year	**-**	**-**	**-**	**(105,835)**	**368,630**	**262,795**
Transfer to statutory reserve (Note 19 (b))	-	-	241,402	-	(241,402)	-
Balance at 31 December 2012	**10,028,720**	**144,196**	**242,653**	**(140,857)**	**334,886**	**10,609,598**

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 9-43.

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 operations 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 (ИУ)) 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 Group. 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 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.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

2 Basis of preparation, continued

(d) Use of estimates and judgments, continued

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the Note 14 – loan impairment estimates.

3 Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies 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. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for derivative financial instruments that are 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 recognized 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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(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 recognized in profit or loss

- a gain or loss on an available-for-sale financial asset is recognized 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 derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized 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 recognized 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 recognized 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(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.

(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

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, held-to-maturity investments and other receivables (loans, held-to-maturity investments and receivables). The Bank reviews them to assess impairment on a regular basis. A loan or held-to-maturity investment or receivable 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 loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

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, held-to-maturity investments and receivables that are individually significant, and individually or collectively for loans, held-to-maturity investments and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the loan in a group of loans, held-to-maturity investments and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans, held-to-maturity investment 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 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 judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans, held-to-maturity investments and receivables are recognized 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) 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 recognized 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.

3 Significant accounting policies, continued

(g) Credit related commitments, continued

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

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.

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.

3 Significant accounting policies, continued

(i) Taxation, continued

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.

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) 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 2012, 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.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain 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 amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- 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 remaining parts of the standard are expected to be issued during 2013. 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 Bank's 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.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

3 Significant accounting policies, continued

(k) New standards and interpretations not yet adopted, continued

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been 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 2013. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 KZT'000	2011 KZT'000
Interest income		
Loans to customers	405,720	133,555
Placements with banks	155,030	254,666
Held-to-maturity investment	105,136	135,261
Available-for-sale financial assets	104,020	40,984
Loans to banks	70,285	61,872
Placements with the NBRK	694	2,107
Cash and cash equivalents	39	10
	840,924	**628,455**
Interest expense		
Deposits and balances from banks	(21,834)	(22,273)
Current accounts and deposits from customers	(7,452)	(13,103)
Amounts payable under repurchase agreements	(5,278)	(5,422)
	(34,564)	**(40,798)**
	806,360	**587,657**

5 Fee and commission income

	2012 KZT'000	2011 KZT'000
Transfer operations	26,760	20,478
Cash transactions	10,063	12,681
Guarantee	3,927	6,436
Letter of credit	779	5,759
Other	2,676	1,604
	44,205	**46,958**

6 Fee and commission expense

	2012 KZT'000	2011 KZT'000
Transfer operations	4,270	2,890
Brokerage	1,606	1,550
Other	1,130	967
	7,006	**5,407**

7 Net foreign exchange income

	2012 KZT'000	2011 KZT'000
Realised gain from dealing operations, net	36,275	33,187
Unrealised gain/(loss) from revaluation of foreign currency, net	1,526	(1,145)
	37,801	**32,042**

8 General administrative expenses

	2012 KZT'000	2011 KZT'000
Payroll and related taxes	291,183	232,797
Operating lease expense	66,624	64,696
Depreciation and amortisation	30,291	31,735
Communications and information services	24,207	24,045
Professional services	12,790	7,437
Transportation	6,341	4,521
Security	6,283	6,051
Business trips	6,051	1,573
Advertising and marketing	4,114	1,133
Representative expenses	3,977	2,071
Repairs and maintenance	2,626	3,612
Other	15,193	11,936
	469,680	**391,607**

9 Income tax expense

	2012 KZT'000	2011 KZT'000
Current year tax expense		
Current year	47,303	9,788
Deferred taxation movement due to origination and reversal of temporary differences	(4,928)	16,585
Total income tax expense	**42,375**	**26,373**

In 2012, the applicable tax rate for current and deferred tax is 20% (2011: 20%).

Reconciliation of effective tax rate:

	2012 KZT'000	%	2011 KZT'000	%
Profit before income tax	**411,005**	**100**	**267,775**	**100**
Income tax at the applicable tax rate	82,201	20.0	53,555	20.0
Non-taxable income from securities	(41,645)	(10.1)	(35,249)	(13.2)
Under provided deferred tax in prior year	-	-	7,051	2.6
Other non-deductible costs	1,819	0.4	1,016	0.4
	42,375	**10.3**	**26,373**	**9.8**

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 2012 and deferred tax assets as at 31 December 2011.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows.

2012 KZT'000	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Property, equipment and intangible assets	(5,195)	3,899	(1,296)
Other assets	437	(437)	-
Other liabilities	1,899	1,466	3,365
	(2,859)	**4,928**	**2,069**

2011 KZT'000	Balance 1 January 2011	Recognised in profit or loss	Balance 31 December 2011
Property, equipment and intangible assets	(9,153)	3,958	(5,195)
Other assets	-	437	437
Other liabilities	1,975	(76)	1,899
Tax loss carry-forwards	20,904	(20,904)	-
	13,726	**(16,585)**	**(2,859)**

10 Cash and cash equivalents

	2012 KZT'000	2011 KZT'000
Cash on hand	**229,402**	**231,078**
Nostro accounts with the NBRK	**391,900**	**516,755**
Nostro accounts with other banks:		
- rated from A- to A+	1,631,788	536,844
- rated BBB	238	-
Total nostro accounts with other banks	**1,632,026**	**536,844**
Cash equivalents		
Term deposits with the NBRK	**1,300,114**	**800,022**
Term deposits with other banks		
- rated from A- to A+	904,641	890,430
- rated from B- to B	-	703,937
Total term deposits with other banks	**904,641**	**1,594,367**
Total cash equivalents	**2,204,755**	**2,394,389**
Minimum reserve requirements with the NBRK	(198,661)	(276,195)
Total cash and cash equivalents	**4,259,422**	**3,402,871**

Under Kazakhstan legislation, the Bank is required to maintain certain obligatory reserves, which are computed as percentage of certain liabilities of the Bank. The mandatory reserve requirements with the National Bank of the Republic of Kazakhstan are not considered to be cash equivalents for purpose of the cash flows statement due to restrictions on its withdrawability.

No cash and cash equivalents are impaired or past due.

Concentration of cash and cash equivalents

As at 31 December 2012 the Bank has two banks (2011: one bank), whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2012 is KZT 3,074,567 thousand (2011: KZT 1,316,777 thousand).

11 Placements with banks

	2012 KZT'000	2011 KZT'000
Term deposits with banks		
- rated BBB	240	1,903,818
- rated from B- to B+	80	3,377,412
	320	**5,281,230**

No placements with banks are impaired or past due.

Concentration of placements with banks

As at 31 December 2012 the Bank has no banks (31 December 2011: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 was KZT KZT 3,572,950 thousand.

12 Available-for-sale financial assets

	2012 KZT'000	2011 KZT'000
Held by the Bank		
Debt financial instruments		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,238,955	2,376,214
- Bonds of Sovereign Wealth Fund "Samruk-Kazyna" JSC	254,061	254,043
Total available-for-sale financial assets	**2,493,016**	**2,630,257**

No available-for-sale financial assets are impaired or past due as at 31 December 2012 and 31 December 2011.

As at 31 December 2012 the Bank has Treasury bills of the Ministry of Finance of the Republic of Kazakhstan of KZT 987,722 thousand (31 December 2011: KZT 1,040,840 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 2012 and 31 December 2011 the loans to banks comprised loans to one local commercial bank with credit rating B+ in the amount of KZT 128,626 thousand and KZT 1,563,724 thousand, respectively.

As at 31 December 2012 and 2011 no loans to banks are past due or impaired.

14 Loans to customers

	2012 KZT'000	2011 KZT'000
Loans to corporate customers		
Loans to large corporates	3,989,667	2,094,787
Loans to small and medium size companies	1,507,692	15,184
Total loans to corporate customers	**5,497,359**	**2,109,971**
Loans to retail customers		
Consumer loans	1,571,921	220,241
Other	191,963	32,517
Total loans to retail customers	**1,763,884**	**252,758**
	7,261,243	**2,362,729**

Movements in the loan impairment allowance by classes of loans to customers for the years ended 31 December 2012 and 2011 are as follows:

	Loans to retail customers 2012 KZT'000	Loans to retail customers 2011 KZT'000
Balance at the beginning of the year	-	-
Net recovery/(charge for)	63	(524)
Repayment of debt written-off in prior year	(63)	-
Write-offs	-	524
Balance at the end of the year	**-**	**-**

14 Loans to customers, continued

As at 31 December 2012 all loans to customers are neither past due nor impaired. 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 on 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 2012 would be KZT 72,612 thousand higher (31 December 2011: KZT 23,627 thousand).

(a) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

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

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	-
Total loans to corporate customers	**5,497,359**	**29,928**	**1,172,696**	**4,294,735**

31 December 2011 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)	1,887,916	-	-	1,887,916
Cash and deposits	103,054	-	103,054	-
Real estate	99,318	-	99,318	-
Corporate guarantees (not rated)	19,683	-	-	19,683
Total loans to corporate customers	**2,109,971**	**-**	**202,372**	**1,907,599**

14 Loans to customers, continued

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

(i) Loans to corporate customers, continued

The tables above are presented on the basis of excluding overcollateralization.

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

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 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 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
Total loans to retail customers	**1,763,884**	**192,236**	**1,569,635**	**2,013**

31 December 2011 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	252,758	9,393	243,365	-
Total loans to retail customers	**252,758**	**9,393**	**243,365**	**-**

The table above is presented on the basis of excluding overcollateralization.

For certain loans to individuals the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment.

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:

	2012 KZT'000	2011 KZT'000
Construction	2,501,839	1,903,100
Loans to retail customers	1,763,884	252,758
Mining/metallurgy	1,208,059	-
Transport	658,394	-
Trade	442,480	73,547
Real estate	280,824	103,054
Advertising activity	150,208	-
Finance	62,723	-
Other	192,832	30,270
	7,261,243	**2,362,729**

(c) Significant credit exposures

As at 31 December 2012 the Bank has two borrowers (2011: one), whose loan balances exceeds 10% of equity. The gross value of this borrower as at 31 December 2012 is KZT 3,403,280 thousand (2011: KZT 1,326,727 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 significantly longer than the term based on contractual terms.

15 Held-to-maturity investments

	2012 KZT'000	2011 KZT'000
Held by the Bank		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,944,747	1,949,052
	1,944,747	**1,949,052**

No held-to-maturity investments are impaired or past due as at 31 December 2012 and 2011.

16 Property, equipment and intangible assets

KZT'000	Leasehold improvements	Computers	Motor vehicles	Other	Intangible assets	Total
Cost						
Balance at 1 January 2012	78,886	26,010	12,586	62,020	16,174	195,676
Additions	-	3,012	-	962	93	4,067
Balance at 31 December 2012	**78,886**	**29,022**	**12,586**	**62,982**	**16,267**	**199,743**
Depreciation and amortisation						
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)
Balance at 31 December 2012	**(74,886)**	**(13,808)**	**(7,707)**	**(34,556)**	**(8,648)**	**(139,605)**
Carrying amount						
At 31 December 2012	**4,000**	**15,214**	**4,879**	**28,426**	**7,619**	**60,138**
Cost						
Balance at 1 January 2011	78,886	21,957	12,586	60,853	16,037	190,319
Additions	-	4,053	-	1,167	137	5,357
Balance at 31 December 2011	**78,886**	**26,010**	**12,586**	**62,020**	**16,174**	**195,676**
Depreciation and amortisation						
Balance at 1 January 2011	(38,622)	(7,730)	(5,282)	(21,044)	(4,901)	(77,579)
Depreciation and amortisation for the year	(18,144)	(2,906)	(1,334)	(7,298)	(2,053)	(31,735)
Balance at 31 December 2011	**(56,766)**	**(10,636)**	**(6,616)**	**(28,342)**	**(6,954)**	**(109,314)**
Carrying amount						
At 31 December 2011	**22,120**	**15,374**	**5,970**	**33,678**	**9,220**	**86,362**

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2012 (2011: nil).

17 Deposits and balances from banks

	2012 KZT'000	2011 KZT'000
Vostro accounts	2,078,604	79,195
Term deposits	-	1,443,548
	2,078,604	**1,522,743**

As at 31 December 2012 the Bank has one bank (2011: 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 (2011: KZT 1,349,600 thousand).

18 Current accounts and deposits from customers

	2012 KZT'000	2011 KZT'000
Current accounts and demand deposits		
- Retail	208,064	201,289
- Corporate	2,925,919	5,161,532
Term deposits		
- Retail	8,184	109,500
- Corporate	466,098	200,034
	3,608,265	**5,672,355**

Blocked amounts

As at 31 December 2012, the Bank maintained customer deposit balances of KZT 466,098 thousand (2011: KZT 374,955 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 2012, the Bank has no customers (2011: one customer), whose balances exceed 10% of equity. This balance as at 31 December 2012 is KZT nil (2011: 1,573,184 thousand).

19 Share capital

(a) Issued and additional paid-in capital

The authorised, issued and outstanding share capital comprises 1,002,872 ordinary shares (2011: 1,002,872). All shares have a nominal value of KZT 10,000. There were no issuance of ordinary shares during 2012 (2011: 500,000 ordinary shares).

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) 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%.

19 Share capital, continued

(b) Statutory reserve, continued

During 2012, the shareholders approved to transfer KZT 241,402 thousand from retained earnings to this statutory reserve (2011: KZT 1,251 thousand).

For the year ended 31 December 2012, if such a transfer is approved by the shareholders, the effect of this would be a reduction of retained earnings and increase in the statutory reserve by the amount of KZT 36,863 thousand.

The statutory reserve is non-distributable.

(c) 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 2012 and 2011.

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.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. 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
31 December 2012							
ASSETS							
Cash equivalents	2,204,755	-	-	-	-	2,054,667	4,259,422
Placements with banks	-	-	80	240	-	-	320
Available-for-sale financial assets	-	991,690	43,542	-	1,457,784	-	2,493,016
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	-	198,661	198,661
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
	2,302,061	**2,417,551**	**563,641**	**4,878,351**	**3,871,103**	**2,253,328**	**16,286,035**
LIABILITIES							
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
	110,699	**-**	**7,800**	**-**	**-**	**5,568,370**	**5,686,869**
	2,191,362	**2,417,551**	**555,841**	**4,878,351**	**3,871,103**	**(3,315,042)**	**10,599,166**

20 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

As at 31 December 2011 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
31 December 2011							
ASSETS							
Cash equivalents	1,690,452	703,937	-	-	-	1,008,482	3,402,871
Placements with banks	-	2,434,704	2,846,526	-	-	-	5,281,230
Available-for-sale financial assets	-	1,044,808	43,483	-	1,541,966	-	2,630,257
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	-	276,195	276,195
Loans to banks	22,373	889,884	651,467	-	-	-	1,563,724
Loans to customers	5,345	1,333,838	678,485	217,808	127,253	-	2,362,729
Held-to-maturity investments	-	-	61,416	-	1,887,636	-	1,949,052
	1,718,170	**6,407,171**	**4,281,377**	**217,808**	**3,556,855**	**1,284,677**	**17,466,058**
LIABILITIES							
Deposits and balances from banks	-	1,443,548	-	-	-	79,195	1,522,743
Current accounts and deposits from customers	204,534	-	-	105,000	-	5,362,821	5,672,355
	204,534	**1,443,548**	**-**	**105,000**	**-**	**5,442,016**	**7,195,098**
	1,513,636	**4,963,623**	**4,281,377**	**112,808**	**3,556,855**	**(4,157,339)**	**10,270,960**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011.

	2012 Average effective interest rate, %			2011 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents						
Placements with the NBRK with original maturity less than three months	0.7	-	-	0.5	-	-
Placements with other banks with original maturity less than three months	-	0.3	-	3.8	0.3	-
Placements with banks	0.1	-	-	6.0	3.5	-
Available-for-sale financial assets	4.0			4.0	-	-
Loans to banks	5.4	-	-	5.0	3.8	5.2
Loans to customers	8.4	3.0	-	8.0	-	-
Held-to-maturity investments	5.5	-	-	5.5	-	-

20 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

	2012 Average effective interest rate, %			2011 Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	-	-	-	-	1.6	2.7
Current accounts and deposits from customers						
- Term deposits	5.00	-	-	0.2	-	-

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 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	(34,585)	(34,585)	(57,539)	(57,539)
100 bp parallel rise	34,585	34,585	57,539	57,539

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 2012 and 2011 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2012		2011	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	-	125,368	-	119,427
100 bp parallel rise	-	(115,433)	-	(177,334)

(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.

20 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	1,659,037	2,593,334	7,051	4,259,422
Placements with banks	320	-	-	320
Available-for-sale financial assets	2,493,016	-	-	2,493,016
Mandatory reserve with the National Bank of the Republic of Kazakhstan	198,661	-	-	198,661
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
Total assets	**12,483,389**	**3,801,393**	**7,051**	**16,291,833**
LIABILITIES				
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
Total liabilities	**2,006,352**	**3,677,406**	**6,134**	**5,689,892**
Net position	**10,477,037**	**123,987**	**917**	**10,601,941**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2011:

	KZT KZT'000	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	1,845,424	1,471,281	86,166	3,402,871
Placements with banks	3,906,436	1,374,794	-	5,281,230
Available-for-sale financial assets	2,630,257	-	-	2,630,257
Mandatory reserve with the National Bank of the Republic of Kazakhstan	276,195	-	-	276,195
Loans to banks	1,374,300	172,631	16,793	1,563,724
Loans to customers	2,362,729	-	-	2,362,729
Held-to-maturity investments	1,949,052	-	-	1,949,052
Other financial assets	3,919	563	-	4,482
Total assets	**14,348,312**	**3,019,269**	**102,959**	**17,470,540**
LIABILITIES				
Deposits and balances from banks	7,275	1,417,000	98,468	1,522,743
Current accounts and deposits from customers	4,072,809	1,599,546	-	5,672,355
Other financial liabilities	4,798	563	-	5,361
Total liabilities	**4,084,882**	**3,017,109**	**98,468**	**7,200,459**
Net position	**10,263,430**	**2,160**	**4,491**	**10,270,081**

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 2012 and 2011 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.

	2012		2011	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
10% appreciation of USD against KZT	9,919	9,919	173	173
10% appreciation of other currency against KZT	73	73	359	359

A strengthening of the KZT against the above currencies at 31 December 2012 and 2011 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:

	2012 KZT'000	2011 KZT'000
ASSETS		
Cash and cash equivalents	4,030,020	3,171,793
Placements with banks	320	5,281,230
Available-for-sale financial assets	2,493,016	2,630,257
Mandatory reserve with the National Bank of the Republic of Kazakhstan	198,661	276,195
Loans to banks	128,626	1,563,724
Loans to customers	7,261,243	2,362,729
Held-to-maturity investments	1,944,747	1,949,052
Other financial assets	5,798	4,482
Total maximum exposure	**16,062,431**	**17,239,462**

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 2012 the Bank has one debtor (2011: one), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for this customer as at 31 December 2012 is KZT 2,195,221 thousand (2011: KZT 1,903,818 thousand).

(d) Liquidity risk

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

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to 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.

20 Risk management, continued

(d) Liquidity risk, continued

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 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 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
Non-derivative liabilities							
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
Total liabilities	**5,411,426**	**40,192**	**7,800**	**-**	**230,474**	**5,689,892**	**5,689,892**
Credit related commitments	**2,197,137**	**-**	**-**	**-**	**-**	**2,197,137**	**2,197,137**

The maturity analysis for financial liabilities as at 31 December 2011 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
Non-derivative liabilities							
Deposits and balances from banks	80,771	1,445,690	-	-	-	1,526,461	1,522,743
Current accounts and deposits from customers	5,567,374	-	-	-	105,000	5,672,374	5,672,355
Other financial liabilities	5,361	-	-	-	-	5,361	5,361
Total liabilities	**5,653,506**	**1,445,690**	**-**	**-**	**105,000**	**7,204,196**	**7,200,459**
Credit related commitments	**1,616,296**	**-**	**-**	**-**	**-**	**1,616,296**	**1,616,296**

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".

20 Risk management, continued

(d) Liquidity risk, continued

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.

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
Non-derivative assets							
Cash and cash equivalents	4,259,422	-	-	-	-	-	4,259,422
Placements with banks	-	-	80	240	-	-	320
Available-for-sale financial assets	-	55,909	43,542	935,781	1,457,784	-	2,493,016
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	-	198,661	198,661
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
Total assets	**4,364,868**	**1,481,770**	**563,641**	**5,814,132**	**3,871,103**	**271,596**	**16,367,110**
Non-derivative liabilities							
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
Total liabilities	**5,459,401**	**40,192**	**27,445**	**230,474**	**-**	**-**	**5,757,512**
Net position	**(1,094,533)**	**1,441,578**	**536,196**	**5,583,658**	**3,871,103**	**271,596**	**10,609,598**

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 2011:

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
Non-derivative assets							
Cash and cash equivalents	2,698,934	703,937	-	-	-	-	3,402,871
Placements with banks	-	2,434,704	2,846,526	-	-	-	5,281,230
Available-for-sale financial assets	-	55,389	43,483	989,419	1,541,966	-	2,630,257
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	-	276,195	276,195
Loans to banks	22,373	889,884	651,467	-	-	-	1,563,724
Loans to customers	5,345	1,333,838	678,485	217,808	127,253	-	2,362,729
Held-to-maturity investments	-	-	61,416	-	1,887,636	-	1,949,052
Property, equipment and intangible assets	-	-	-	-	-	86,362	86,362
Other assets	8,013	-	-	-	-	10,124	18,137
Total assets	**2,734,665**	**5,417,752**	**4,281,377**	**1,207,227**	**3,556,855**	**372,681**	**17,570,557**
Non-derivative liabilities							
Deposits and balances from banks	79,195	1,443,548	-	-	-	-	1,522,743
Current accounts and deposits from customers	5,567,355	-	-	105,000	-	-	5,672,355
Current tax liabilities	7,035	-	-	-	-	-	7,035
Deferred tax liabilities	-	-	-	2,859	-	-	2,859
Other liabilities	9,269	-	9,493	-	-	-	18,762
Total liabilities	**5,662,854**	**1,443,548**	**9,493**	**107,859**	**-**	-	**7,223,754**
Net position	**(2,928,189)**	**3,974,204**	**4,271,884**	**1,099,368**	**3,556,855**	**372,681**	**10,346,803**

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 2012, this minimum level of tier 1 capital to total assets is 5 % (2011: 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 2012 and 2011, with the minimum level tier 1 capital to total assets of 63% (2011: 57%) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk of 125% (2011: 91%).

22 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 2012 the Bank has outstanding contractual commitments on credit line commitments of KZT 1,993,539 thousand (2011: KZT 1,187,200 thousand) and guarantees and letters of credit of KZT 203,598 thousand (2011: KZT 429,096 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 2012 amount to KZT 35,464 thousand (2011: KZT 27,265 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 2012 KZT 66,624 thousand was recognised as expense in profit or loss in respect of operating leases (2011: KZT 64,696 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 2012 and 2011 is as follows:

	2012 KZT’000	2011 KZT’000
Board of Directors	17,709	13,001
Members of the Management Board	46,931	42,445
	64,640	**55,446**

The outstanding balances and average interest rates as at 31 December 2012 and 2011 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2012 KZT’000	Average interest rate, %	2011 KZT’000	Average interest rate, %
Statement of financial position				
Loans to customers	12,875	10	15,994	10

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

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:

	2012 KZT’000	2011 KZT’000
Profit or loss		
Interest income	1,440	251

25 Related party transactions, continued

(c) Transactions with other related parties

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 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows.

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

The outstanding balances and the related average interest rates as at 31 December 2011 and related profit or loss amounts of transactions for the year ended 31 December 2011 with other related parties are as follows.

	The Parent Bank		Other subsidiaries of the Parent Bank		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Statement of financial position					
ASSETS					
Cash and cash equivalents					
- In Tenge	890,400	0.3	-	-	890,400
- In other currency	838	-	-	-	838
LIABILITIES					
Deposits and balances from banks					
- In Tenge	7,275	-	-	-	7,275
- In USD	1,403,000	1.6	-	-	1,403,000
- In other currency	4,519	-	92,118	2.69	96,637
Items not recognised in the statement of financial position					
Guarantees received	1,887,916	-	-	-	1,887,916
Profit/(loss)					
Interest expense	19,748	-	-	-	19,748

26 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

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

KZT'000	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	4,259,422	-	-	4,259,422	4,259,422
Placements with banks	-	320	-	-	320	320
Available-for-sale financial assets	-	-	2,493,016	-	2,493,016	2,493,016
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	198,661	-	-	198,661	198,661
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
	1,944,747	**11,854,070**	**2,493,016**	**-**	**16,291,833**	**16,239,492**
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
	-	**-**	**-**	**5,689,892**	**5,689,892**	**5,689,892**

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 2011:

KZT'000	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	3,402,871	-	-	3,402,871	3,402,871
Placements with banks	-	5,281,230	-	-	5,281,230	5,281,230
Available-for-sale financial assets	-	-	2,630,257	-	2,630,257	2,630,257
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	276,195	-	-	276,195	276,195
Loans to banks	-	1,563,724	-	-	1,563,724	1,563,724
Loans customers:						
Loans to legal entities	-	2,109,971	-	-	2,109,971	2,109,971
Loans to retail customers	-	252,758	-	-	252,758	252,758
Held-to-maturity investments	1,949,052	-	-	-	1,949,052	2,088,235
Other financial assets	-	4,482	-	-	4,482	4,482
	1,949,052	**12,891,231**	**2,630,257**	**-**	**17,470,540**	**17,609,723**
Deposits and balances from banks	-	-	-	1,522,743	1,522,743	1,522,743
Current accounts and deposits from customers	-	-	-	5,672,355	5,672,355	5,672,355
Other financial liabilities	-	-	-	5,361	5,361	5,361
	-	**-**	**-**	**7,200,459**	**7,200,459**	**7,200,459**

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

Accounting classifications and fair values, continued

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 9.96% used for discounting future cash flows to estimate the fair values of loans to customers.

Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

Available-for-sale financial assets debt instruments measured at fair value at 31 December 2012 of KZT 2,493,016 thousand (2011: KZT 2,630,257 thousand) were categorised as Level 2 in the fair value hierarchy.