JOINT STOCK COMPANY SUBSIDIARY BANK "National Bank of Pakistan" in Kazakhstan

Independent Auditor's Report and Financial Statements for the year ended 31 December 2012

BDO

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

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Joint Stock Company Subsidiary Bank "National Bank of Pakistan" in Kazakhstan (the "Bank").

Management of the Bank is responsible for the preparation of the financial statements that present fairly, in all significant respects, the financial position of the Bank as at 31 December 2012, the results of its operations, cash flows and changes in equity for the year then ended, as well as a summary of significant accounting policies and other notes, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the notes to the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

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

The accompanying financial statements for the year ended 31 December 2012 were prepared and signed for issue by the Bank Management on 28 February 2013.

On behalf of the Management Board:

Abdul Majid Sheikh
General Manager

A. K. Pirmaganbetova
Chief Accountant

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Licenses:

General State License on audit activity #0000276 issued by Ministry of Finance of RK dated 24.06.2004 (original license #0000001 AK Kazakhstanaudit was reregistered due to change of name to BDO Kazakhstanaudit).

"APPROVED"

Managing partner
General Director
BDO Kazakhstanaudit LLP

S.Kh. Koshkimbayev

February 28, 2013

INDEPENDENT AUDITOR'S REPORT

To Shareholder and Board of Directors
of JSC SB "National Bank of Pakistan" in Kazakhstan

Introduction

We have audited the accompanying financial statements of JSC SB "National Bank of Pakistan" in Kazakhstan (hereinafter "the Bank") as at 31 December 2012, which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of 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.

Auditor
Auditor Qualification Certificate No.0000250, issued on 29.04.1996 by RK qualifications commission on auditors certification

M.M. Shandybassova

0250

(in thousands of Tenge)	Note	2012	2011
Interest income	7	493 618	342 413
Interest expense	7	(43 087)	(19 036)
Net interest income		**450 531**	**323 377**
Provision for loan impairment	8	(26 477)	3 234
Net interest income after provision for loan impairment		**424 054**	**326 611**
Fee and commission income	9	21 114	14 889
Fee and commission expense	10	(2 549)	(1 901)
Net gain (loss) on foreign exchange operations	11	4 435	(2 737)
Other operating income		1 837	11 012
Operating income		**448 891**	**347 874**
Administrative and other operating expenses	12	(283 563)	(259 450)
Provision for impairment of other assets	17	(4 364)	-
Profit before tax		**160 964**	**88 424**
Income tax expense	13	(30 568)	(17 964)
Profit for the year		**130 396**	**70 460**
Other comprehensive income:			
Other comprehensive income after income tax		-	-
Total comprehensive income for the year		**130 396**	**70 460**
Weighted average number of shares		8 182	6 182
Earnings per share, tenge		**15 937**	**11 398**

Approved and signed on behalf of the Bank Management on 28 February 2013.

Abdul Majid Sheikh
General Manager

A. K. Pirmaganbetova
Chief Accountant

Notes on pages 10 - 34 form an integral part of these financial statements

(in thousands of Tenge)	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	14	663 498	278 190
Due from other banks		1 300	510 578
Loans and advances to customers	15	4 453 453	2 649 811
Reverse REPO receivables		200 343	-
Investments held-to-maturity		-	1 348 810
Property, plant and equipment and intangible assets	16	21 073	28 830
Deferred tax assets	13	707	-
Other assets	17	39 080	29 363
Total assets		**5 379 454**	**4 845 582**
LIABILITIES			
Correspondent accounts and deposits of banks		3 837	9 610
Customer accounts	18	939 907	534 631
Deferred income tax liability	13	-	4 868
Income tax liabilities		36 822	23 152
Subordinated debt		-	2 968
Other liabilities	19	46 382	36 921
Total liabilities		**1 026 948**	**612 150**
EQUITY			
Share capital	20	4 091 000	4 091 000
Reserve capital		63 100	23 912
Retained earnings		198 406	118 520
Total equity		**4 352 506**	**4 233 432**
Total liabilities and equity		**5 379 454**	**4 845 582**

Approved and signed on behalf of the Bank Management on 28 February 2013.

Abdul Majid Sheikh
General Manager

A. K. Pirmaganbetova
Chief Accountant

(in thousands of Tenge)	**Share capital**	**Reserve capital**	**Retained earnings**	**Total**
Balance at 1 January 2011	2 091 000	19 200	64 369	2 174 569
Profit for the period	-	-	70 460	70 460
Increase in share capital	2 000 000	-	-	2 000 000
Dividends	-	-	(11 597)	(11 597)
Increase in reserve capital	-	4 712	(4 712)	-
Balance at 31 December 2011	**4 091 000**	**23 912**	**118 520**	**4 233 432**
Profit for the period	-	-	130 396	130 396
Dividends	-	-	(11 322)	(11 322)
Increase in reserve capital	-	39 188	(39 188)	-
Balance at 31 December 2012	**4 091 000**	**63 100**	**198 406**	**4 352 506**

Approved and signed on behalf of the Bank Management on 28 February 2013.

Abdul Majid Sheikh
General Manager

A. K. Pirmaganbetova
Chief Accountant

(in thousands of Tenge)	31 December 2012	31 December 2011
Cash flows from operating activities		
Interest received on loans to customers	465 040	325 136
Interest received from investments held-to-maturity	6 925	3 190
Interest received on due from banks	8 180	3 219
Interest received Reverse REPO receivables	1 891	-
Interest paid on customer accounts	(43 337)	(19 462)
Fees and commissions received	21 114	14 889
Fees and commissions paid	(2 549)	(3 151)
Other operating income received	1 837	11 012
Income received from trading in foreign currencies	4 435	(3 176)
Administrative and other operating expenses paid	(273 110)	(248 997)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities	**190 426**	**82 660**
Changes in operating assets		
Net (increase)/decrease in due from other banks	504 977	(506 277)
Net (increase)/decrease in loans and advances to customers	(1 814 579)	(427 839)
Net (increase)/decrease in other assets	(15 581)	27 906
Changes in operating liabilities		
Net (increase)/decrease in customer accounts	405 559	57 517
Net (increase)/decrease in correspondent accounts and deposits of banks	(5 773)	9 569
Net (increase)/decrease in other liabilities	10 961	13 923
Income tax paid	(22 473)	(10 926)
Net cash from/(used in) operating activities	**(746 483)**	**(753 467)**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(2 696)	(3 193)
Purchase of investments held-to-maturity	(1 056 925)	(2 696 685)
Proceeds on sale and maturity of investments held-to-maturity	2 405 735	1 350 000
Reverse REPO receivables	(200 000)	-
Net cash from/(used in) investing activities	**1 146 114**	**(1 349 878)**
Cash flows from financing activities		
Dividends paid	(11 322)	(11 597)
Proceeds from issue of ordinary shares	-	2 000 000
Net cash from financing activities	**(11 322)**	**1 988 403**
Effect of exchange rate changes on cash and cash equivalents	**(3 001)**	**(443)**
Net increase in cash and cash equivalents	**385 308**	**(115 385)**
Cash and cash equivalents at the beginning of the year	278 190	393 575
Cash and cash equivalents at the end of the year, note 14	**663 498**	**278 190**

Approved and signed on behalf of the Bank Management on 28 February 2013.

Abdul Majid Sheikh
Chairman of the Board

A. K. Pirmaganbetova
Chief Accountant

Notes on pages 10 - 34 form an integral part of these financial statements

1 Introduction

Joint Stock Company Subsidiary Bank "National Bank of Pakistan" in Kazakhstan (the "Bank") is a joint-stock company, which was incorporated in Kazakhstan in 2001. As at 31 December 2012 and 31 December 2011 the sole shareholder owning 100% of the Bank's shares issued is the National Bank of Pakistan (Karachi).

The Bank's key activity is banking operations carried out in the Republic of Kazakhstan. The Bank conducts its business under license for banking and other operations number 252 dated 27 December 2007. The Bank is a participant of Kazakhstan Deposit Guarantee Fund JSC.

As at 31 December 2012 and 2011 the Bank has two branches: in the cities of Almaty and Karaganda.

The Bank's registered office is at: Build.27A, Nauryzbai street, Kaskelen town, Almaty oblast, Republic of Kazakhstan.

Economic Environment of the Bank's Activities

The Bank operates primarily in the Republic of Kazakhstan. Therefore, the Bank is exposed to the risks inherent in economic and financial market of the Republic of Kazakhstan. Legal, tax and regulatory framework is improving, but still allows different interpretations and is subject to frequent changes which create certain difficulties for entities doing their business in Kazakhstan. The accompanying financial statements reflect the Bank management's estimate of possible effect of existing business environment on the Bank's performance and financial position. Subsequent development of business environment may differ from the management's estimate.

2 Basis of Preparation

Statement of Compliance

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Measurement Basis

These financial statements were prepared on the actual cost basis, except for those disclosed in the Summary of Significant Accounting Policies.

Functional and Presentation Currency

The functional currency of the Bank is Kazakhstan tenge (hereinafter "KZT") which, being the national currency of the Republic of Kazakhstan, in the best way reflects economic substance of most of the Bank's operations and related circumstances effecting activities thereof.

Tenge is also the presentation currency of these financial statements. All figures are presented in KZT, rounded to KZT thousands.

Going Concern Assumption

The Bank Management has estimated the Bank's ability to continue as a going concern, and is satisfied that the Bank has sufficient resources to continue as a going concern in foreseeable future. Besides, the Management is not aware of any uncertainty, which may cause significant doubt in respect of the Bank's ability to continue as a going concern. Therefore, these financial statements have been prepared on a going-concern basis.

3 Summary of Significant Accounting Policies

Recognition and Measurement of Financial Instruments

The Bank recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the respective financial instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial Liabilities

A financial liability is derecognized by the Bank when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Cash and Cash Equivalents

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

3 Summary of Significant Accounting Policies, continuation

Due from Banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Funds with banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Funds with banks are carried net of allowance for impairment losses, if any.

Loans to Customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial institutes.

Loans granted by the Bank are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at the rate lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of Loans and Advances

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

Allowance for Impairment Losses

The Bank forms an allowance for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash inflows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on the financial asset recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized cost). Assets recorded in the statement of financial position are reduced by the amount of the impairment. The factors the Bank evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations, and fair value of the security and guarantees. These and other factors individually or in aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Bank believes that the amount of recorded impairment is sufficient to cover losses incurred, although it is probable that in certain periods the Bank can incur losses greater than recorded impairment.

3 Summary of Significant Accounting Policies, continuation

Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of comprehensive income.

REPO and Reverse REPO

Securities sold together with an agreement for the seller to buy back the securities (REPO) are recognised as fund raising secured with securities, in which case securities are still recognised in the statement of financial position, and liabilities to counterparties included in REPO payables are recognised as bank accounts and deposits or current client accounts and deposits, as appropriate. Difference between the selling price and the repurchase price is the interest expense and is recognised as profit or loss for the period in which REPO took place using the EIR method.
Where assets acquired under REPO agreements are sold to third parties, the obligation to buy back the securities is recognised as the liability held for trading, and is measured at fair value.

Property, Plant and Equipment and Intangible Assets

PP&E and intangible assets are recognized on a historical cost basis less accumulated depreciation and recognized impairment losses, if any.
Depreciation of property, plant and equipment and intangible assets is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Computers	40%
Vehicles	15%
Other PP&E	15%
Intangible assets	15%

The carrying amount of PP&E and intangible assets is reviewed at each reporting date for impairment in case any events have occurred or circumstances have changed, which indicates that the carrying amount of this asset may not be recovered.

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting year end and adjusted, if appropriate.

Repairs and modernization expenses are referred to costs as they arise and included into operating expenses, except for when they are subject to capitalization.

Taxation

Income tax expense represents the amount of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

3 Summary of Significant Accounting Policies, continuation

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is sold. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and

Deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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

Customer Accounts and Subordinated Debt

Customer accounts and subordinated debt are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial Guarantee Contracts Issued and Letters of Credit

Financial guarantee contracts and letters of credit issued by the Bank provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote, and a reliable estimate may be made. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Share Capital

Share capital is recognized at cost restated for inflation for prior periods.

3 Summary of Significant Accounting Policies, continuation

Retirement and Other Benefit Obligations

The Bank withholds amounts of pension contributions from employee salaries and pays them to pension funds operating in the Republic of Kazakhstan. In accordance with the requirements of the legislation of the Republic of Kazakhstan such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of Income and Expense

Recognition of Interest Income and Expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net present value of the financial asset or financial liability.

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

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

Recognition of Commission Income and Expense

Commission income and expenses are reported as the services provided or received, unless they are included into the effective interest rate.

Lease

The Bank entered into operating lease agreement for office premises. Total lease payments under the operating lease agreement are charged to other operating expenses and recognized in the statement of comprehensive income on a straight-line basis over the lease period.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate exchange rate ruling at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of Exchange

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

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

3 Summary of Significant Accounting Policies, continuation

Offset of Financial Assets and Liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to sell the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

4 Significant judgments and estimates

The Bank makes estimates and judgments that affect the amounts of assets and liabilities to be reported in the next financial year. Estimates and judgments are regularly reviewed based on the management experience and various other factors, including expected future events that are believed by the management to be reasonable under the circumstances. When applying accounting policies the management also uses judgments and estimates. Estimates and judgments that have the most significant influence on the reported amounts, and estimates that could result in material adjustments to the carrying amounts of assets and liabilities in the next financial year are as follows:

Allowance for Impairment of Loans

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

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in the Bank, and national or local economic conditions that correlate with defaults on assets on the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data. The management used no other estimates and judgments.

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

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

In the normal course of business many transactions and settlements are made, for which final tax assessments cannot be made. As a result, the Bank recognizes its tax liabilities based on its estimates as to whether additional taxes and interests will be charged. Those tax liabilities are recognized where the Bank believes that certain tax return items may be challenged or will not be proved by the tax authority inspections in full, though the Bank believes that its tax return items are reasonable. The Bank believes that its tax assessments are correct for all years open for audit; they are based on evaluation of many factors including past experience and interpretations of tax laws. The evaluation is based on estimates and judgments and may include a number of complex judgments on future events. To the extent to which final tax implications of such issues differ from the amounts reported, those differences will affect the tax expense for the period in which the tax liabilities are assessed.

5 Adoption of new and revised standards

Accounting principles applied when preparing the interim condensed financial statements comply with the principles applied when preparing annual financial statements of the Bank for the year ended 31 December 2011, except for the amendments adopted as at 1 January 2012 made to the standards stated below. Those amendments shall have an impact on accounting policies, financial position or performance of the Bank:

Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets

The amendment introduces a refutable assumption that the carrying amount of investment property, for assessment *of which the fair value model is used in accordance with IAS 40, shall be recovered by sale, and the deferred tax shall* be determined on the basis of the property sale assumption, respectively. The assumption is refuted, should the investment property be amortised and is kept within the business model aimed to consume practically all economic benefits from the investment property with the course of time, rather than from the property sale. Besides, IAS 12 requires the deferred tax on non-amortising assets evaluated with the use of revaluation model in accordance with IAS 16 to reflect tax circumstances of recovering the carrying amount of the underlying asset by its sale. The amendment is applied for annual reporting periods beginning on or after 1 January 2012.

Amendment to IAS 19 Employee Benefits

The amendment significantly changes accounting for employee benefits accounting, particularly, it eliminates possibility of deferred recognition of changes in assets and obligations of a funded benefit plan (a so called Corridor Method). Besides, the amendment restricts change of net defined benefit assets (obligations) recognised as income or loss, net interest income (expense) and services cost. The amendment is effective for annual periods beginning on or after 1 January 2013. The bank does not conduct such operations.

IFRS 9 Financial Instruments (Part 1)

The IASB published Part I of IFRS 9 *Financial Instruments*. The Standard will eventually replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 becomes effective for annual reporting periods beginning on or after 1 January 2013. Entities are permitted to early adopt Part 1 of the Standard. Part 1 of IFRS 9 introduces new requirements to classification and measurement of financial instruments. In particular, for the purposes of subsequent measurement, all financial assets shall be classified as measured at amortised cost or at fair value through profit or loss, in which case there is an irrevocable option to reflect revaluation of non-trading equity instruments through other comprehensive income. However, IFRS 9 provides an option to designate a non-trading equity investment at FVTPL or at fair value through other comprehensive income. Here a requirement is introduced to account for changes in fair value caused by credit risk in other comprehensive income.

Currently, the Bank is estimating the effect of the Standard and is making decision as to the date of its first adoption.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011 is a new standard including a large range of disclosure requirements of all types of interests in other entities, including subsidiaries, joint arrangements, associates and structured entities. The Standard is effective for annual reporting periods beginning on or after 1 January 2013. Early adoption is permitted.

The Bank believes that this change will have no effect on the Bank's financial position or financial performance.

5 Adoption of new and revised standards, continuation

IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* give a definition of fair value, establishes a single source of guidance under IFRS for all fair value measurements and establishes disclosure requirements of fair value. The standard provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 does not introduce new requirements to measurement of assets or liabilities at fair value, does not change when an entity is required to use fair value under IFRS, and does not deal with presentation of changes in fair value. This Standard becomes effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted.

Adoption of IFRS 13 may have an effect on measurement of the Bank's assets and liabilities carried at fair value. Currently, the Bank is estimating the possible effect of IFRS 13 on its financial position and financial performance.

6 Change in Presentation and Classification of the Previous Period

Reclassification

The Bank has changed presentation of the items in the financial statements as the management believes that this form of information presentation is more reliable and significant to the users of the financial statements. Herewith, these changes had no effect on the financial performance reported in the financial statements as at 31.12.2011 and amounts of each item or class of items as at 31.12.2011.

(in thousands of Tenge)	**According to the previous classification**	**Effect of reclassification**	**After reclassification**
Statement of Comprehensive Income			
Fee and commission expense	(3 151)	1 250	(1 901)
Interest expense	(17 786)	(1 250)	(19 036)
Statement of Financial Position			
Cash and cash equivalents	206 152	72 038	278 190
Due from other banks	582 616	(72 038)	510 578
Customer accounts	516 591	18 040	534 631
Other liabilities	78 113	(41 192)	36 921
Income tax liabilities	-	23 152	23 152
	1 362 535	-	1 362 535

7 Net Interest Income

(in thousands of Tenge)	2012	2011
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
interest income on unimpaired financial assets	490 020	338 632
interest income on impaired financial assets	3 598	3 781
Total interest income	**493 618**	**342 413**
Interest income on financial assets recorded at amortized cost comprises:		
interest on loans to costumers	**480 580**	**329 578**
interest on due from banks	3 879	7 520
interest on investments held-to-maturity	6 925	5 315
interest on REPO transactions	2 234	-
Total interest income on financial assets recorded at amortized cost	**493 618**	**342 413**
Interest expense comprises:		
interest on costumer accounts	(43 087)	(19 036)
Total interest expense on financial liabilities recorded at amortized cost	**(43 087)**	**(19 036)**
Net interest income before provision for impairment losses on interest bearing assets	**450 531**	**323 377**

8 Provision for Impairment of Loan Portfolio

Movement of the provision for impairment of loan portfolio was as follows:

(in thousands of Tenge)	2012	2011
At the beginning of period	(14 427)	(20 567)
Reversal/(establishment) of provision	(26 477)	3 234
Write-off of assets	-	2 906
Effect of exchange difference	(16)	-
At the end of period	(40 920)	(14 427)

9 Commission Income

(in thousands of Tenge)	2012	2011
Settlements	12 340	10 050
Guarantees	634	464
Cash operations	7 442	3 926
Other	698	449
Total commission income	**21 114**	**14 889**

10 Commission expenses

(in thousands of Tenge)	2012	2011
Correspondent bank account services (money transfers)	(2 168)	(1 723)
Other	(381)	(178)
Total commission expense	**(2 549)**	**(1 901)**

11 Net Income from Foreign Currency Transaction

Net profit from foreign currency transactions was as follows:

(in thousands of Tenge)	2012	2011
Dealing, net	5 062	(3 176)
Foreign exchange profit, net	(627)	439
Total net gain on foreign exchange operations	**4 435**	**(2 737)**

12 Administrative and Other Expenses

(in thousands of Tenge)	2012	2011
Payroll and related taxes	183 649	164 741
Rent expenses	31 073	31 108
Depreciation and amortisation	9 717	10 453
Communications and information services	7 968	9 052
Security expenses	7 578	7 301
Transportation expenses	6 159	3 645
Other taxes	6 149	5 504
Professional services	3 182	2 678
Stationery	2 680	2 298
Insurance	1 488	1 433
Technical maintenance	1 398	1 572
Advertising and marketing	574	495
Other	21 948	19 170
Total	**283 563**	**259 450**

13 Income Tax Expenses

(in thousands of Tenge)	2012	2011
Current income tax expense		
Current tax payable	38 221	17 578
Income tax overpaid in previous periods	(2 078)	-
	36 143	**17 578**
Deferred income tax expense		
Origination and reversal of temporary differences	(5 575)	386
Total income tax expense	**30 568**	**17 964**

Applicable current tax rate and deferred tax rate was 20% (2011: 20%).

Reconciliation of effective tax rate

(in thousands of Tenge)	2012	%	2011	%
Profit before tax	**160 964**	**100,00**	**88 424**	**100,00**
Income tax at effective income tax rate	32 193	20,00	17 685	20,00
Non-taxable yeild on securities	(1 825)	(1,13)	(5 315)	(6,01)
Income tax overpaid in previous periods	(2 078)	(1,29)	-	-
Non-deductible expenses	2 278	1,42	5 594	6,33
Income tax expenses	**30 568**	**19,00**	**17 964**	**20,32**

13 Income Tax Expenses, continuation

Deferred tax assets and liabilities

The bank calculates income tax for the current period based on tax accounting data that comply with the tax law requirements of the Republic of Kazakhstan where the Bank operates, which may differ from IFRS requirements.

Since some expenses are not accounted for tax purposes and since the Bank has a non-taxable income, there are certain permanent tax differences.

Deferred tax reflects net tax effect of temporary differences between the accounting value of assets and liabilities for reporting purposes and the amount for tax purposes. Temporary differences as at 31 December 2012 and 2011 are primarily due to different treatment of income and expenses, as well as due to accounting value of some assets.

Movement of temporary differences during the years ended 31 December 2012 and 2011 was as follows:

2012 (in thousands of Tenge)	**Balance at 1 January 2012**	**Recognised in profit or loss**	**Balance at 31 December 2012**
Loans and advances to customers	(5 079)	4 357	(722)
Property, plant and equipment	(389)	590	201
Vacation reserve	600	628	1 228
Income tax expenses	**(4 868)**	**5 575**	**707**

2011 (in thousands of Tenge)	**Balance at 1 January 2011**	**Recognised in profit or loss**	**Balance at 31 December 2011**
Loans and advances to customers	(2 919)	(2 160)	(5 079)
Property, plant and equipment	(1 231)	842	(389)
Vacation reserve	2 232	(1 632)	600
Interest payable	(2 564)	2 564	-
Income tax expenses	**(4 482)**	**(386)**	**(4 868)**

14 Cash and Cash Equivalents

(in thousands of Tenge)	**2012**	**2011**
Cash on hand	**223 037**	**108 611**
Account balances with RK NB	**211 081**	**97 541**
Nostro accounts with other banks		
B- rating	21 958	5 820
BB- rating	-	66 218
BBB rating	207 422	-
Total nostro accounts with other banks	**229 380**	**72 038**
Total cash and cash equivalents	**663 498**	**278 190**

Credit ratings are presented as per the scale of Standart & Poors.
No cash and cash equivalents were impaired or past due.
As at 31 December 2012 the Bank had two major counterparties with total amount of cash and cash equivalents of KZT 207,422 thousand or 31.3% of cash and cash equivalents. Therefore, as at 31 December 2011 one major counterparty with total amount of cash and cash equivalents of KZT 60,817 thousand or 29.9% of cash and cash equivalents.

Related party transactions are disclosed in Note 25.

15 Loans and Advances to Customers

(in thousands of Tenge)	2012	2011
Corporate loans	3 186 287	1 219 671
Loans to individuals	1 308 086	1 444 567
Loans and advances to customers before provision for impairment	**4 494 373**	**2 664 238**
Provision for impairment of credit portfolio	(40 920)	(14 427)
Total loans and advances to customers	**4 453 453**	**2 649 811**

Below is the analysis of loans for credit quality as at 31 December 2012:

(in thousands of Tenge)	Corporate loans	Loans to individuals	Total
Undue			
- Loans to small and medium businesses	2 893 423	-	2 893 423
- Loans to individuals	-	939 831	939 831
Total undue loans and advances to customers	**2 893 423**	**939 831**	**3 833 254**
Past due			
- past due less than 30 days	131 950	116 305	248 255
- past due from 30 to 90 days	101 615	31 921	133 536
- past due from 91 to 180 days	59 299	220 029	279 328
Total past due loans and advances to customers	**292 864**	**368 255**	**661 119**
Total loans and advances to customers before provision for impairment	**3 186 287**	**1 308 086**	**4 494 373**
Provision for impairment	(5 852)	(35 068)	(40 920)
Total loans and advances to customers	**3 180 435**	**1 273 018**	**4 453 453**

Below is the analysis of loans for credit quality as at 31 December 2011:

(in thousands of Tenge)	Corporate loans	Loans to individuals	Total
Undue			
- Loans to small and medium businesses	1 191 348	-	1 191 348
- Loans to individuals	-	1 382 422	1 382 422
Total undue loans and advances to customers	**1 191 348**	**1 382 422**	**2 573 770**
Past due			
- past due less than 30 days	-	13 240	13 240
- past due from 30 to 90 days	28 323	8 754	37 077
- past due from 91 to 180 days	-	40 151	40 151
Total past due loans and advances to customers	**28 323**	**62 145**	**90 468**
Total loans and advances to customers before provision for impairment	**1 219 671**	**1 444 567**	**2 664 238**
Provision for impairment	-	(14 427)	(14 427)
Total loans and advances to customers	**1 219 671**	**1 430 140**	**2 649 811**

15 Loans and Advances to Customers, continuation

The table below shows the analysis of current cost of loans and advances to customers broken down by the security obtained, rather than the fair value of the security itself:

(in thousands of Tenge)	2012	2011
Loans and advances collateralized by pledge of real estate	4 116 672	2 625 507
Loans and advances collateralized by vehicle	175 386	32 209
Loans and advances collateralised by other pledge	191 771	-
Unsecured loans	10 544	6 522
	4 494 373	**2 664 238**
Less provision for impairment	(40 920)	(14 427)
Total loans to customers	**4 453 453**	**2 649 811**

The following is the structure of risk concentration of the Bank's customer credit portfolio divided in economy branches:

(in thousands of Tenge)	2012	2011
Service organization	1 432 603	349 877
Individuals	1 308 086	1 444 567
Trade	864 366	461 292
Construction	607 994	278 979
Manufacturing	281 324	129 523
	4 494 373	**2 664 238**
Less provision for impairment	(40 920)	(14 427)
Total loans to customers	4 453 453	**2 649 811**

As at 31 December 2012 and 2011 100% loan portfolio was provided to entities operating in the Republic of Kazakhstan.

As at 31 December 2012 and 2011 40.1% and 44.8% of the total credit portfolio before provision for impairment fell to the share of the Bank's ten largest borrowers or groups of related borrowers, which represents a strong concentration. As at 31 December 2012 and 2011 the total amount payable on those loans amounted to KZT 1,803,959 thousand and KZT 1,194,835 thousand, respectively.

Payment periods of loans, comprising a credit portfolio, as at the reporting date are presented in Note of 21, and represent time periods from the reporting date to maturity dates under loan agreements.

16 Property, Plant and Equipment and Intangible Assets

(in thousands of Tenge)	Computer equipment	Vehicles	Software	Other	Total
Cost					
1 January 2011	**20 660**	**8 274**	**22 298**	**10 106**	**61 338**
Additions	2 427	-	217	549	3 193
31 December 2011	**23 087**	**8 274**	**22 515**	**10 655**	**64 531**
Additions	1 034	-	-	926	1 960
Disposals	(5 731)	-	(1 288)	(1 606)	(8 625)
31 December 2012	**18 390**	**8 274**	**21 227**	**9 975**	**57 866**
Accumulated depreciation					
1 January 2011	**(3 420)**	**(7 209)**	**(12 227)**	**(2 392)**	**(25 248)**
Charge for the year	(5 132)	(801)	(3 066)	(1 454)	(10 453)
31 December 2011	**(8 552)**	**(8 010)**	**(15 293)**	**(3 846)**	**(35 701)**
Charge for the year	(5 042)	(264)	(2 971)	(1 440)	(9 717)
Disposals	5 731	-	1 288	1 606	8 625
31 December 2012	**(7 863)**	**(8 274)**	**(16 976)**	**(3 680)**	**(36 793)**
Net book value					
31 December 2011	**14 535**	**264**	**7 222**	**6 809**	**28 830**
31 December 2012	**10 527**	**-**	**4 251**	**6 295**	**21 073**

As at 31 December 2012 and 2011 total cost of PP&E fully depreciated, but not used yet amounted to KZT 1,819 thousand and KZT 6,743 thousand respectively.

No PP&E and intangible assets were pledged to secure obligations.

17 Other Assets

(in thousands of Tenge)	2012	2011
Non-financial assets		
Rentals prepaid	30 302	15 594
Advances paid for goods and services	10 326	11 209
Inventory	749	792
Prepaid expenses	738	1 043
Other	2 829	725
Provision for losses	(4 364)	-
Total other assets	**40 580**	**29 363**

18 Customer accounts

(in thousands of Tenge)	2012	2011
Current accounts and demand deposits		
- Individuals	82 900	220 817
- Legal entities	244 917	95 076
Fixed deposits		
- Individuals	606 408	182 763
- Legal entities	5 682	35 975
Total customer accounts	**939 907**	**534 631**

18 Customer accounts, continuation

As at 31 December 2012 and 2011 customer deposits of the Bank for the total amount of KZT 139,467 thousand and KZT 51,624 thousand respectively, serve as a security for the performance of obligations on loans and non-recognised lending instruments provided by the Bank.

As at 31 December 2012 and 2011 the Bank's ten largest customers had 52.2% and 61.2% share of the customer accounts and deposits total balance. As at 31 December 2012 and 2011 the total balance of customer deposits amounted to KZT 490,818 thousand and KZT 327,482 thousand, respectively.

19 Other Liabilities

(in thousands of Tenge)	2012	2011
Financial liabilities		
Payables to the Shareholder	29 696	26 267
Loan interest prepaid	6	-
Total financial liabilities	**29 702**	**26 267**
Non-financial liabilities		
Vacation reserve	6 140	3 000
Taxes payable other than CIT	2 702	-
Other	9 338	7 654
Total non-financial liabilities	**18 180**	**10 654**
Total other liabilities	**47 882**	**36 921**

Payables to the Shareholder consist of subordinated debt amount. At maturity, the Shareholder orally permitted to keep those amounts in the Bank, therefore, the subordinated debt amount is considered as redeemed. As at 31 December 2012 and 2011 the amounts payable were USD 197,000 and USD 177,000, respectively.

20 Charter Capital

As at 31 December 2012 and 2011 the charter capital consisted of 8,182 ordinary shares with nominal value of KZT 500 thousand per share.

In the reporting period dividends for 2011 were paid in amount of KZT 11,322 thousand, respectively in 2011 dividends for 2010 were paid in amount of KZT 11,597 thousand.

Dividends per share inclusive of income tax paid in 2012 amounted to KZT 1,382; dividends paid in 2011 amounted to KZT 1,420.

According to current legislation, the Bank is obliged to establish reserve capital derived from net income before payment of dividends on ordinary shares, in order to cover losses related to bank operations. Minimum amount of reserve capital is calculated according to rules of authorized body. In 2012 Bank transferred KZT 39,188 thousand to reserve capital; respectively in 2011 KZT 4,712 thousand was transferred. General bank reserve funds may be distributed only upon formal authorisation of the shareholders.

21 Risk Management Policy

Risk management underlies the banking and is the essential part of the Bank's activities. The Bank's risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The main objectives of the financial risk management function are to identify risk limits, and then ensure these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Board of directors bears joint responsibility for establishing and functioning adequate and efficient internal control systems, as well as for approving of large transactions.

21 Risk Management Policy, continuation

Credit Risk

Credit risk is a risk of financial losses resulting from failure to perform liabilities by the borrower or the counterparty of the Bank. The Bank operates the credit risk by applying approved policies and procedures including requirements to establish and comply with limits of credit risk concentration, and by establishing of a credit committee as well.

Credit risk is identified, assessed and monitored in the range established by the risk manager, by the Credit Committee, Management and Board of directors of the Bank. Prior to any direct action of the Credit Committee, all recommendations on credit processes (restrictions set for borrowers, or addenda to the credit agreement, etc.) are considered and approved by the risk manager. Head of the credit department performs daily work on risk management.

The Bank manages the accepted credit risk, for account of determination of maximum risk amount in respect of one borrower or a group of borrowers established by prudential standards by an authorized body. Actual risks are monitored on a regular basis in comparison with the limits set.

Maximum Credit Risk

The maximum level of credit risk is, as a rule, reported in the carrying amount of financial assets in the statement of financial position, and in the amount of non-recognized contractual liabilities. Possibility to set off assets and liabilities has no material value for decrease of potential credit risk.

The maximum level of credit risk in respect of financial assets as at the reporting date may be presented as follows:

(in thousands of Tenge)	2012	2011
ASSETS		
Cash and cash equivalents	440 461	169 579
Investments held-to-maturity	-	1 348 810
Loans and advances to customers	4 453 453	2 649 811
Reverse REPO receivables	200 343	-
Total maximum risk level	**5 094 257**	**4 168 200**

The analysis of credit risk concentration on loans granted to clients is presented in Note 15.

The maximum level of credit risk in respect of non-recognized contractual liabilities as at the reporting date is presented in Note 24. As at 31 December 2012 and 2011 the Bank has no borrowers or groups of related borrowers having more than 10% share of maximum level of credit risk.

As at 31 December 2012:

(in thousands of Tenge)	2012	2011
Loans and advances to customers		
Non-impaired	4 404 575	2 618 045
Impaired	89 798	46 193
Provision for impairment	(40 920)	(14 427)
Total loans and advances to customers	**4 453 453**	**2 649 811**

Geographical Concentration

The Bank holds its financial assets mostly in Kazakhstan. A certain portion of the Bank's financial resources is located abroad – NOSTRO accounts in National Bank of Pakistan in New York, National Bank of Pakistan in Frankfurt. The Bank exercises control over the risk in the legislation and regulatory arena in all countries where its assets are held and assesses possible effects on the Bank's activity. In particular, the Bank monitors sovereign credit risk assigned by international rating agencies. On a regular basis the Risk Manager reviews financial and political news in international mass-media to anticipate a possible negative influence on the Bank's risk exposure. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in countries where its assets are held.

21 Risk Management Policy, continuation

Below is geographical concentration of assets and liabilities as at 31 December 2012:

(in thousands of Tenge)	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2012 Total:
Financial assets				
Cash and cash equivalents	456 076	-	207 422	663 498
Due from banks	1 300	-	-	1 300
Loans to customers	4 453 453	-	-	4 453 453
Receivables under REPO	200343	-	-	200 343
Total financial assets	**5 111 172**	**-**	**207 422**	**5 318 594**
Financial liabilities				
Customer accounts	(939 907)	-	-	(939 907)
Correspondent accounts and deposits of banks	-	(3 837)	-	(3 837)
Other financial liabilities	(29 702)	-	-	(29 702)
Total financial liabilities	**(969 609)**	**(3 837)**	**-**	**(973 446)**
Net position	**4 141 563**	**(3 837)**	**207 422**	**4 345 148**

Below is geographical concentration of assets and liabilities as at 31 December 2011:

(in thousands of Tenge)	Kazakhstan	Other non-OECD countries	OECD countries	2011 Total:
Financial assets				
Cash and cash equivalents	215 573	-	62 617	278 190
Due from banks	510 578	-	-	510 578
Loans to customers	2 649 811	-	-	2 649 811
Investments held-to-maturity	1 348 810	-	-	1 348 810
Total financial assets	**4 724 772**	**-**	**62 617**	**4 787 389**
Financial liabilities				
Customer accounts	(534 631)	-	-	(534 631)
Correspondent accounts and deposits of banks	-	(9 610)	-	(9 610)
Other financial liabilities	(26 267)	-	-	(26 267)
Subordinated debt	-	(2 968)	-	(2 968)
Total financial liabilities	**(560 898)**	**(12 578)**	**-**	**(573 476)**
Net position	**4 163 874**	**(12 578)**	**62 617**	**4 213 913**

21 Risk Management Policy, continuation

Liquidity Risk

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

The Assets and Liabilities Management Committee ("ALMC") and the Risk Manager control these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

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

An analysis of the liquidity risk is presented in the following table as at 31 December 2012:

(in thousands of Tenge)	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
Cash and cash equivalents	663 498	-	-	-	-	663 498
Due from other banks	904	95	301	-	-	1 300
Loans and advances to customers	1 662	17 831	105 503	4 328 457	-	4 453 453
Receivables under REPO	200 343	-	-	-	-	200 343
Total financial assets	**866 407**	**17 926**	**105 804**	**4 328 457**	-	**5 318 594**
Customer accounts	(331 459)	(120)	(35 266)	(573 062)	-	(939 907)
Correspondent accounts and deposits of banks	(3 837)	-	-	-	-	(3 837)
Other financial liabilities	(29 702)	-	-	-	-	(29 702)
Total financial liabilities	**(364 998)**	**(120)**	**(35 266)**	**(573 062)**	-	**(973 446)**
Net difference as at 31 December 2012	**501 409**	**17 806**	**70 538**	**3 755 395**	-	**4 345 148**

Below is liquidity risk analysis as at 31 December 2011:

(in thousands of Tenge)	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
Cash and cash equivalents	278 190	-	-	-	-	278 190
Due from other banks	-	510 578	-	-	-	510 578
Loans and advances to customers	12 400	21 863	108 483	2 507 065	-	2 649 811
Investments held-to-maturity	598 500	750 310	-	-	-	1 348 810
Total financial assets	**889 090**	**1 282 751**	**108 483**	**2 507 065**	-	**4 787 389**
Customer accounts	(134 856)	(1 173)	(9 864)	(388 738)	-	(534 631)
Correspondent accounts and deposits of banks	(9 610)	-	-	-	-	(9 610)
Subordinated debt	-	-	(2 968)	-	-	(2 968)
Other financial liabilities	(26 267)	-	-	-	-	(26 267)
Total financial liabilities	**(170 733)**	**(1 173)**	**(12 832)**	**(388 738)**	-	**(573 476)**
Net difference as at 31 December 2011	**718 357**	**1 281 578**	**95 651**	**2 118 327**	-	**4 213 913**

21 Risk Management Policy, continuation

Market Risk

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

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the Bank's future cash flows and value of the Bank's financial instruments.

ALMC manages the interest rate risk by monitoring and analyzing sensitivity reports, as well as interest rate margin reports. This helps the Bank mitigate interest rate risks and maintain a positive interest margin. The Risk Manager monitors the Bank's financial performance, regularly assessing the Bank's sensitivity to changes in interest rates and its effect on profitability.

All of the Bank's loans are fixed rate agreements and hence there is no impact on profit or loss.

Currency Risk

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

The ALMC controls currency risk by managing the open currency position on the basis of expected devaluation of tenge and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations towards its national currency. The Treasury Department and the Risk Manager perform daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBRK.

The Bank's exposure to currency risk as at 31 December 2012 is as follows:

(in thousands of Tenge)	KZT	USD	EUR	Other currency	2012 Total
Financial assets					
Cash and cash equivalents	309 169	292 274	62 023	32	663 498
Due from banks	94	1 206	-	-	1 300
Loans to customers	4 375 621	77 832	-	-	4 453 453
Receivables under REPO	200 343	-	-	-	200 343
Total financial assets	**4 885 227**	**371 312**	**62 023**	**32**	**5 318 594**
Financial liabilities					
Customer accounts	(561 328)	(377 358)	(1 221)	-	(939 907)
Correspondent accounts and deposits of banks	(3 837)	-	-	-	(3 837)
Other liabilities	(6)	(29 696)	-	-	(29 702)
Total financial assets	**(565 171)**	**(407 054)**	**(1 221)**	**-**	**(973 446)**
Open balance sheet position	**4 320 056**	**(35 742)**	**60 802**	**32**	**4 345 148**

21 Risk Management Policy, continuation

The Bank's exposure to currency risk as at 31 December 2011 is as follows:

(in thousands of Tenge)	KZT	USD	EUR	Other currency	2011 Total
Financial assets					
Cash and cash equivalents	139 160	132 637	6 393	-	278 190
Due from banks	509 391	1 187	-	-	510 578
Loans to customers	2 608 687	41 124	-	-	2 649 811
Investments held-to-maturity	1 348 810	-	-	-	1 348 810
Total financial assets	**4 606 048**	**174 949**	**6 393**	**-**	**4 787 389**
Financial liabilities					
Customer accounts	(374 895)	(154 916)	(4 820)	-	(534 631)
Correspondent accounts and deposits of banks	(9 610)	-	-	-	(9 610)
Subordinated debt	-	(2 968)	-	-	(2 968)
Other liabilities	-	(26 267)	-	-	(26 267)
Total financial assets	**(384 505)**	**(184 151)**	**(4 820)**	**-**	**(573 476)**
Open balance sheet position	**4 221 543**	**(9 202)**	**1 573**	**-**	**4 213 914**

Currency Risk Sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in USD and EUR against KZT. These are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% increase and decrease in foreign currency rates. The sensitivity analysis includes loans where the denomination of the loan is in a currency other than the functional currency of the Bank.

Impact on net profit and equity based on asset values as at 31 December 2012 and 2011:

(in thousands of Tenge)	2012		2011	
	KZT/USD +10%	**KZT/USD -10%**	**KZT/USD +10%**	**KZT/USD -10%**
Impact on profit or loss and equity	(3 661)	3 661	(1 840)	1 840

(in thousands of Tenge)	2012		2011	
	KZT/EUR +10%	**KZT/EUR -10%**	**KZT/EUR +10%**	**KZT/EUR -10%**
Impact on profit or loss and equity	6 080	(6 080)	157	(157)

Limitations of Sensitivity Analysis

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

21 Risk Management Policy, continuation

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. Should there be any adverse fluctuations of prices on the securities market, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may have no impact on the liabilities, whereas significantly influence assets held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

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

Price Risk

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

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

22 Capital Management

The Bank manages capital adequacy level for the purpose of protection against the risks inherent to its activities. Capital adequacy of the Bank is managed with use of, among other methods, the normative standards established by RK legislation.

The main objective of capital management for the Bank is to ensure that the Bank complies with external requirements in respect of the capital, maintenance of a high credit rating and the capital adequacy normative standards necessary for operating.

The Bank operates the capital structure and adjusts it in the light of changes in economic conditions and risk characteristics activities performed. In comparison with last year, there were no changes in objectives, policies and procedures of capital management, however the Board of directors constantly pays attention to the issue.

In accordance with existing requirements to the capital, established by the Committee for Financial Supervision, the Bank must maintain Tier 1 capital adequacy ratio (k1.1) not lower than 0,5 and Tier 2 capital adequacy ratio (k1.1) not lower than 0,1.

As at 31 December 2012 capital adequacy ratios exceeded the standard minimum: k1.1 – 0,78; k1.2 – 0,85 and k2 - 0,88.

23 Contingent liabilities

Legal Proceedings

The Bank is a potential object of various legal proceedings related to its business operations. The management is of the opinion that no such unsettled or pending claims, either individually or in aggregate, are likely to have effect on the Bank's financial position or performance and accordingly no provision has been made in these financial statements.

Tax Legislation

Kazakhstan tax legislation allows varying interpretations and is exposed to frequent changes. Interpretation of legislation by the management in application to the Bank transactions and activities may be contested by relevant authorities.

The Kazakhstani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Consequences of such reviews by tax authorities cannot be estimated with sufficient reliability; however they may be significant for the financial position and/or organisation activities as a whole.

The management believes that the tax liabilities were fully reflected in these financial statements, proceeding from interpretation by the management of existing RK tax legislation and official comments of statutory documents.

Credit related commitments

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

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies with respect to contingent liabilities and commitments as it does for balance sheet operations.

Credit related commitments are as follows:

(in thousands of Tenge)	2012	2011
Commitments on loans and unused credit lines	122 869	72 403
Guarantees issued	81 571	27 686
Letters of credit	-	9 416
Total contingent liabilities and credit commitments	**204 440**	**109 505**

As at 31 December 2012 and 2011 the Bank had no material capital obligations.

As at 31 December 2012 and 2011 the Bank had no material operating lease obligations.

24 Fair value of financial instruments

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

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Bank is presented below:

(in thousands of Tenge)	**2012**		**2011**	
	Net book value	**Fair value**	**Net book value**	**Fair value**
Cash and cash equivalents	663 498	663 498	278 190	278 190
Due from other banks	1 300	1 300	510 578	510 578
Loans and advances to customers	4 453 453	4 472 659	2 649 811	2 649 811
Reverse REPO receivables	200 343	200 343	-	-
Investments held-to-maturity	-	-	1 348 810	1 348 810
Total assets	**5 318 594**	**5 337 800**	**4 787 389**	**4 787 389**
Correspondent accounts and deposits of	3 837	3 837	9 610	9 610
Customer accounts	939 907	939 907	534 631	534 631
Subordinated debt	-	-	2 968	2 968
Other liabilities	29 702	29 702	26 267	26 267
Total liabilities	**973 446**	**973 446**	**573 476**	**573 476**

In case of disposal of such instruments the Bank intends to apply selling prices to be determined between contractual parties.

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

The following assumptions were used to measure fair value:

- Fair value of cash, cash due from banks, correspondent accounts and Bank's deposits, as well as short-term assets and liabilities, approximately equals to their carrying amount since these instruments will be repaid in the nearest future.
- The Bank evaluates long-term loans provided to clients based on the parameters such as interest rates, risk factors associated with the financed project, and clients' individual capacity to pay Estimated fair value of instruments with fixed interest rate is based on a discounted cash flow method with application of interest rates effective in the loan market for the new instruments assuming similar credit risk and similar repayment period. As at 31 December 2011 and 2010, carrying amount of loans provided to clients less provisions approximated their fair value.

25 Related Party Transactions

The parties are considered to be related if they are under common control, or one of them has the ability to control the other party or may have significant influence over the other party in making financial and operating decisions. Considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

25 Related Party Transactions, continuation

The following are balances on related party transactions as at 31 December 2012 and 2011:

(in thousands of Tenge)	2012 Parent Bank	2012 Subsidiaries of Parent Bank	2012 Members of Management and the Board of Directors	2011 Parent Bank	2011 Subsidiaries of Parent Bank	2011 Members of Management and the Board of Directors
Cash and cash equivalents	-	207 423	-	-	62 617	-
Loans and advances to customers	-	-	239	-	-	455
Due from other banks	-	-	(2 194)	-	-	(4 915)
Correspondent accounts and deposits of banks	-	(3 837)	-	-	(9 610)	-
Subordinated debt	-	-	-	(2 968)	-	-
Other liabilities	(29 696)	-	-	(26 267)	-	-

The following amounts on related party transactions were reported in the statement of comprehensive income:

(in thousands of Tenge)	2012 **Parent Bank**	2012 **Subsidiaries of Parent Bank**	2012 **Management and the Board of Directors**	2011 **Parent Bank**	2011 **Subsidiaries of Parent Bank**	2011 **Management and the Board of Directors**
Interest income	-	-	45	-	-	66
Interest expense	-	-	(264)	-	-	(313)
Interest of key management staff	-	-	(37 252)	-	-	(47 663)