# Joint Stock Company
# Industrial and Commercial Bank of China Almaty

## Financial Statements

*For the year ended 31 December 2012*
*together with Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT



## NOTES TO THE FINANCIAL STATEMENTS

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# Independent auditors' report

To the Shareholder and the Board of Directors of Industrial and Commercial Bank of China Almaty Joint Stock Company

We have audited the accompanying financial statements of Industrial and Commercial Bank of China Almaty Joint Stock Company (the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, of changes in equity and 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Bank of China Almaty Joint Stock Company 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.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan:

series МФЮ-2 No. 0000003 issued by
the Ministry of Finance of the Republic of Kazakhstan
on 15 July 2005

Auditor Qualification Certificate No. 0000553
dated 24 December 2003

0553

15 February 2013

# STATEMENT OF FINANCIAL POSITION

**For the year ended 31 December 2012**

*(In thousands of tenge)*

| | *Notes* | *2012* | *2011 (restated*)* | *2010 (restated*)* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 5 | **16,387,559** | 20,558,804 | 10,468,949 |
| Amounts due from other banks | 6 | **4,637,083** | 1,638,154 | 1,322,336 |
| Loans to customers | 7 | **7,280,438** | 2,541,650 | 152,567 |
| Held-to-maturity investment securities | 8 | **4,790,137** | 5,003,161 | 3,891,777 |
| Property and equipment | 9 | **661,171** | 676,572 | 512,064 |
| Intangible assets | 10 | **2,329** | 3,583 | 5,000 |
| Current corporate income tax assets | 11 | **–** | 1,680 | – |
| Deferred corporate income tax assets | 11 | **565** | 656 | 1,686 |
| Other assets | | **12,554** | 6,748 | 145,572 |
| **Total assets** | | **33,771,836** | 30,431,008 | 16,499,951 |
| **Liabilities** | | | | |
| Amounts due to credit institutions | 12 | **4,244,004** | 445,231 | – |
| Amounts due to customers | 13 | **18,167,811** | 19,027,966 | 10,913,443 |
| Current corporate income tax liabilities | 11 | **4,411** | – | 7,000 |
| Other liabilities | | **3,012** | 3,776 | 3,544 |
| **Total liabilities** | | **22,419,238** | 19,476,973 | 10,923,987 |
| **Equity** | | | | |
| Share capital | 14 | **8,933,491** | 8,933,491 | 3,934,049 |
| Retained earnings | | **765,515** | 745,581 | 407,724 |
| Statutory reserve | 14 | **1,653,592** | 1,274,963 | 1,234,191 |
| **Total equity** | | **11,352,598** | 10,954,035 | 5,575,964 |
| **Total liabilities and equity** | | **33,771,836** | 30,431,008 | 16,499,951 |

** Certain numbers shown in this column do not correspond to the 2011 and 2010 financial statements and reflect reclassifications disclosed in Note 2.*

**Signed and authorised for release on behalf of the Management Board of the Bank:**

Chen Yuibao — Chairman of the Board

Tatiana Maurer — Chief Accountant

15 February 2013

## STATEMENT OF COMPREHESIVE INCOME

**For the year ended 31 December 2012**

*(In thousands of tenge)*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Interest income** | | | |
| Held-to-maturity investment securities | | **198,602** | 190,725 |
| Loans to customers | | **126,744** | 54,163 |
| Cash and balances with the National Bank of the Republic of Kazakhstan | | **71,842** | 57,280 |
| Amounts due from other banks | | **23,001** | – |
| | | **420,189** | 302,168 |
| **Interest expenses** | | | |
| Amounts due to credit institutions | | **(33,824)** | (13,262) |
| Amounts due to customers | | **(9,518)** | (2,712) |
| | | **(43,342)** | (15,974) |
| **Net interest income** | | **376,847** | 286,194 |
| Net fee and commission income | 16 | **189,818** | 240,322 |
| Net gains from foreign currencies: | | | |
| - dealing | | **138,815** | 183,427 |
| - translation differences | | **229** | 1 |
| Other income | | **45,986** | 2,343 |
| **Non-interest income** | | **374,848** | 426,093 |
| Personnel expenses | 17 | **(177,963)** | (162,740) |
| Other operating expenses | 17 | **(83,152)** | (90,276) |
| Depreciation and amortisation | 9, 10 | **(26,724)** | (20,316) |
| Taxes other than corporate income tax | | **(9,022)** | (10,312) |
| **Non-interest expense** | | **(296,861)** | (283,644) |
| **Profit before corporate income tax expense** | | **454,834** | 428,643 |
| Corporate income tax expense | 11 | **(56,271)** | (50,014) |
| **Profit for the year** | | **398,563** | 378,629 |
| Other comprehensive income | | – | – |
| **Total comprehensive income for the year** | | **398,563** | 378,629 |

# STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2012**

*(In thousands of tenge)*

| | *Notes* | *Share capital* | *Statutory reserve* | *Retained earnings* | *Total equity* |
|---|---|---|---|---|---|
| **31 December 2010** | | 3,934,049 | 1,234,191 | 407,724 | 5,575,964 |
| Increase in share capital | 14 | 4,999,442 | – | – | 4,999,442 |
| Allowances for statutory reserve | 14 | – | 40,772 | (40,772) | – |
| Comprehensive income for the year | | – | – | 378,629 | 378,629 |
| **31 December 2011** | | 8,933,491 | 1,274,963 | 745,581 | 10,954,035 |
| Allowances for statutory reserve | 14 | – | **378,629** | **(378,629)** | – |
| Comprehensive income for the year | | – | – | **398,563** | **398,563** |
| **31 December 2012** | | **8,933,491** | **1,653,592** | **765,515** | **11,352,598** |

## STATEMENT OF CASH FLOWS

**For the year ended 31 December 2012**

*(In thousands of tenge)*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Interest received | | **406,928** | 304,731 |
| Interest paid | | **(32,524)** | (17,119) |
| Fees and commissions received | | **203,471** | 253,199 |
| Fees and commissions paid | | **(13,095)** | (12,509) |
| Net gains from foreign currencies | | **138,815** | 183,427 |
| Personnel expenses paid | | **(179,078)** | (162,740) |
| Other operating expenses paid | | **(92,746)** | (98,264) |
| Other income received | | **45,986** | – |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **477,757** | 450,725 |
| *Net (increase)/decrease in operating assets* | | | |
| Loans to customers | | **(4,692,846)** | (2,377,600) |
| Other assets | | **(2,885)** | 1,205 |
| *Net increase/(decrease) in operating liabilities* | | | |
| Amounts due to credit institutions | | **3,791,425** | 445,200 |
| Amounts due to customers | | **(863,625)** | 8,115,699 |
| Other liabilities | | **(2,556)** | (495) |
| **Net cash flows (used in)/from operating activities before corporate income tax** | | **(1,292,730)** | 6,634,734 |
| Corporate income tax paid | | **(50,089)** | (57,664) |
| **Net cash flows (used in)/from operating activities** | | **(1,342,819)** | 6,577,070 |
| **Cash flows from investing activities:** | | | |
| Redemption of held-to-maturity investment securities | | **180,343** | 1,029,533 |
| Purchase of held-to-maturity investment securities | | **–** | (2,154,963) |
| Purchase of property and equipment | 9 | **(10,149)** | (45,248) |
| Purchase of intangible assets | | **–** | (162) |
| Disposal of intangible assets | 10 | **80** | – |
| **Net cash flows used in investing activities** | | **170,274** | (1,170,840) |
| **Cash flows from financing activities:** | | | |
| Proceeds from increase in share capital | | **–** | 4,999,442 |
| **Net cash flows from financing activities** | | **–** | 4,999,442 |
| Effect of exchange rates changes on cash and cash equivalents | | **229** | 1 |
| **Net (decrease) / increase in cash and cash equivalents** | | **(1,172,316)** | 10,405,673 |
| **Cash and cash equivalents, at the beginning of the year** | 21 | **22,196,958** | 11,791,285 |
| **Cash and cash equivalents, at the end of the year** | 21 | **21,024,642** | 22,196,958 |

*(In thousands of tenge, unless otherwise is stated)*

## 1. Principal activities

Industrial and Commercial Bank of China Almaty Joint Stock Company (the "Bank") provides retail and corporate banking services in the Republic of Kazakhstan. The Bank was incorporated in the Republic of Kazakhstan on 3 March 1993. The sole shareholder of the Bank is Industrial and Commercial Bank of China Joint Stock Company (the "Parent"), which is incorporated and operates in the People's Republic of China. The ultimate shareholder of the Bank is the People's Republic of China.

The Bank operates under a general banking license № 174 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations of the Republic of Kazakhstan on 9 March 2006.

The Bank accepts deposits from the public, extends credit and transfers payments in the Republic of Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers.

The registered address of the Bank is 150/230 Abai Ave., #846, block 7, Turgut Ozal str., Almaty, 050046, Republic of Kazakhstan. The Bank did not have any branches and subsidiaries as at 31 December 2012 and 2011.

## 2. Basis of preparation

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

The financial statements have been prepared under the historical cost convention. These financial statements are presented in thousands of tenge unless otherwise is stated.

### Reclassifications

Information for 2011 and 2010 was amended as follows to comply with the 2012 presentation.

| | | *2011* | | | *2010* | | |
|---|---|---|---|---|---|---|---|
| | *Notes* | *Previously reported* | *Amount of reclassi-fication* | *Adjusted amount* | *Previously reported* | *Amount of reclassi-fication* | *Adjusted amount* |
| Cash and cash equivalents | | 21,678,075 | (21,678,075) | – | 11,612,021 | (11,612,021) | – |
| Obligatory reserves | | 518,883 | (518,883) | – | 179,264 | (179,264) | – |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 5 | – | 20,558,804 | 20,558,804 | – | 10,468,949 | 10,468,949 |
| Amounts due from other banks | 6 | – | 1,638,154 | 1,638,154 | – | 1,322,336 | 1,322,336 |

## 3. Summary of significant accounting policies

### Changes in accounting policies

The Bank has adopted the following amended IFRS during the year.

*Amendments to IFRS 7 "Financial Instruments: Disclosures"*

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Bank's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 12 *Income Taxes (Amendment)* – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter*

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

### Financial assets

*Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition financial assets are measured at fair value. Plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

*Date of recognition*

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*"Day 1" profit*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a "Day 1" profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost, which is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the statement of comprehensive income when the investments are impaired, as well as through the amortisation process.

*Amounts due from other banks and loans to customers*

Amounts due from other banks and loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee and costs that are an integral part of the effective interest rate. Gains and losses are recognised in the statement of comprehensive income when such assets are derecognised or impaired, as well as through the amortisation process.

The Bank may enter into certain loan agreements according to which the loan would be classified as held for sale as far as there is an intention to realise it in the short run. Such liabilities are recorded as derivative financial instruments and are evaluated at fair value through profit and loss.

Should the Bank have no intention to realize the loan in the short run, liabilities are recorded only provided that it is an encumbrance contract which could lead to losses (e.g. related to difficulties in the counterparty's financial position).

*Offsetting*

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

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, amount due from the National Bank of the Republic of Kazakhstan (the "NBRK") and amounts due from other banks which mature within ninety days of the date of origination and are free from contractual encumbrances.

**Borrowings**

Borrowings are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments.

Borrowings, which include amounts due to credit institutions and amounts due to customers, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

**Lease**

*Operating – Bank as lessee*

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

**Impairment of financial assets**

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans to customers*

For loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets 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 asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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 has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

### Impairment of financial assets (continued)

*Loans to customers (continued)*

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*Held-to-maturity financial investments*

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of comprehensive income.

### 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 derecognised 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.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase. This provision does not apply in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

**Financial guarantee contracts**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of: the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

**Taxation**

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

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

A deferred corporate income tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred corporate income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included in the statement of comprehensive income as taxes other than income tax.

**Property and equipment**

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

| | *Years* |
|---|---|
| Land | – |
| Buildings | 50 |
| Leasehold improvements | 5 |
| Computer equipment | 4 |
| Motor vehicles | 5 |
| Other | 9 |

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

**Intangible assets**

Intangible assets include computer software and licences. Intangible assets are carried at cost less accumulated amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

**Provisions**

Provisions are recognised 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 amount of obligation can be made.

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

**Retirement and other employee benefit obligations**

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the period the related salaries are earned. The Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

**Share capital**

Share capital is recognised at the fair value of consideration received or paid. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

**Contingencies**

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

**Recognition of income and expenses**

Revenue is recognised when it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest and similar income and expense*

For all financial instruments measured at amortised cost interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

*Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These items include commission income and fees for the issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

- *Commission income from providing transaction services*

Fees arising from transfer transactions, transactions with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

**Foreign currency translation**

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

**Foreign currency translation (continued)**

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate established by KASE on the date of the transaction are included in net gains from dealing in foreign currencies. The KASE market exchange rates at 31 December 2012 and 2011 were 150.7 KZT and 148.4 KZT to 1 USD, respectively.

**Future changes in accounting policies**

*Standards and interpretations issued but not yet effective*

*IFRS 9 "Financial Instruments"*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

*IFRS 10 Consolidated Financial Statements*

*IFRS 10 establishes* a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Bank evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

*IFRS 11 Joint Arrangements*

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that adoption of IFRS 11 will have no effect on its financial position and performance.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Bank will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Bank's financial position or performance.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value. Currently the Bank evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

**Future changes in accounting policies (continued)**

*Standards and interpretations issued but not yet effective (continued)*

*IAS 27 Separate Financial Statements (as revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects that this standard will have no impact on the Bank's financial statement.

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

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects that this standard will have no impact on the Bank's financial statement.

*Amendments to IAS 19 Employee Benefits*

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

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

*Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation.* The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Banks' financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right ot offset in the event of default.

*(In thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

**Future changes in accounting policies (continued)**

*Standards and interpretations issued but not yet effective (continued)*

*Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (continued)*

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

*Amendment to IFRS 1 – Government loans*

These amendments require first-time adopters to apply the requirements of *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Bank.

*Improvements to IFRS*

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Bank.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statements*: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment*: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation*: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- *IAS 34 Interim Financial Reporting*: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

## 4. Significant accounting judgements and estimates

**Estimation uncertainty**

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

*(In thousands of tenge, unless otherwise is stated)*

## 4. Significant accounting judgements and estimates (continued)

**Estimation uncertainty (continued)**

*Taxation*

Currently a unified Tax code is executed in Kazakhstan, which regulates fundamental issues of taxation. Effective taxes include value-added tax, corporate income tax, social and other taxes. Administrative instructions on application of regulatory legal act are frequently inexplicit or completely absent, and an insignificant number of such cases were recorded. There are various opinions on interpretation of regulations between authorities as well as within authorities, which create some uncertainty and conflicts. Tax declarations, as well as other spheres of legal regulation (e.g. issues of customs and currency control), are under control of several authorities, which are entitled to impose significant fines, interest fines and penalties. Similar situation creates higher level of probability of risks in Kazakhstan, than in other countries with more developed systems of tax legislation. Management believes that the Bank adheres to regulations of tax legislation of the Republic of Kazakhstan, which regulate its operations. However, there is a remaining risk of relevant authorities different positions in disputable tax issues.

## 5. Cash and balances with the National Bank of the Republic of Kazakhstan

Cash and balances with the National Bank of the Republic of Kazakhstan comprise:

| | *2012* | *2011* | *2010* |
|---|---|---|---|
| Cash on hand | **312,915** | 284,186 | 179,377 |
| Current accounts with the NBRK | **673,345** | 1,172,818 | 2,289,216 |
| Term deposits with the NBRK up to 90 days from the open date | **15,401,299** | 19,101,800 | 8,000,356 |
| **Cash and balances with the National Bank of the Republic of Kazakhstan** *(Note 21)* | **16,387,559** | 20,558,804 | 10,468,949 |

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current accounts with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on accounts with the NBRK or physical cash in national currency during the period of reserve creation.

As at 31 December 2012, the obligatory reserves are KZT 768,374 thousand (as at 31 December 2011: KZT 518,883 thousand).

In 2012, obligatory reserve requirements increased as a result of growth in NBRK rates on external short-term liabilities from 4.5% in 2011 to 6.0% in 2012, though rates on external and internal long-term liabilities decreased from 4.5% in 2011 to 2.5% in 2012 and from 2.5% in 2011 to zero in 2012, respectively.

## 6. Amounts due from other banks

Amounts due from other banks comprise:

| | *2012* | *2011* | *2010* |
|---|---|---|---|
| Correspondent accounts with banks | | | |
| - Hong Kong | **3,856,196** | – | – |
| - People's Republic of China | **294,436** | 759,088 | 278,893 |
| - Republic of Kazakhstan | **258,809** | 97,595 | 19,462 |
| - OECD countries | **227,642** | 42,495 | 1,023,981 |
| Loans issued to banks of People's Republic of China up to 90 days from the open date | **–** | 738,976 | – |
| **Amounts due from other banks** *(Note 21)* | **4,637,083** | 1,638,154 | 1,322,336 |

## 7. Loans to customers

As at 31 December 2012, loans to customers comprise non-impaired loans issued to two borrowers (as at 31 December 2011: three borrowers) with maturity in 2013-2014 (as at 31 December 2011: in 2012). As at 31 December 2012, nominal interest rates established by the Bank for these loans are 3.2%-5.3% p.a. (as at 31 December 2011: 3.0%-7.0% p.a.).

*(In thousands of tenge, unless otherwise is stated)*

## 7. Loans to customers (continued)

*Collateral and other credit enhancements*

As at 31 December 2012, loans to customers were collateralised by bank guarantee and guarantee of foreign company (as at 31 December 2011: by guarantee of the Parent Bank).

*Concentration of loans to customers*

As at 31 December 2012 and 2011 loans to customers were concentrated in the following sectors:

| | *2012* | | *2011* | |
|---|---|---|---|---|
| | *Amount* | *%* | *Amount* | *%* |
| Oil and gas | **6,143,218** | **84.4%** | 1,787,336 | 70.3% |
| Mining | **1,137,220** | **15.6%** | 457,175 | 18.0% |
| Trade | **–** | **–** | 297,139 | 11.7% |
| | **7,280,438** | **100.0%** | 2,541,650 | 100.0% |

As at 31 December 2012 and 2011, loans to customers were not impaired.

## 8. Held-to-maturity investment securities

As at 31 December 2012, held-to-maturity investment securities comprise treasury bonds of the Ministry of Finance of the Republic of Kazakhstan in the amount of KZT 4,790,137 thousand (as at 31 December 2011: KZT 5,003,161 thousand), and nominal amount is KZT 4,680,446 thousand (as at 31 December 2011: KZT 4,860,789 thousand).

As at 31 December 2012, the effective interest rate of treasury bonds of the Ministry of Finance of the Republic of Kazakhstan is 2.8%-6.0% p.a. (as at 31 December 2011: 3.3%-5.5% p.a.). The maturity of these securities is – 2013-2026 (as at 31 December 2011: 2012-2026).

## 9. Property and equipment

The movements of property and equipment in 2012 and 2011 are as follows:

| | *Land and buildings* | *Leasehold improve-ments* | *Computer equipment* | *Motor vehicles* | *Other* | *Total* |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| **31 December 2010** | 541,879 | 29,572 | 30,592 | 23,716 | 26,972 | 652,731 |
| Additions | 4,348 | – | 1,201 | – | 39,699 | 45,248 |
| Disposals | – | (29,572) | (4,098) | – | (13,889) | (47,559) |
| Transfer from other assets | 139,984 | – | – | – | – | 139,984 |
| **31 December 2011** | 686,211 | – | 27,695 | 23,716 | 52,782 | 790,404 |
| Additions | **2,270** | **–** | **5,206** | **–** | **2,673** | **10,149** |
| Disposals | **–** | **–** | **(41)** | **–** | **–** | **(41)** |
| **31 December 2012** | **688,481** | **–** | **32,860** | **23,716** | **55,455** | **800,512** |
| | | | | | | |
| **Accumulated depreciation:** | | | | | | |
| **31 December 2010** | (45,449) | (29,572) | (21,975) | (23,716) | (19,955) | (140,667) |
| Charge | (10,463) | – | (4,120) | – | (4,154) | (18,737) |
| Disposals | – | 29,572 | 4,098 | – | 11,902 | 45,572 |
| **31 December 2011** | (55,912) | – | (21,997) | (23,716) | (12,207) | (113,832) |
| Charge | **(15,119)** | **–** | **(4,622)** | **–** | **(5,809)** | **(25,550)** |
| Disposals | **–** | **–** | **41** | **–** | **–** | **41** |
| **31 December 2012** | **(71,031)** | **–** | **(26,578)** | **(23,716)** | **(18,016)** | **(139,341)** |
| | | | | | | |
| **Net book value:** | | | | | | |
| **31 December 2012** | **617,450** | **–** | **6,282** | **–** | **37,439** | **661,171** |
| **31 December 2011** | 630,299 | – | 5,698 | – | 40,575 | 676,572 |
| **31 December 2010** | 496,430 | – | 8,617 | – | 7,017 | 512,064 |

Carrying amount of fully amortised assets that are in use as at 31 December 2012 is KZT 50,964 thousand (as at 31 December 2011: KZT 39,482 thousand).

*(In thousands of tenge, unless otherwise is stated)*

## 10. Intangible assets

Movement of intangible assets during 2012 and 2011 are presented as follows:

| | *Licenses* | *Software* | *Total* |
|---|---|---|---|
| **Cost:** | | | |
| **31 December 2010** | 8,786 | 7,177 | 15,963 |
| Additions | – | 162 | 162 |
| **31 December 2011** | 8,786 | 7,339 | 16,125 |
| Additions | **67** | **–** | **67** |
| Disposal | **–** | **(147)** | **(147)** |
| **31 December 2012 года** | **8,853** | **7,192** | **16,045** |
| | | | |
| **Accumulated amortisation:** | | | |
| **31 December 2010** | (6,711) | (4,252) | (10,963) |
| Charge | (622) | (957) | (1,579) |
| **31 December 2011** | (7,333) | (5,209) | (12,542) |
| Charge | **(375)** | **(799)** | **(1,174)** |
| **31 December 2012** | **(7,708)** | **(6,008)** | **(13,716)** |
| | | | |
| **Net book value:** | | | |
| **31 December 2012** | **1,145** | **1,184** | **2,329** |
| **31 December 2011** | 1,453 | 2,130 | 3,583 |
| **31 December 2010** | 2,075 | 2,925 | 5,000 |

Carrying amount of fully amortised intangible assets being in use as at 31 December 2012 is KZT 10,854 thousand (as at 31 December 2011 KZT 7,126 thousand).

## 11. Taxation

The corporate income tax expense comprises the following:

| | *2012* | *2011* |
|---|---|---|
| Current corporate income tax expense | **56,180** | 48,984 |
| Deferred corporate income tax expense – origination and decrease of temporary differences | **91** | 1,030 |
| **Corporate income tax expense** | **56,271** | 50,014 |

The Republic of Kazakhstan is only one tax jurisdiction in which the Bank's income is taxable. In accordance with the tax legislation, the applied corporate income tax rate comprises 20.0% in 2012 and 2011.

The reconciliation between the corporate income tax expense presented in these financial statements and profit before corporate income tax expense multiplied by the statutory tax rate for the periods ended 31 December is as follows:

| | *2012* | *2011* |
|---|---|---|
| **Profit before corporate income tax expense** | **454,834** | 428,643 |
| Statutory tax rate | **20%** | 20% |
| **Theoretical corporate income tax expense at the statutory rate** | **90,967** | 85,729 |
| *Tax exempt income:* | | |
| Tax exempt income on government securities | **(39,720)** | (38,145) |
| *Non-deductible expenses:* | | |
| Expenses from non-banking activities | **1,699** | 2,430 |
| Other non-deductible expenses | **3,325** | – |
| **Corporate income tax expense** | **56,271** | 50,014 |

As at 31 December 2012, current corporate income tax liabilities are KZT 4,411 thousand (as at 31 December 2011, current corporate income tax assets amounted to KZT 1,680 thousand).

*(In thousands of tenge, unless otherwise is stated)*

## 11. Taxation (continued)

Deferred income tax balances, calculated by applying the statutory tax rates in effect at the respective statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprise the following at 31 December:

| | *2010* | *Origination and reversal of temporary differences in the statement of comprehensive income* | *2011* | *Origination and reversal of temporary differences in the statement of comprehensive income* | *2012* |
|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences:** | | | | | |
| Property, plant and equipment and intangible assets | 1,686 | (1,030) | 656 | **(91)** | **565** |
| **Deferred tax assets** | 1,686 | (1,030) | 656 | **(91)** | **565** |

## 12. Amounts due to credit institutions

| | *2012* | *2011* |
|---|---|---|
| Short-term loan from other banks | **4,228,099** | 445,231 |
| Current accounts of the Parent bank | **8,351** | – |
| Current accounts of the banks of the Republic of Kazakhstan | **7,554** | – |
| **Amounts due to credit institutions** | **4,244,004** | 445,231 |

As at 31 December 2012, short-term loan comprises a loan from Industrial and Commercial Bank of China Limited, Frankfurt branch, in the amount of KZT 4,228,099 thousand (as at 31 December 2011: KZT 445,231 thousand), denominated in US dollars at 1.19% interest rate p.a. (as at 31 December 2011: 1.25% p.a.).

## 13. Amounts due to customers

Amounts due to customers comprise the following:

| | *2012* | *2011* |
|---|---|---|
| **Current accounts / demand accounts:** | | |
| Commercial entities | **13,575,182** | 17,840,036 |
| Individuals | **936,955** | 669,386 |
| Governmental entities | **592,956** | 509,492 |
| | **15,105,093** | 19,018,914 |
| **Term deposits** | | |
| Commercial entities | **3,015,841** | – |
| Individuals | **46,877** | 9,052 |
| | **3,062,718** | 9,052 |
| **Amounts due to customers** | **18,167,811** | 19,027,966 |
| Held as security against guarantees | **400** | 31,393 |

As at 31 December 2012, the Bank's ten largest customers accounted for 91% of the total amounts due to customers (as at 31 December 2011: 92%). The aggregate amount due to such customers as at 31 December 2012 was KZT 16,583,426 thousand (as at 31 December 2011: KZT 17,448,043 thousand).

Included in term deposits are deposits of individuals in the amount of KZT 46,877 thousand (as at 31 December 2011: KZT 9,052 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

*(In thousands of tenge, unless otherwise is stated)*

## 13. Amounts due to customers (continued)

An analysis of customer accounts by economic sectors is as follows:

| | *2012* | *%* | *2011* | *%* |
|---|---|---|---|---|
| Oil transportation | **8,503,104** | **46.8%** | 12,730,693 | 66.9% |
| Hotel and hospitality | **6,127,312** | **33.7%** | 44 | 0.0% |
| Individuals | **983,832** | **5.4%** | 678,438 | 3.6% |
| Trade | **646,821** | **3.6%** | 2,999,943 | 15.8% |
| Governmental entities | **592,956** | **3.3%** | 509,492 | 2.7% |
| Agriculture | **175,917** | **1.0%** | 786,817 | 4.1% |
| Mining | **153,141** | **0.8%** | 412,284 | 2.2% |
| Construction | **48,918** | **0.3%** | 124,456 | 0.7% |
| Transportation and communication | **29,493** | **0.2%** | 6,068 | 0.0% |
| Oil and gas | **8,365** | **0.0%** | 303,931 | 1.6% |
| Other | **897,952** | **4.9%** | 475,800 | 2.4% |
| | **18,167,811** | **100.0%** | 19,027,966 | 100.0% |

## 14. Equity

As at 31 December 2012 and 2011, the Bank has 14,238 issued and fully paid shares. Each share gives the right to one vote and equal right for dividends. All shares are denominated in KZT and have placement value of KZT 627,440 each. No dividends were declared or paid during 2012 and 2011.

As at 31 December 2012, all issued shares were owned by Industrial and Commercial Bank of China JSC.

In June 2011, based on the shareholder's decision dated 15 January 2009, concerning the increase of shareholders' equity prior to 30 November 2011, in accordance with requirements of the Committee for the Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan (the "FMSC"), the Bank additionally issued 7,968 of ordinary shares. All issued shares were fully paid by the current shareholder.

The changes in outstanding, issued and fully paid shares for 2012 and 2011 are as follows:

| | *Number of shares* | *Placement value* |
|---|---|---|
| **31 December 2010** | 6,270 | 3,934,049 |
| Increase in share capital | 7,968 | 4,999,442 |
| **31 December 2011** | 14,238 | 8,933,491 |
| Increase in share capital | – | – |
| **31 December 2012** | **14,238** | **8,933,491** |

In accordance with local legislation and the NBRK rules, in 2012 the Bank has allocated funds from the retained earnings in the amount of KZT 378,629 thousand to make a statutory reserve to cover unforeseen risks and future losses (in 2011: KZT 40,772 thousand). The funds from the statutory reserve could be allocated only upon the shareholder's official authorization.

## 15. Financial commitments and contingencies

### Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The global financial crisis has had an impact on the economy of Kazakhstan. Despite some recovery figures, there is still uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects.

*(In thousands of tenge, unless otherwise is stated)*

## 15. Financial commitments and contingencies (continued)

**Legal actions and claims**

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Bank believes that the ultimate liabilities, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of operations of the Bank.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only when it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in this financial statement for any of the contingent liabilities.

**Financial commitments and contingencies**

As at 31 December 2012 and 2011, the Bank's financial commitments and contingencies comprised the following:

| | *2012* | *2011* |
|---|---|---|
| **Credit related commitments** | | |
| Guarantees issued | **901,015** | 929,702 |
| | **901,015** | 929,702 |
| Less: Funds held as security against guarantees *(Note 13)* | **(400)** | (31,393) |
| **Financial commitments and contingencies** | **900,615** | 898,309 |

As at 31 December 2012, guarantees issued by the Bank were secured by collateral in the form of cash on current account in amount of KZT 400 thousand (as at 31 December 2011: KZT 31,393 thousand) and the Parent's guarantee in amount of KZT 900,615 thousand (as at 31 December 2011: KZT 900,615 thousand).

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

## 16. Net fee and commission income

Net fee and commission income for the year ended 31 December comprises:

| | *2012* | *2011* |
|---|---|---|
| Transfer operations | **171,542** | 211,695 |
| Cash operations | **26,966** | 29,957 |
| Guarantees and letters of credit | **3,504** | 10,648 |
| Other | **1,437** | 921 |
| **Fee and commission income** | **203,449** | 253,221 |
| | | |
| Custodian services | **(11,209)** | (10,674) |
| Transfer operations | **(2,020)** | (1,675) |
| Other | **(402)** | (550) |
| **Fee and commission expenses** | **(13,631)** | (12,899) |
| **Net fee and commission income** | **189,818** | 240,322 |

*(In thousands of tenge, unless otherwise is stated)*

## 17. Personnel and other operating expenses

Personnel and other operating expenses comprise:

| | *2012* | *2011* |
|---|---|---|
| Salaries and bonuses | **161,111** | 147,475 |
| Social security costs | **16,852** | 15,265 |
| **Personnel expenses** | **177,963** | 162,740 |
| Security | **11,149** | 10,685 |
| Professional services | **8,400** | 5,858 |
| Communication services | **8,334** | 8,474 |
| Utilities | **7,553** | 8,346 |
| Cash collection expenses | **7,448** | 8,238 |
| Representative expenses | **7,375** | 9,769 |
| Business trip expenses | **6,663** | 6,995 |
| Office supplies | **5,046** | 5,169 |
| Information technology services | **4,596** | 4,061 |
| Transportation expenses | **3,026** | 2,254 |
| Deposit insurance | **2,324** | 2,186 |
| Translation and notary services | **2,277** | 1,697 |
| Insurance expenses | **1,881** | 585 |
| Membership fee | **919** | 501 |
| Training expenses | **425** | 781 |
| Rent | **–** | 4,270 |
| Write-off of property and equipment | **–** | 1,987 |
| Other | **5,736** | 8,420 |
| **Other operating expenses** | **83,152** | 90,276 |

## 18. Risk management

### Introduction

Risk is inherent in the Bank's activities. The Bank manages risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

*Risk management structure*

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

*Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

*Management Board*

The Management Board has the responsibility to monitor the overall risk management process within the Bank.

*Risk Management and Law Compliance Department*

The Risk Management and Law Compliance Department (here and after the "Department") has the overall responsibility for the development of the risk management strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk management issues and monitors relevant risk decisions.

The Department is responsible for implementing and maintaining risk management related procedures to ensure an independent control process.

The Department is responsible for monitoring compliance with risk management principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products.

*(In thousands of tenge, unless otherwise is stated)*

## 18. Risk management (continued)

### Introduction (continued)

*Assets and Liabilities Management Committee*

Assets and Liabilities Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

*Internal Audit*

Risk management processes throughout the Bank are audited annually by the internal audit department that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

*Risk measurement and reporting systems*

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience and adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions of the Bank have access to extensive, necessary and up-to-date information.

*Risk mitigation*

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

*Excessive risk concentration*

Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risk concentrations are controlled and managed accordingly.

### Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, for geographical and industry risk concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

*(In thousands of tenge, unless otherwise is stated)*

## 18. Risk management (continued)

### Credit risk (continued)

*Credit-related commitments risks*

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The carrying value of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit risk exposure on these components.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 7 "Loans to customers"* and *Note 15 "Financial commitments and contingencies"*.

*Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality analysis by class of assets for loan-related statement of financial position lines, based on the Bank's credit rating system.

| | | *Neither past due nor impaired* | | |
|---|---|---|---|---|
| | *Notes* | *High grade 2012* | *Standard grade 2012* | *Total 2012* |
| Cash and balances with the National Bank of the Republic of Kazakhstan (less cash on hands) | 5 | **16,074,644** | **–** | **16,074,644** |
| Amounts due from other banks | 6 | **4,378,274** | **258,809** | **4,637,083** |
| Loans to customers | 7 | **–** | **7,280,438** | **7,280,438** |
| Held-to-maturity investment securities | 8 | **4,790,137** | **–** | **4,790,137** |
| **Total** | | **25,243,055** | **7,539,247** | **32,782,302** |

| | | *Neither past due nor impaired* | | |
|---|---|---|---|---|
| | *Notes* | *High grade 2011* | *Standard grade 2011* | *Total 2011* |
| Cash and balances with the National Bank of the Republic of Kazakhstan (less cash on hands) | 5 | 20,274,618 | – | 20,274,618 |
| Amounts due from other banks | 6 | 767,442 | 870,712 | 1,638,154 |
| Loans to customers | 7 | – | 2,541,650 | 2,541,650 |
| Held-to-maturity investment securities | 8 | 5,003,161 | – | 5,003,161 |
| **Total** | | 26,045,221 | 3,412,362 | 29,457,583 |

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

*Impairment assessment*

The main considerations for the loan impairment assessment comprise: whether any payments of principal and interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment on individual basis.

*(In thousands of tenge, unless otherwise is stated)*

## 18. Risk management (continued)

**Credit risk (continued)**

*Individually assessed allowances*

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

The geographical concentration of Bank's monetary assets and liabilities is set out below:

| | 2012 | | |
|---|---|---|---|
| | *Kazakhstan* | *Other countries* | *Total* |
| **Assets:** | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | **16,387,559** | – | **16,387,559** |
| Amounts due from other banks | **258,809** | **4,378,274** | **4,637,083** |
| Loans to customers | **1,137,220** | **6,143,218** | **7,280,438** |
| Held-to-maturity investment securities | **4,790,137** | – | **4,790,137** |
| Other monetary assets | **460** | – | **460** |
| | **22,574,185** | **10,521,492** | **33,095,677** |
| **Liabilities:** | | | |
| Amounts due to credit institutions | **7,554** | **4,236,450** | **4,244,004** |
| Amounts due to customers | **18,167,811** | – | **18,167,811** |
| Current corporate income tax liabilities | **4,411** | – | **4,411** |
| Other monetary liabilities | **2,128** | – | **2,128** |
| | **18,181,904** | **4,236,450** | **22,418,354** |
| **Net position on assets and liabilities** | **4,392,281** | **6,285,042** | **10,677,323** |

| | 2011 | | |
|---|---|---|---|
| | *Kazakhstan* | *Other countries* | *Total* |
| **Assets:** | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 20,558,804 | – | 20,558,804 |
| Amounts due from other banks | 97,595 | 1,540,559 | 1,638,154 |
| Loans to customers | 457,175 | 2,084,475 | 2,541,650 |
| Held-to-maturity investment securities | 5,003,161 | – | 5,003,161 |
| Other monetary assets | 22 | – | 22 |
| | 26,116,757 | 3,625,034 | 29,741,791 |
| **Liabilities:** | | | |
| Amounts due to credit institutions | – | 445,231 | 445,231 |
| Amounts due to customers | 19,027,966 | – | 19,027,966 |
| Other monetary liabilities | 3,718 | – | 3,718 |
| | 19,031,684 | 445,231 | 19,476,915 |
| **Net position on assets and liabilities** | 7,085,073 | 3,179,803 | 10,264,876 |

Credit related assets and liabilities have been classified based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. Other countries comprise mainly People's Republic of China, Hong Kong, United States of America and European Union countries.

*(In thousands of tenge, unless otherwise is stated)*

## 18. Risk management (continued)

### Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to receive additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December 2012 and 2011, based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| | 2012 | | | |
|---|---|---|---|---|
| | Less than 3 months | From 3 to 12 months | From 1 to 5 years | Total |
| **Financial liabilities** | | | | |
| Amounts due to credit institutions | **4,245,535** | **–** | **–** | **4,245,535** |
| Amounts due to customers | **18,133,344** | **36,715** | **200** | **18,170,259** |
| **Total undiscounted financial liabilities** | **22,378,879** | **36,715** | **200** | **22,415,794** |

| | 2011 | | | |
|---|---|---|---|---|
| | Less than 3 months | From 3 to 12 months | From 1 to 5 years | Total |
| **Financial liabilities** | | | | |
| Amounts due to credit institutions | 445,339 | – | – | 445,339 |
| Amounts due to customers | 19,019,810 | 8,158 | 200 | 19,028,168 |
| **Total undiscounted financial liabilities** | 19,465,149 | 8,158 | 200 | 19,473,507 |

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor (*Note 13*). The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn commitments on lending are included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

| | Less than 3 months | From 3 months to 1 year | From 1 year to 5 years | Total |
|---|---|---|---|---|
| **2012** | **200** | **900,615** | **200** | **901,015** |
| 2011 | 24,435 | 905,067 | 200 | 929,702 |

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

### Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank is exposed to market risk on non-trading portfolio. The market risk for non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

*(In thousands of tenge, unless otherwise is stated)*

## 18. Risk management (continued)

### Market risk (continued)

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The following table demonstrates the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities held at 31 December 2012 and 2011.

| *Currency* | *Increase in percentage, 2012* | *Sensitivity of net interest income, 2012* |
|---|---|---|
| **1-month LIBOR** | | |
| US Dollar | **0.15%** | **9,572** |
| Euro | **0.15%** | **3** |
| Japanese yen | **0.15%** | **1** |
| Chinese yuan | **0.15%** | **1** |

| *Currency* | *Decrease in percentage, 2012* | *Sensitivity of net interest income, 2012* |
|---|---|---|
| **1-month LIBOR** | | |
| US Dollar | **0.10%** | **(6,381)** |
| Euro | **0.10%** | **(2)** |
| Japanese yen | **0.10%** | **(1)** |
| Chinese yuan | **0.10%** | **(1)** |

| *Currency* | *Increase in percentage, 2011* | *Sensitivity of net interest income, 2011* |
|---|---|---|
| **1-month LIBOR** | | |
| US Dollar | 0.15% | 5,577 |
| Euro | 0.15% | 5 |
| Japanese yen | 0.15% | 1 |
| Chinese yuan | 0.15% | 454 |

| *Currency* | *Decrease in percentage, 2011* | *Sensitivity of net interest income, 2011* |
|---|---|---|
| **1-month LIBOR** | | |
| US Dollar | 0.10% | (3,718) |
| Euro | 0.10% | (3) |
| Japanese yen | 0.10% | (1) |
| Chinese yuan | 0.10% | (303) |

*(In thousands of tenge, unless otherwise is stated)*

## 18. Risk management (continued)

### Market risk (continued)

*Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

The following table indicates the currencies to which the Bank has exposure as at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible change in the currency rates against tenge on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. All other variables are held constant. The negative amounts in the table reflect a potential net reduction in statement of comprehensive income or equity, while the positive amounts reflect a net potential increase.

| | *2012* | | *2011* | |
|---|---|---|---|---|
| ***Currency*** | ***Increase in currency rate, in %*** | ***Effect on profit before corporate income tax expense*** | ***Increase in currency rate, in %*** | ***Effect on profit before corporate income tax expense*** |
| US Dollar | **1.6** | **(431)** | 0.4 | (33) |
| Euro | **10.8** | **28** | 2.0 | 62 |
| Japanese yen | **0.2** | **11** | 2.6 | 20 |
| Chinese yuan | **0.0** | **12** | 0.6 | 9 |

| | *2012* | | *2011* | |
|---|---|---|---|---|
| ***Currency*** | ***Decrease in currency rate, in %*** | ***Effect on profit before corporate income tax expense*** | ***Decrease in currency rate, in %*** | ***Effect on profit before corporate income tax expense*** |
| US Dollar | **(1.6)** | **431** | 0.4 | 34 |
| Euro | **(10.8)** | **(193)** | 2.8 | (85) |
| Japanese yen | **(0.2)** | **(1)** | 3.1 | (24) |
| Chinese yuan | **(0.0)** | **(0)** | 0.7 | (11) |

### Operational risk

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

*(In thousands of tenge, unless otherwise is stated)*

## 19. Fair value of financial instruments

*Financial instruments not carried at fair value in the statement of financial position*

Set out below is a comparison by class of the carrying value and fair values of the Bank's financial assets and liabilities that are not carried at fair value in the statement of financial position. As at 31 December 2012 and 2011, the Bank did not have financial instruments recorded in the financial statements at fair value. The table does not include the fair value of non-financial assets and non-financial liabilities.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | *Carrying value* | *Fair value* | *Unrecog-nised loss* | *Carrying value* | *Fair value* | *Unrecog-nised gain* |
| ***Financial assets*** | | | | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | **16,387,559** | **16,387,559** | **–** | 20,558,804 | 20,558,804 | – |
| Amounts due from other banks | **4,637,083** | **4,637,083** | **–** | 1,638,154 | 1,638,154 | – |
| Loans to customers | **7,280,438** | **7,235,235** | **(45,203)** | 2,541,650 | 2,541,650 | – |
| Held-to-maturity investment securities | **4,790,137** | **4,626,264** | **(163,873)** | 5,003,161 | 5,012,314 | 9,153 |
| Other financial assets | **460** | **460** | **–** | 22 | 22 | – |
| ***Financial liabilities*** | | | | | | |
| Amounts due to credit institutions | **4,244,004** | **4,244,004** | **–** | 445,231 | 445,231 | – |
| Amounts due to customers | **18,167,811** | **18,167,811** | **–** | 19,027,966 | 19,027,966 | – |
| Current corporate income tax liabilities | **4,411** | **4,411** | **–** | – | – | – |
| Other financial liabilities | **2,128** | **2,128** | **–** | 3,718 | 3,718 | – |
| **Total unrecognised change in unrealised fair value** | | | **(209,076)** | | | 9,153 |

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not already recorded at fair value in the financial statements.

*Assets for which fair value approximates to carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than one year) it is assumed that the fair value approximates to their carrying value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and short-term loans to customers.

For quoted debt instruments the fair value is determined based on quoted market prices. The fair value of unquoted debt instruments is estimated by discounting cash flows using interest rate currently available for debt instruments on similar terms, credit risk and remaining maturity.

*(In thousands of tenge, unless otherwise is stated)*

## 20. Maturity analysis of assets and liabilities

The table below shows assets and liabilities according to their expected maturities. See *Note 18 "Risk management"* for the Bank's contractual undiscounted repayment obligations.

| | *2012* | | | *2011* | | |
|---|---|---|---|---|---|---|
| | *Within one year* | *More than one year* | *Total* | *Within one year* | *More than one year* | *Total* |
| Cash and balances with the National Bank of the Republic of Kazakhstan | **16,387,559** | – | **16,387,559** | 20,558,804 | – | 20,558,804 |
| Amounts due from other banks | **4,637,083** | – | **4,637,083** | 1,638,154 | – | 1,638,154 |
| Loans to customers | **6,149,888** | **1,130,550** | **7,280,438** | 2,541,650 | – | 2,541,650 |
| Held-to-maturity investment securities | **1,834,549** | **2,955,588** | **4,790,137** | 181,058 | 4,822,103 | 5.003,161 |
| Property and equipment | – | **661,171** | **661,171** | – | 676,572 | 676,572 |
| Intangible assets | – | **2,329** | **2,329** | – | 3,583 | 3,583 |
| Current corporate income tax assets | – | – | – | 1,680 | – | 1,680 |
| Deferred corporate income tax assets | – | **565** | **565** | – | 656 | 656 |
| Other assets | **12,554** | – | **12,554** | 6,748 | – | 6,748 |
| **Total assets** | **29,021,633** | **4,750,203** | **33,771,836** | 24,928,094 | 5,502,914 | 30,431,008 |
| Amounts due to credit institutions | **4,244,004** | – | **4,244,004** | 445,231 | – | 445,231 |
| Amounts due to customers | **18,167,611** | **200** | **18,167,811** | 19,027,766 | 200 | 19,027,966 |
| Current corporate income tax liabilities | **4,411** | – | **4,411** | – | – | – |
| Other liabilities | **2,999** | **13** | **3,012** | 3,763 | 13 | 3,776 |
| **Total liabilities** | **22,419,025** | **213** | **22,419,238** | 19,476,760 | 213 | 19,476,973 |
| **Net position** | **6,602,608** | **4,749,990** | **11,352,598** | 5,451,334 | 5,502,701 | 10,954,035 |

## 21. Additional information for statement of cash flows

Cash and cash equivalents comprise:

| | *2012* | *2011* | *2010* |
|---|---|---|---|
| Cash and balances with the National Bank of the Republic of Kazakhstan up to 90 days from the open date *(Note 5)* | **16,387,559** | 20,558,804 | 10,468,949 |
| Amounts due from other banks up to 90 days from the open date *(Note 6)* | **4,637,083** | 1,638,154 | 1,322,336 |
| | **21,024,642** | 22,196,958 | 11,791,285 |

## 22. Related party transactions

In accordance with IAS 24 *"Related Party Disclosures"*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

*Transactions with entities related to People's Republic of China*

The People's Republic of China acting through the Parent controls the Bank's activities.

The People's Republic of China through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "entities associated with the state"). The Bank enters into banking transactions with these entities including cash settlement and foreign exchange transactions.

*(In thousands of tenge, unless otherwise is stated)*

## 22. Related party transactions (continued)

*Transactions with entities related to People's Republic of China (continued)*

State authorities of People's Republic of China do not publish and present an official entire list of organisations owned or controlled, directly and indirectly, by the government to the companies controlled/owned by the government. Taking into account this circumstance, the Bank's management has only disclosed information in these financial statements allowed by the Bank's management accounting system with respect to transactions with government-controlled entities, which are considered to be such entities by the Bank's management based on all available information. The financial statements disclose transactions with the state entities and companies where the share of the government constitutes 50% and more. As related to the entities under the government control the Bank's management has analysed transactions with largest clients and allocated transactions balances with the groups of companies given below: 1) government entities; 2) entities with over 50% of share capital controlled by the government. The Bank performs all transactions with government entities and companies under the government control in course of its everyday activity.

The volumes of transactions with government entities and companies under the government control and outstanding balances as at the year end are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | *Government entities* | *Entities with over 50% of share capital controlled by the government* | *Government entities* | *Entities with over 50% of share capital controlled by the government* |
| **Amounts due to customers as at 1 January** | 388,878 | 1,297,327 | 826,227 | 252,481 |
| Receipts on current accounts during the year | 2,348,855 | 5,388,839 | 3,382,623 | 10,807,051 |
| Payments on current accounts during the year | (2,146,862) | (6,510,224) | (3,819,769) | (9,763,478) |
| Foreign exchange gain / (loss) | 2,086 | 2,703 | (203) | 1,273 |
| **Amounts due to customers as at 31 December** | 592,957 | 178,645 | 388,878 | 1,297,327 |

*Related party transactions*

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year ended 31 December are as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | *The Parent* | *Entities under common control* | *Key management personnel* | *The Parent* | *Entities under common control* | *Key management personnel* |
| **Amounts due from other banks as at 1 January** | 759,088 | 8,354 | – | 278,893 | 267,541 | – |
| Receipts on current accounts during the year | 119,902,567 | 41,557,462 | – | 120,952,111 | 8,091,546 | – |
| Payments on current accounts during the year | (120,333,384) | (37,766,665) | – | (120,469,774) | (8,350,837) | – |
| Foreign exchange (loss) / gain | (33,835) | 61,932 | – | (2,142) | 104 | – |
| **Amounts due from other banks as at 1 December** | 294,436 | 3,861,083 | – | 759,088 | 8,354 | – |
| Interest income on current accounts for the year | 3,563 | 283 | – | 4,272 | – | – |

*(In thousands of tenge, unless otherwise is stated)*

## 22. Related party transactions (continued)

*Related party transactions (continued)*

| | *2012* | | | *2011* | | |
|---|---|---|---|---|---|---|
| | *The Parent* | *Entities under common control* | *Key management personnel* | *The Parent* | *Entities under common control* | *Key management personnel* |
| **Amounts due to credit institutions:** | | | | | | |
| ***Current accounts of credit institutions as at 1 January*** | – | – | – | – | – | – |
| Received during the year | 8,351 | – | – | – | – | – |
| Paid during the year | – | – | – | – | – | – |
| Foreign exchange gain | – | – | – | – | – | – |
| ***Current accounts of credit institutions as at 31 December*** | 8,351 | – | – | – | – | – |
| Interest expense on current accounts of credit institutions for the year | – | – | – | – | – | – |
| ***Loans from credit institutions as at 1 January*** | – | 445,231 | – | – | – | – |
| Received during the year | 2,073,120 | 9,600,400 | – | – | 8,823,521 | – |
| Paid during the year | (2,085,440) | (5,877,605) | – | – | (8,406,647) | – |
| Foreign exchange gain | 12,320 | 60,073 | – | – | 28,357 | – |
| ***Loans from credit institutions as at 31 December*** | – | 4,228,099 | – | – | 445,231 | – |
| Interest expense on loans from credit institutions for the year | (14,522) | (19,302) | – | – | (13,262) | – |
| **Amounts due to customers as at 1 January** | – | – | 7,344 | – | – | 2,340 |
| Receipts on clients' accounts during the year | – | – | 38,079 | – | – | 52,386 |
| Payments on clients' accounts during the year | – | – | (39,746) | – | – | (47,421) |
| Foreign exchange (loss) / gain | – | – | (1,585) | – | – | 39 |
| **Amounts due to customers as at 31 December** | – | – | 4,092 | – | – | 7,344 |
| Interest expense on current accounts for the year | – | – | (41) | – | – | – |

Below is the information on compensation to five members (2011: 4 members) of key management personnel for the year ended 31 December:

| | *2012* | *2011* |
|---|---|---|
| Salary and other short-term benefits | 48,503 | 37,366 |
| Social security costs | 5,259 | 3,934 |
| | 53,762 | 41,300 |

*(In thousands of tenge, unless otherwise is stated)*

## 23. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the FMSC.

During the 2012, the Bank had complied in full with all its externally imposed capital requirements.

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit rating and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policy and processes of capital management from the previous years.

The FMSC requires second-tier banks to maintain the capital adequacy ratio k1-1 of not less than 5% of the total assets under FMSC rules, ratio k1-2 of not less than 5% and ratio k2 of not less than 10% of risk-weighted assets, contingent liabilities, possible claims and liabilities and operational risks.

*Computation of capital adequacy ratio*

- Capital adequacy ratio k1-1 is computed as tier one capital to total assets under the FMSC rules;
- Capital adequacy ratio k1-2 is computed as tier one capital to risk-weighted assets and contingent liabilities, possible claims and liabilities;
- Capital adequacy ratio k2 is computed as statutory capital to risk-weighted assets and contingent liabilities, and possible claims and liabilities.

As at 31 December 2012 and 2011, the Bank's capital adequacy ratio exceeded the statutory minimum.

As at 31 December 2012 and 2011, the Bank's capital adequacy ratio, computed in accordance with the FMSC requirements together with subsequent adjustments pertaining to inclusion of market risk, comprised:

| | *2012* | *2011* |
|---|---|---|
| Tier 1 capital | **10,953,642** | 10,574,588 |
| Tier 2 capital | **402,975** | 378,629 |
| **Total statutory capital** | **11,356,617** | 10,953,217 |
| Total assets under the FMSC rules | **33,922,448** | 30,431,008 |
| Risk-weighted assets and contingent liabilities, possible claims and liabilities | **5,818,692** | 2,939,944 |
| **Capital adequacy ratio k1-1** | **32.3%** | 34.7% |
| **Capital adequacy ratio k1-2** | **188.2%** | 359.7% |
| **Capital adequacy ratio k2** | **195.2%** | 372.6% |