

**National Bank of the Republic of
Kazakhstan**

Consolidated Financial Statements
for the year ended 31 December 2012

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Independent Auditors' Report

To the Management Board of the National Bank of the Republic of Kazakhstan

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the requirements of the Law of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan", and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the basis of preparation described in Note 2, which was established by management in order to satisfy the requirements of the Law of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan".

Other Matter

The consolidated financial statements of the National Bank as at and for the year ended 31 December 2011 were audited by other auditors whose report dated 15 March 2012 expressed an unmodified opinion on those statements.

Irmatov R.I.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No МФ-0000053 of 6 January 2012

KPMG Audit LLC

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

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

15 March 2013

National Bank of the Republic of Kazakhstan
Consolidated Income Statement for the year ended 31 December 2012

	Note	2012 KZT'000	2011 KZT'000
Interest income	4	70,875,297	84,537,450
Interest expense	4	(8,608,108)	(17,280,189)
Net interest income		62,267,189	67,257,261
Fee and commission income	5	9,977,205	7,759,672
Fee and commission expense	6	(651,801)	(670,529)
Net fee and commission income		9,325,404	7,089,143
Net gain on financial instruments at fair value through profit or loss	7	10,836,772	2,462,080
Net gain on available-for-sale financial assets	8	7,059,042	2,156,653
Loss on held-to-maturity investments	22	(15,170,270)	-
Income from associates		119,590	128,475
Other operating income, net	9	4,745,632	4,836,817
Operating income		79,183,359	83,930,429
Recovery of/(charge for) impairment losses	10	1,775,893	(5,631,516)
Banknotes and coins production expenses	11	(8,915,829)	(5,723,705)
Funding of third parties	12	(182,017)	(1,315,655)
Personnel expenses	13	(17,929,143)	(13,426,180)
Depreciation and amortisation		(2,314,493)	(1,778,692)
Other general administrative expenses	14	(5,714,907)	(5,123,387)
Profit before income tax		45,902,863	50,931,294
Income tax expense	15	(1,433,185)	(1,012,000)
Profit for the year		44,469,678	49,919,294
Profit/(loss) attributable to:			
- Equity holders of the National Bank		44,474,558	49,735,109
- Non-controlling interests		(4,880)	184,185
Profit for the year		44,469,678	49,919,294

The consolidated financial statements as set out on pages 5 to 67 were approved by the Management Board of the National Bank on 15 March 2013:

 Marchenko G.A.
 Governor

 Rakhmetova S.K.
 Chief Accountant

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

	2012	2011
	KZT'000	KZT'000
Profit for the year	44,469,678	49,919,294
Other comprehensive income, net of income tax		
Net gain/(loss) on foreign currency revaluation	92,359,477	(8,605,013)
Net gain on precious metals revaluation	44,694,546	48,384,527
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	(9,093,464)	16,284,203
- Net change in fair value transferred to profit or loss	(7,059,042)	(2,156,653)
- Impairment transferred to profit or loss	-	5,628,451
Revaluation of property and equipment	-	2,113,025
Other comprehensive income for the year, net of income tax	120,901,517	61,648,540
Total comprehensive income for the year	165,371,195	111,567,834
Total comprehensive income/(loss) attributable to:		
- Equity holders of the National Bank	165,376,075	111,383,649
- Non-controlling interests	(4,880)	184,185
Total comprehensive income for the year	165,371,195	111,567,834

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Financial Position as at 31 December 2012

	Note	2012 KZT'000	2011 KZT'000
ASSETS			
Cash on hand in foreign currency		9,969,355	21,081,881
Gold	17	926,815,525	616,010,770
Placements with banks and other financial institutions	18	735,238,828	432,668,712
Financial instruments at fair value through profit or loss	19	302,392,225	5,041,013
Reverse repurchase agreements	20	578,002,980	430,976,777
Available-for-sale financial assets	21	2,636,135,268	3,610,643,944
Held-to-maturity investments	22	56,155,772	-
Investments in associates	41	186,770	810,037
Property, equipment and intangible assets	23	39,114,304	35,410,359
Current tax asset		192,814	1,007,631
Deferred tax asset		86,489	112,867
Other assets	24	10,686,518	11,451,424
Total assets		5,294,976,848	5,165,215,415
LIABILITIES			
Currency in circulation	25	1,737,000,230	1,548,493,471
Due to banks and other financial institutions	26	1,010,832,334	992,488,222
Financial instruments at fair value through profit or loss	19	269,103	4,267,768
Current accounts of the National Fund of the Republic of Kazakhstan	27	606,710,642	473,186,260
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	28	177,848,958	129,617,516
Customer accounts	29	359,938,341	480,120,618
Debt securities issued	30	168,354,440	493,710,935
Reserves of guarantee funds	31	97,661,126	73,458,067
Current tax liability		36,663	50,304
Deferred tax liability		1,249,460	956,871
Other liabilities	32	5,787,279	5,844,250
Total liabilities		4,165,688,576	4,202,194,282
EQUITY			
Share capital	33	20,000,000	20,000,000
Capital reserve	33	188,436,214	156,287,842
Reserve for general banking risks	33	19,277,457	13,201,628
Revaluation surplus for property and equipment		11,694,253	17,071,875
Revaluation reserve for available-for-sale financial assets		4,733,015	20,885,521
Revaluation reserve for foreign currency and precious metals		790,762,617	653,708,594
Retained earnings		93,493,652	81,865,673
Total equity attributable to equity holders of the National Bank		1,128,397,208	963,021,133
Non-controlling interests		891,064	-
Total equity		1,129,288,272	963,021,133
Total liabilities and equity		5,294,976,848	5,165,215,415

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2012 KZT'000	2011 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	45,902,863	50,931,294
<i>Adjustments for:</i>		
Depreciation and amortisation	3,684,161	2,629,590
(Recovery of)/charge for impairment losses on financial instruments	(1,805,122)	5,631,516
Loss on disposal and from negative revaluation of property and equipment	202,637	283,152
Amortisation of discount on debt securities issued	6,211,727	12,457,544
Amortisation of premium on available-for-sale assets	28,769,347	33,259,091
Unrealised gain on financial instruments at fair value through profit or loss	(11,141,912)	(773,245)
Loss on held-to-maturity investments	15,170,270	-
Other operating income	(100,167)	-
Income from associates	(119,590)	(128,475)
Cash flow from operating activities before changes in operating assets and liabilities	86,774,214	104,290,467
(Increase)/decrease in operating assets		
Gold	(266,110,209)	(117,411,836)
Placements with banks and other financial institutions	60,947,242	(45,578,785)
Financial instruments at fair value through profit or loss	(125,482,990)	50,784
Reverse repurchase agreements	(145,326,100)	34,986,477
Available-for-sale financial assets	866,760,208	(482,858,487)
Other assets	948,859	(4,693,994)
Increase/(decrease) in operating liabilities		
Currency in circulation	188,506,759	241,996,870
Due to banks and other financial institutions	4,617,839	(1,635,473)
Financial instruments at fair value through profit or loss	(4,264,654)	(4,327,106)
Current accounts of the National Fund of the Republic of Kazakhstan	133,524,382	349,758,494
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	48,197,492	(73,716,298)
Customer accounts	(120,303,352)	9,728,694
Reserves of guarantee funds	21,030,734	18,967,587
Other liabilities	(62,895)	2,011,515
Net cash from operating activities before income tax paid	749,757,529	31,568,909
Income tax paid	(313,894)	(1,279,471)
Cash flows from operations	749,443,635	30,289,438
CASH FLOWS FROM INVESTING ACTIVITIES		
Held-to-maturity investments	(70,127,892)	-
Purchases of property and equipment and intangible assets	(8,111,451)	(6,221,145)
Sales of property and equipment and intangible assets	565,084	705,387
Cash flows used in investing activities	(77,674,259)	(5,515,758)

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Cash Flows for the year ended 31 December 2012

	2012 KZT'000	2011 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	856,251,441	2,965,564,404
Repayment of debt securities issued	(1,187,819,663)	(3,370,735,416)
Acquisition of subsidiary, net of cash acquired, and non-controlling interest	100,278	(1,694,849)
Cash flows used in financing activities	(331,467,944)	(406,865,861)
Net increase/(decrease) in cash and cash equivalents	340,301,432	(382,092,181)
Effect of changes in exchange rates on cash and cash equivalents	1,530,374	(4,317,051)
Cash and cash equivalents as at the beginning of the year	287,594,368	674,003,600
Cash and cash equivalents as at the end of the year (Note 16)	629,426,174	287,594,368

During the year ended 31 December 2012 there were certain available-for-sale financial assets transferred as a consideration for acquisition of financial instruments at fair value through profit or loss in the amount of KZT 157,326,735 thousand.

Amounts of interest, paid and received during the year ended 31 December 2012, are KZT 8,616,770 thousand and KZT 74,149,459 thousand, respectively.

Amounts of interest, paid and received during the year ended 31 December 2011, are KZT 17,362,406 thousand and KZT 85,317,109 thousand, respectively.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000

Attributable to equity holders of the National Bank

	<u>Share capital</u>	<u>Capital reserve</u>	<u>Reserve for general banking risks</u>	<u>Revaluation surplus for property and equipment</u>	<u>Revaluation reserve for available-for-sale financial assets</u>	<u>Revaluation reserve for foreign currency and precious metals</u>	<u>Retained earnings</u>	<u>Total</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
Balance as at 1 January 2011	20,000,000	133,331,094	10,153,302	15,210,315	1,110,145	613,929,080	54,61	848,38	4,761,800	853,148,148
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	49,71	49,71	184,185	49,919,294
Other comprehensive income										
Net loss on foreign currency revaluation	-	-	-	-	-	(8,605,013)	-	(8,60	-	(8,605,013)
Net gain precious metals revaluation	-	-	-	-	-	48,384,527	-	48,38	-	48,384,527
Net change in fair value of available - for-sale financial assets	-	-	-	-	16,284,203	-	-	16,28	-	16,284,203
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(2,156,653)	-	-	(2,15	-	(2,156,653)
Impairment loss transferred to profit or loss	-	-	-	-	5,628,451	-	-	5,62	-	5,628,451
Revaluation of property and equipment	-	-	-	2,113,025	-	-	-	2,11	-	2,113,025
Total other comprehensive income	-	-	-	2,113,025	19,756,001	39,779,514	-	61,64	-	61,648,540
Total comprehensive income for the year	-	-	-	2,113,025	19,756,001	39,779,514	49,71	111,38	184,185	111,567,834
Transfer of revaluation surplus resulting from depreciation and disposals	-	-	-	(251,465)	-	-	251,4	-	-	-
Transactions with owners, recorded directly in equity:										
Acquisition of non-controlling interest (Note 41)	-	-	841,473	-	19,375	-	2,39	3,21	(4,945,985)	(1,694,849)
Transfer to capital reserve and reserve for general banking risks	-	22,956,748	2,206,853	-	-	-	(25,16	-	-	-
Total transactions with owners	-	22,956,748	3,048,326	-	19,375	-	(22,77	3,21	(4,945,985)	(1,694,849)
Balance as at 31 December 2011	20,000,000	156,287,842	13,201,628	17,071,875	20,885,521	653,708,594	81,80	963,01	-	963,021,133

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000	Attributable to equity holders of the National Bank									
	Share capital	Capital reserve	Reserve for general banking risks	Revaluation surplus for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2012	20,000,000	156,287,842	13,201,628	17,071,875	20,885,521	653,708,594	81,865,673	963,021,133	-	963,021,133
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	44,474,558	44,474,558	(4,880)	44,469,678
Other comprehensive income										
Net gain on foreign currency revaluation	-	-	-	-	-	92,359,477	-	92,359,477	-	92,359,477
Net gain on precious metals revaluation	-	-	-	-	-	44,694,546	-	44,694,546	-	44,694,546
Net change in fair value of available- for-sale financial assets	-	-	-	-	(9,093,464)	-	-	(9,093,464)	-	(9,093,464)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(7,059,042)	-	-	(7,059,042)	-	(7,059,042)
Total other comprehensive income	-	-	-	-	(16,152,506)	137,054,023	-	120,901,517	-	120,901,517
Total comprehensive income for the year	-	-	-	-	(16,152,506)	137,054,023	44,474,558	165,376,075	(4,880)	165,371,195
Transfer of revaluation surplus resulting from depreciation and disposals	-	-	-	(5,377,622)	-	-	5,377,622	-	-	-
Transactions with owners, recorded directly in equity:										
Transfer to capital reserve and reserve for general banking risks	-	32,148,372	6,075,829	-	-	-	(38,224,201)	-	-	-
Acquisition of subsidiary and contributions from holders of non-controlling interest (Note 41)	-	-	-	-	-	-	-	-	895,944	895,944
Total transactions with owners	-	32,148,372	6,075,829	-	-	-	(38,224,201)	-	895,944	895,944
Balance as at 31 December 2012	20,000,000	188,436,214	19,277,457	11,694,253	4,733,015	790,762,617	93,493,652	1,128,397,208	891,064	1,129,288,272

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of the National Bank of the Republic of Kazakhstan (the “NBK”) and its subsidiaries (together referred to as the “National Bank”).

The NBK was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

In accordance with the Decree of the President of the Republic of Kazakhstan “On further improvement of the system of state regulation of financial markets of Kazakhstan” No. 25 dated 12 April 2011, the Agency of the Republic of Kazakhstan on regulation of activities of the Regional Financial Center of Almaty and the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of the Republic of Kazakhstan were eliminated. Their functions and powers were transferred to NBK.

The primary objective of the National Bank is to ensure price stability in the Republic of Kazakhstan. To accomplish the primary objective the National Bank has been assigned with the following roles: development and implementation of the state monetary policy; support of the functioning of payment systems; exercise of foreign exchange regulation and control; promotion of stability of the financial system; regulation, control and supervision of the financial market and financial organisations as well as other entities within its competence; ensuring an adequate level of protection of the rights and legitimate interests of consumers of financial services; carrying out statistical activity in the sphere of monetary statistics and statistics of the external sector and performing other tasks in accordance with the laws of the Republic of Kazakhstan and Decrees of the President of the Republic of Kazakhstan.

The address of the NBK’s registered office is 21, Micro District Koktem-3, Almaty 050090. As at 31 December 2012 the NBK has 17 branches and 13 subsidiaries located in the Republic of Kazakhstan and 1 representative offices in other countries and 2 agencies.

1 Background, continued

(a) Organisation and operations, continued

All the subsidiaries are registered in the Republic of Kazakhstan. The principal subsidiaries are as follows:

Name	Year of establishment	Principal activities	Ownership %	
			2012	2011
RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan”	1994	Coin manufacturing	100.00	100.00
RSE “Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan”	1996	Electronic cash transfers	100.00	100.00
RSE “Banking Service Bureau of the National Bank of the Republic of Kazakhstan”	1996	Software maintenance and development	100.00	100.00
JSC “Kazakhstan Fund of Deposits Guarantee”	1999	Individual deposit guarantee	100.00	100.00
RSE “Banknote Factory of National Bank of the Republic of Kazakhstan”	2004	Banknote manufacturing	100.00	100.00
JSC “Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO”	2007	Ensuring the smooth functions of IT of the NBK	100.00	100.00
JSC Accumulation Pension Fund “State Accumulated Pension Fund” (“GNPF”)	1997	Management of pension assets of depositors of the fund	100.00	100.00
JSC “Activity support center of the National Bank of the Republic of Kazakhstan”	2011	Transportation services, economical activity on property management	100.00	100.00
JSC “Fund for bad loans”	2011	Promotion of measures of quality improvement for credit portfolios of second-tier banks	100.00	-
JSC “National Investment Corporation of the National Bank of the Republic of Kazakhstan”	2012	Management of assets of the National Fund of the Republic of Kazakhstan and gold and foreign currency assets of the NBK, management of pension assets	100.00	-
JSC “State Credit Bureau”	2012	Forming of credit histories and credit reports	100.00	-
JSC “Integrated Securities Registrar”	2012	Maintaining a registry system for securities holders	96.42	-
JSC “Central Securities Depository”	2012	Depository activity	54.98	-

1 Background, continued

(a) Organisation and operations, continued

During 2012, in accordance with the Laws of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” and “On Joint-Stock Companies” management of the National Bank:

- with Resolution of the Board № 180 from 25 May 2012 approved the establishment of JSC “National Investment Corporation of the National Bank of the Republic of Kazakhstan” that was registered with the Ministry of Justice of the Republic of Kazakhstan on 23 June 2012.
- with Resolution of the Board № 213 from 4 July 2012 approved the creation of JSC “The State Credit Bureau”. The share of the founder, the NBK, is 100%. JSC “State Credit Bureau” registered with the Ministry of Justice of the Republic of Kazakhstan on 19 September 2012.
- with Resolution of the Board № 337 from 26 November 2012 approved the purchase of 5.19% shares of JSC “Central Securities Depository” (Note 41).

The incorporation of JSC "Integrated Securities Registrar" was approved with Resolution of the Board No. 171 dated 28 October 2011 and the entity was registered with the Ministry of Justice of the Republic of Kazakhstan on 11 January 2012.

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

In accordance with the Law of the Republic of Kazakhstan #2155 dated 30 March 1995 “On the National Bank of the Republic of Kazakhstan” the NBK determines its accounting policies for itself based on International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been designed to present fairly the financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank which was approved by the Board of Directors of the National Bank on 26 December 2006 and amended on 4 August 2011 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) with principal modifications as described below.

Gold and gold deposits are revalued based on market value of gold; gains resulting from the mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income.

2 Basis of preparation, continued

(a) Statement of compliance

Contributions received from the participating banks in accordance with the Law of the Republic of Kazakhstan “On the obligatory insurance of deposits placed in the second tier banks of the Republic of Kazakhstan” with amendments as at 24 December 2012 are recognised as reserves of guarantee funds within liabilities.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that gold, financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, and buildings and equipments are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the National Bank is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- statement of compliance - Note 2 (a)
- presentation of additional allocation of SDRs – Note 26
- presentation of assets and liabilities of the National Fund – Note 27.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the NBK. Control exists when the NBK has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Funds management

The National Bank manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the National Bank controls the entity.

(iii) Acquisitions and disposals of non-controlling interests

The National Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the National Bank.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(iv) Associates

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the NBK.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the NBK. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of income and comprehensive income.

(c) Gold

Gold comprises gold deposits with foreign banks and gold bullion in depositories. Gold is measured at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gains on revaluation of gold are recorded directly in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of gold is not transferred to profit or loss.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the National Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Gain on foreign currency differences arising on retranslation are recognised in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of foreign currency is not transferred to profit or loss.

3 Significant accounting policies, continued

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Classification

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

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

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

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

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

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

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

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

3 Significant accounting policies, continued

(f) Financial instruments, continued

(i) Classification, continued

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortised cost

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

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss or directly to equity depending on substance of the transaction. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

3 Significant accounting policies, continued

(f) Financial instruments, continued

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

When available, the National Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

(vi) Gains and losses on subsequent measurement

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

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

3 Significant accounting policies, continued

(f) Financial instruments, continued

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

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

(vii) *Derecognition*

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

If the National Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The National Bank writes off assets deemed to be uncollectible.

(viii) *Reverse repurchase agreements*

Securities purchased under agreements to resell (reverse repo) are recorded as reverse repurchase agreements in the separate line of the consolidated statement of financial position. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

(ix) *Derivative financial instruments*

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the National Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

3 Significant accounting policies, continued

(f) Financial instruments, continued

(x) Offsetting

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

(g) Currency in circulation

Currency in circulation is recorded in the consolidated statement of financial position at nominal value.

Currency in circulation is recorded as a liability when cash is issued by the NBK to commercial banks. Banknotes and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

(h) Reserves of guarantee funds

According to the Law of the Republic of Kazakhstan “On the obligatory insurance of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 24 December 2012) the subsidiary of the NBK, JSC “Kazakhstan Fund of Deposits Guarantee”, is due to compensate participating banks’ depositors amounts up to a certain level in case of forced liquidation of a participating bank. The National Bank establishes a reserve of guarantee funds to accumulate contributions of the banks that participate in the deposit guarantee scheme. In accordance with the National Bank’s accounting policy reserves of guarantee funds represent accumulated contributions received from the participating banks.

(i) Fiduciary assets

The National Bank provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank. Commissions received from such business are shown within fee and commission income in profit or loss.

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at revalued amounts as described below.

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

(ii) Revaluation

Buildings and equipments are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings and equipments being revalued. A revaluation increase on a building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

3 Significant accounting policies, continued

(j) Property and equipment, continued

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a units of production method over the expected output of the individual assets.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings and constructions	7 to 40 years
- Furniture and equipment	3 to 10 years
- Computer equipment	3 to 5 years
- Motor vehicles	5 to 25 years
- Intangible assets	1 to 10 years

(k) Intangible assets

Acquired intangible assets are stated at cost.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(l) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks and other financial institutions, reverse repurchase agreements, held-to-maturity investments and other financial assets (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

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

3 Significant accounting policies, continued

(1) Impairment, continued

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

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

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

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

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

(ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) *Available-for-sale financial assets*

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

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

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

3 Significant accounting policies, continued

(l) Impairment, continued

(iv) Non financial assets

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

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

(m) Provisions

A provision is recognised in the consolidated statement of financial position when the National Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3 Significant accounting policies, continued

(n) Taxation, continued

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

(o) Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

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

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

(p) Segment reporting

An operating segment is a component of a National Bank that engages in business activities from which it may earn revenues and incur the expenses (including revenues and expenses relating to transactions with other components of the National Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The National Bank plans to adopt these pronouncements when they become effective. The National Bank has not yet analysed the likely impact of the new standards on its financial position or performance.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The National Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The National Bank does not intend to adopt this standard early.

3 Significant accounting policies, continued

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

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application.
- When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The National Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 KZT'000	2011 KZT'000
Interest income		
Available-for-sale financial assets	38,389,809	53,892,817
Reverse repurchase agreements	30,655,184	28,773,055
Placements with banks and other financial institutions	1,793,683	1,849,051
Other	36,621	22,527
	70,875,297	84,537,450
Interest expense		
Debt securities issued	(6,211,727)	(12,457,544)
Due to banks and other financial institutions	(1,932,712)	(4,409,954)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(463,173)	(412,691)
Other	(496)	-
	(8,608,108)	(17,280,189)
	62,267,189	67,257,261

Interest income on available-for-sale financial assets for the year ended 31 December 2012 includes interest on impaired assets in the amount of KZT 525,381 thousand (2011: KZT 471,741 thousand) related to bonds of JSC “BTA Bank”.

5 Fee and commission income

	2012 KZT'000	2011 KZT'000
Pension asset management fee	5,825,012	5,093,673
Asset management fee	3,959,840	2,273,676
Transfer operations	192,353	392,323
	9,977,205	7,759,672

Fee and commission income on pension asset management consists of commission income of GNPf.

Fee and commission income on asset management operations consists of income for asset management services provided to the National Fund of the Republic of Kazakhstan and JSC “State Social Insurance Fund”. The National Bank renders asset management services to these organisations investing funds received in various financial instruments in accordance with customers’ instructions.

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of RSE “Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan”.

6 Fee and commission expense

	2012 KZT'000	2011 KZT'000
Asset management	362,965	409,469
Custody	144,405	141,022
Brokerage	142,121	117,220
Other	2,310	2,818
	651,801	670,529

7 Net gain on financial instruments at fair value through profit or loss

	2012 KZT'000	2011 KZT'000
Net gain on assets under external management (Note 19)	11,653,657	-
Net (loss)/gain on operations with other derivative financial instruments	(816,885)	2,462,080
	10,836,772	2,462,080

8 Net gain on available-for-sale financial assets

	2012 KZT'000	2011 KZT'000
Debt instruments	7,059,042	2,156,653
	7,059,042	2,156,653

9 Other operating income, net

	2012 KZT'000	2011 KZT'000
Sale of coins for collection	2,441,678	2,868,415
Sale of printed products	1,767,778	1,116,961
Sale of medals, gems and jewellery	142,281	434,061
Rent of property and equipment	30,733	40,521
Penalties and fines	2,471	1,604
Other income, net	360,691	375,255
	4,745,632	4,836,817

10 Recovery of /(charge for) impairment losses

	2012 KZT'000	2011 KZT'000
Available-for-sale financial assets	1,875,941	(5,628,451)
Negative revaluation of property, equipment and intangible assets	(29,229)	-
Placements with banks and other financial institutions	-	23,651
Other assets	(70,819)	(26,716)
	1,775,893	(5,631,516)

11 Banknotes and coins production expenses

	2012 KZT'000	2011 KZT'000
Banknotes	4,459,451	1,353,227
Coins	4,367,328	4,295,198
Other	89,050	75,280
	8,915,829	5,723,705

Banknotes and coin production expenses for 2012 include depreciation expenses of KZT 915,013 thousand (2011: KZT 452,975 thousand).

12 Funding of third parties

	2012 KZT'000	2011 KZT'000
Funding of the Agency for Regulation and Supervision of the Financial Markets and Financial Organisations	-	1,171,096
Funding of the Masters' Studies at Kazakh Economic University in the name of T. Ryskulov and Academy RFCA	182,017	144,559
	182,017	1,315,655

As discussed in Note 1(a) the Agency for Regulation and Supervision of Financial Markets and Financial Organisations was eliminated in April 2011 with the transfer of its functions and powers to the National Bank. Following the transfer expenses incurred to perform these functions are classified according to functional allocation applied by the National Bank.

13 Personnel expenses

	2012 KZT'000	2011 KZT'000
Payroll	9,401,749	6,998,635
Bonuses	6,390,732	4,872,138
Social tax	1,396,941	1,029,902
Insurance	503,475	351,462
Training	170,711	106,131
Other	65,535	67,912
	17,929,143	13,426,180

14 Other general administrative expenses

	2012 KZT'000	2011 KZT'000
Communication	943,281	1,375,563
Taxes other than income tax	877,455	789,788
Repair and maintenance of property and equipment	832,892	480,348
Information and other services	653,580	514,367
Inventory	653,133	466,034
Business trips	265,214	232,416
Advertising, announcements and presentations in mass media	244,378	225,677
Rent	239,403	168,483
Security	210,448	208,843
Transportation	149,129	117,649
Utilities	131,141	148,391
Representative expenses	117,192	104,378
Gratuitous assignment of property	84,922	53,370
Insurance of property and equipment	27,811	25,539
Other	284,928	212,541
	5,714,907	5,123,387

15 Income tax expense

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

	2012 KZT'000	2011 KZT'000
Current tax expense		
Current year	1,144,881	960,013
	1,144,881	960,013
Deferred tax expense		
Origination and reversal of temporary differences	288,304	51,987
Total income tax expense	1,433,185	1,012,000

The NBK's subsidiaries applicable tax rate in 2012 and 2011 is the income tax rate of 20% for Kazakhstan companies

Reconciliation of effective tax rate:

	2012 KZT'000	%	2011 KZT'000	%
Profit before tax	45,902,863	100.00	50,931,294	100.00
Income tax at the applicable tax rate	9,180,573	20.00	10,186,259	20.00
Effect of non-taxable operations of the National Bank	(7,635,357)	(16.63)	(9,200,996)	(18.07)
(Non-taxable income)/non-deductible expenses	(112,031)	(0.25)	26,737	0.06
	1,433,185	3.12	1,012,000	1.99

16 Cash and cash equivalents

	2012 KZT'000	2011 KZT'000
Amounts due from foreign banks with the original maturity of less than three months	586,756,053	187,236,393
Nostro accounts in foreign banks	28,233,336	35,898,194
Cash on hand in foreign currency	9,969,355	21,081,881
Nostro accounts in Kazakhstan banks	3,709,516	508,501
Accounts with the Bank for International Settlements	757,914	42,869,399
Cash and cash equivalents in the consolidated statement of cash flows	629,426,174	287,594,368

Cash and cash equivalents are not impaired or past due as at 31 December 2012.

17 Gold

	2012 KZT'000	2011 KZT'000
Gold deposits with foreign banks:		
- rated from AA- to AA	156,026,791	219,015,944
- rated from A to A+	199,026,379	204,019,002
	355,053,170	423,034,946
Gold bullion in NBK depository	346,309,560	153,286,728
Gold bullion in foreign bank depositories		
- rated AAA	225,452,795	-
- rated A	-	39,689,096
	926,815,525	616,010,770

18 Placements with banks and other financial institutions

	2012	2011
	KZT'000	KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts		
- rated A- to AAA	26,134,170	34,581,043
- rated from BBB- to BBB+	1,565,900	603,173
- rated from B- to B+	144,966	78,337
- not rated	388,300	840,627
Total nostro accounts	28,233,336	36,103,180
Deposits - rated A+ to AA+	586,756,053	187,236,393
Other placements		
Accounts with the International Monetary Fund	84,725,376	83,054,127
Uninvested cash under external management – rated AA- (Note 19)	9,812,003	-
Receivables on operations in foreign currency	2,371,682	72,750,892
Accounts with the Bank for International Settlements	757,914	42,869,399
Total other placements	97,666,975	198,674,418
Total placements with foreign banks and other financial institutions	712,656,364	422,013,991
Receivables from Kazakhstan banks and other financial institutions		
Nostro accounts		
- rated B+ and above	2,188,380	302,452
- rated below B+	1,467,638	14,708
- not rated	53,498	191,341
Total nostro accounts	3,709,516	508,501
Deposits		
- rated B+ and above	4,646,472	1,000,000
- rated below B+	2,070,639	3,149,778
- not rated	7,618,484	3,314,500
Total deposits	14,335,595	7,464,278
Other placements		
Receivables from Kazakhstan banks and insurance organisations - not rated	3,172,324	1,986,978
Receivables from the Ministry of Finance of the Republic of Kazakhstan	1,365,029	694,964
Total other placements	4,537,353	2,681,942
Total receivables from Kazakhstan banks and other financial institutions	22,582,464	10,654,721
	735,238,828	432,668,712

As at 31 December 2012 the National Bank has one counterparty (2011: nil), whose amounts exceeds 10% of equity. The total amount of that balance is KZT 568,666,650 thousand.

19 Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss consisted of the following at 31 December:

	2012	2011
	KZT'000	KZT'000
Assets		
Assets under external management –designated as at fair value through profit or loss		
Corporate bonds	129,535,765	-
Corporate shares	94,573,178	-
Government bonds	77,918,034	-
Options	349,153	-
Futures	15,178	-
Forwards	917	-
Assets under own management		
Forwards	-	4,672,296
Swaps	-	368,717
Total financial instruments at fair value through profit or loss	<u>302,392,225</u>	<u>5,041,013</u>
Liabilities		
Liabilities under external management		
Forwards	(235,167)	-
Futures	(7,474)	-
Liabilities under own management		
Forwards	(26,462)	(4,267,768)
Total financial instruments at fair value through profit or loss	<u>(269,103)</u>	<u>(4,267,768)</u>

In 2012 the National Bank transferred a portion of its international reserves under the management of 6 foreign asset management organisations. Depending on the mandate the managers invest into fixed income and equity instruments and are also allowed to use derivative instruments. The portfolios under external management pursue the following investment strategies:

External manager	KZT'000	Strategy	Index
Amundi	92,171,780	Global shares	MSCI World Index (MXWO)
Aviva Investors Global Services Limited	47,411,430	Global developing markets	ML Emerging Customised Index
Nomura Asset Management U.K. Limited	45,665,769	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs(G5BC)
Bank Julius Baer & Co. AG.	44,715,059	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs(G5BC)
Deutsche Asset Management International GmbH	42,417,665	Global developing markets	ML Emerging Customised Index
Lombard Odier Asset Management (Europe) Limited	29,767,881	Global convertible bonds	UBS Convertible Global Investment Grade USD Index (UICBGIGU)
Total net assets	<u>302,149,584</u>		

19 Financial instruments at fair value through profit or loss, continued

Uninvested balances equivalent to KZT 9,812,003 thousand related to portfolios under external management are presented within "placements with banks and other financial institutions" (Note 18).

The schedule below summarises credit quality of these portfolio's underlying fixed income assets:

	2012 KZT'000
Corporate bonds	
Rated A- to AAA	64,840,060
Rated BBB- to BBB+	56,993,504
Rated BB- to BB+	1,551,081
Not rated	6,151,120
	129,535,765
Government bonds	
Rated A- to AAA	13,786,272
Rated BBB- to BBB+	32,323,939
Rated BB- to BB+	31,248,199
Not rated	559,624
	77,918,034
Total debt instruments under external management	207,453,799

The tables below summarises, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions, excluding portfolios under external management, as at 31 December 2012 and 2011 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2012	2011	2012	2011
Forward operations – for the period less than 3 months				
Buy USD sell KRW	6,187,667	-	1,071.9	-
Buy USD sell AUD	-	9,332,371	-	1.01430
Buy EUR sell USD	-	19,172,000	-	1.28942
Buy EUR sell USD	-	19,172,000	-	1.29650
Buy USD sell EUR	-	19,240,060	-	1.29650
Buy EUR sell CAD	-	3,775,445	-	1.32030
Forward operations - for the period from 3 to 12 months				
Buy KZT sell EUR	-	44,000,000	-	214.00
Buy EUR sell KZT	-	39,790,943	-	212.00
	6,187,667	154,482,819		
Swap operations - for the period less than 3 months				
Buy USD sell EUR	-	9,955,043	-	1.34165
	6,187,667	164,437,862		

20 Reverse repurchase agreements

	2012 KZT'000	2011 KZT'000
Kazakhstan banks:		
- rated B-	57,312,250	-
- not rated	520,690,730	430,976,777
	578,002,980	430,976,777

As at 31 December 2012 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 578,002,980 thousand, excluding the effect of overcollateralisation (2011: KZT 305,599,089 thousand).

21 Available-for-sale financial assets

	2012 KZT'000	2011 KZT'000
Debt instruments		
Foreign investments		
Government bonds		
US Government Treasury bills	696,078,321	1,239,623,711
French Government bonds	233,004,933	346,485,051
German Government Treasury bills	230,811,680	342,358,927
British Government Treasury bills	204,771,362	243,532,767
Japanese Government Treasury bills	193,150,333	282,870,716
Australian Government Treasury bills	111,630,975	157,241,428
Canadian Government Treasury bills	110,231,913	147,645,628
Korean Government Treasury bills	100,185,733	143,382,718
Hong Kong Government Treasury bills	65,659,194	-
Netherlands Government Treasury bills	59,306,242	101,484,903
Singapore Government bonds	45,878,859	
Denmark Government Treasury bills	41,093,719	-
Austrian Government Treasury bills	38,187,546	55,670,562
Swedish Government bonds	37,456,663	34,200,059
Belgian Government bonds	-	27,603,138
Finnish Government Treasury bills	-	4,781,517
Total government bonds	2,167,447,473	3,126,881,125
Debt securities of international governmental and nongovernmental financial institutions		
- rated AAA	96,917,958	152,579,215
- rated AA+	22,041,336	49,827,995
- rated A+	15,174,845	-
- rated A	2,892,538	476,094
Total investments in debt securities of international governmental and nongovernmental financial institutions	137,026,677	202,883,304
Corporate bonds of international companies		
- rated A to AAA	65,907,911	87,635,955
- rated BB	251,570	217,723
- rated B+	10,306,801	9,548,791
not rated	5,200,182	-
Total corporate bonds of international companies	81,666,464	97,402,469
Total foreign investments	2,386,140,614	3,427,166,898

21 Available-for-sale financial assets, continued

	2012	2011
	KZT'000	KZT'000
Kazakhstan investments		
Treasury bills of the Ministry of Finance	248,557,678	180,635,673
Debt securities of state owned financial organisations	1,385,526	7,378,210
Total Kazakhstan investments	249,943,204	188,013,883
Impairment allowance	-	(4,776,749)
Total Kazakhstan investments net of impairment allowance	249,943,204	183,237,134
Total investments in debt instruments	2,636,083,818	3,610,404,032
Equity investments		
Corporate shares	451,640	1,091,614
Total equity investments	451,640	1,091,614
Impairment allowance	(400,190)	(851,702)
Total equity investments net of impairment	51,450	239,912
Total available-for-sale financial assets	2,636,135,268	3,610,643,944

Analysis of movements in the impairment allowance

Movements in the impairment allowance on available-for-sale financial assets for the year ended 31 December 2012 are as follows:

	2012	2011
	KZT'000	KZT'000
Balance at the beginning of the year	5,628,451	-
Net (recovery)/charge	(1,875,941)	5,628,451
Write-offs	(3,352,320)	-
Balance at the end of the year	400,190	5,628,451

In December 2012 following the completion of restructuring of obligations of JSC “BTA Bank” to its creditors, the NBK received new securities that were recognised at fair value. As a result, reversal of impairment loss of KZT 1,875,941 thousand was recognised, the remaining amount of allowance related to JSC “BTA Bank” was written-off.

22 Held-to-maturity investments

	2012	2011
	KZT'000	KZT'000
Bonds of Sovereign Wealth Fund “Samruk-Kazyna” JSC - rated BBB+	55,205,772	-
Bonds of the Ministry of Finance of Republic of Kazakhstan - rated BBB+	950,000	-
	56,155,772	-

According to the decree of the Management Board #342 dated 26 November 2012, on 13 December 2012 the NBK purchased bonds of Sovereign Wealth Fund “Samruk-Kazyna” JSC at their nominal value of KZT 70,196,000 thousand. The bonds bear a coupon rate of 4% p.a. and mature in 2024.

Fair value of these bonds at acquisition date equaled KZT 54,957,622 thousand. The difference of KZT 15,170,270 thousand between cash paid and fair value was recognised as loss at initial recognition of held-to-maturity investments in the consolidated income statement.

Fair value of the bonds at initial recognition was determined by discounting the contractual cash flows on the bonds using a market rate of 6.64% determined with reference to the market yield on Kazakhstan government securities with similar terms and credit risk.

23 Property, equipment and intangible assets

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Intangible assets	Total
<i>Cost/revalued amount</i>							
Balance at 1 January 2012	18,034,313	15,662,781	2,334,566	1,095,240	4,563,877	3,359,175	45,049,952
Additions	2,193,914	3,625,057	305,156	407,895	1,091,380	532,425	8,155,827
Negative revaluation	-	(44,754)	-	-	-	-	(44,754)
Disposals	(498,619)	(756,740)	(119,249)	(153,209)	(330,792)	(433,110)	(2,291,719)
Transfers	847,029	2,994,796	354	9,800	(3,851,979)	-	-
Balance at 31 December 2012	20,576,637	21,481,140	2,520,827	1,359,726	1,472,486	3,458,490	50,869,306
<i>Depreciation and amortisation</i>							
Balance at 1 January 2012	251,355	5,073,094	1,550,536	639,389	-	2,125,219	9,639,593
Charge	1,410,603	762,704	974,416	172,557	-	363,881	3,684,161
Negative revaluation	-	(15,525)	-	-	-	-	(15,525)
Disposals	(237,040)	(639,254)	(119,249)	(146,193)	-	(411,491)	(1,553,227)
Transfers	(906)	881	25	-	-	-	-
Balance at 31 December 2012	1,424,012	5,181,900	2,405,728	665,753	-	2,077,609	11,755,002
<i>Carrying amount</i>							
At 31 December 2012	19,152,625	16,299,240	115,099	693,973	1,472,486	1,380,881	39,114,304

23 Property, equipment and intangible assets, continued

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Intangible assets	Total
<i>Cost/revalued amount</i>							
Balance at 1 January 2011	19,153,989	14,314,866	2,558,891	920,162	1,861,309	3,106,897	41,916,114
Additions	254,303	853,904	167,339	16,581	4,422,177	506,841	6,221,145
Revaluation	2,984,537	19,320	-	208,689	-	-	3,212,546
Negative revaluation	(1,036,117)	(30,606)	-	(8,719)	-	-	(1,075,442)
Disposals	(956,086)	(176,724)	(412,336)	(126,540)	(650,123)	(254,563)	(2,576,372)
Eliminated from revaluation	(2,648,039)	-	-	-	-	-	(2,648,039)
Transfers	281,726	682,021	20,672	85,067	(1,069,486)	-	-
Balance at 31 December 2011	18,034,313	15,662,781	2,334,566	1,095,240	4,563,877	3,359,175	45,049,952
<i>Depreciation and amortisation</i>							
Balance at 1 January 2011	2,534,722	4,481,427	1,620,197	591,604	-	1,993,846	11,221,796
Charge	1,036,695	806,296	363,023	73,293	-	350,283	2,629,590
Revaluation	-	14,134	-	101,994	-	-	116,128
Negative revaluation	-	(13,626)	-	(962)	-	-	(14,588)
Disposals	(696,598)	(192,150)	(431,096)	(126,540)	-	(218,910)	(1,665,294)
Eliminated from revaluation	(2,648,039)	-	-	-	-	-	(2,648,039)
Transfers	24,575	(22,987)	(1,588)	-	-	-	-
Balance at 31 December 2011	251,355	5,073,094	1,550,536	639,389	-	2,125,219	9,639,593
<i>Carrying amount</i>							
At 31 December 2011	17,782,958	10,589,687	784,030	455,851	4,563,877	1,233,956	35,410,359

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

Revalued assets

At 31 December 2012 buildings, equipments and intangible assets had not been revalued as based on an analysis made by the management there were no significant differences between the carrying amounts and fair values of the buildings and equipment.

The carrying amount of the buildings, equipments and intangible assets as at 31 December 2012, if the buildings and equipment had not been revalued, would be KZT 24,566,684 thousand (2011: KZT 16,668,825 thousand).

24 Other assets

	2012 KZT'000	2011 KZT'000
Other receivables	4,115,806	5,370,919
Impairment allowance	(12,362)	(11,164)
Total other financial assets	4,103,444	5,359,755
Inventories	5,723,063	5,555,177
Refined and non-refined precious metals and stones	512,831	242,269
Prepayments for property and equipment	292,948	258,226
Other	54,232	35,997
Total other non-financial assets	6,583,074	6,091,669
Total other assets	10,686,518	11,451,424

Analysis of movements in the impairment allowance

Movements in the impairment allowance on other financial assets for the year ended 31 December are as follows:

	2012 KZT'000	2011 KZT'000
Balance at the beginning of the year	11,164	450
Net charge	70,819	26,716
Write-offs	(69,621)	(16,002)
Balance at the end of the year	12,362	11,164

25 Currency in circulation

	2012 KZT'000	2011 KZT'000
Banknotes and coins in circulation	1,737,955,160	1,549,344,117
Less banknotes and coins on hand and in vaults	(954,930)	(850,646)
	1,737,000,230	1,548,493,471

26 Due to banks and other financial institutions

	2012 KZT'000	2011 KZT'000
Due to foreign banks and other financial institutions		
Current accounts of international financial organisations	85,258,162	83,751,821
OECD based banks	4,149,954	69,247,067
Other foreign banks	149,109	147,786
Total due to foreign banks and other financial institutions	89,557,225	153,146,674
Due to Kazakhstan banks and other financial institutions		
Vostro accounts		
Largest 10 Kazakhstan banks	340,271,874	266,221,341
Other Kazakhstan banks	435,791,376	472,276,570
Deposits		
Largest 10 Kazakhstan banks	15,000,625	24,000,808
Other Kazakhstan banks	130,211,234	76,842,829
Total due to Kazakhstan banks and other financial institutions	921,275,109	839,341,548
	1,010,832,334	992,488,222

As at 31 December 2012 the National Bank has 2 banks (2011: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is KZT 295,936,825 thousand (2011: KZT 327,382,719 thousand).

As at 31 December 2012 current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the "IMF") in the amount of KZT 84,725,376 thousand (2011: KZT 83,054,127 thousand). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 365,700 thousand).

In 2009 the Republic of Kazakhstan received from the IMF an additional allocation of SDRs in the amount of SDR 343,654 thousand. No asset and liabilities arise at the National Bank in respect of this allocation.

27 Current accounts of the National Fund of the Republic of Kazakhstan

Current accounts of the National Fund of the Republic of Kazakhstan (the "National Fund") equal KZT 606,710,642 thousand as at 31 December 2012 (2011: KZT 473,186,260 thousand).

During 2012 and 2011 the National Bank conducted trust management activities over the assets of the National Fund. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for deposits of the National Fund in NBK.

28 Current accounts of the Ministry of Finance of the Republic of Kazakhstan

	2012 KZT'000	2011 KZT'000
In national currency	176,138,092	128,936,007
In foreign currency	1,710,866	681,509
	177,848,958	129,617,516

29 Customer accounts

	2012 KZT'000	2011 KZT'000
In national currency	329,650,595	478,490,984
In foreign currency	30,287,746	1,629,634
	359,938,341	480,120,618

During 2012 and 2011 the National Bank maintained customer accounts in foreign and national currencies. NBK customers' industry is state management, and NBK's subsidiaries customers' industries are financial agency services, insurance and liquidation of banks.

As at 31 December 2012 and 2011, the National Bank has one customer, whose balances exceed 10% of equity. These balances as at 31 December 2012 are KZT 295,071,963 thousand (2011: KZT 434,475,592 thousand).

30 Debt securities issued

As at 31 December 2012 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KM093477	9,591,031	27.04.2012	25.01.2013	1.80
KZW1KM093501	17,367,222	18.05.2012	15.02.2013	1.80
KZW1KM093568	14,238,934	29.06.2012	29.03.2013	1.82
KZW1KM093592	12,473,888	20.07.2012	19.04.2013	1.82
KZW1KM063603	18,321,742	27.07.2012	25.01.2013	1.50
KZW1KM063629	12,720,329	10.08.2012	08.02.2013	1.51
KZW1KM093691	12,613,822	28.09.2012	28.06.2013	1.82
KZW1KD913708	10,999,057	05.10.2012	04.01.2013	1.05
KZW1KD913740	12,399,008	02.11.2012	01.02.2013	1.05
KZW1KM063801	14,900,161	14.12.2012	14.06.2013	1.51
KZW1KD893819	15,065,592	21.12.2012	20.03.2013	1.07
KZW1KM093824	17,663,654	28.12.2012	27.09.2013	1.82
	168,354,440			

As at 31 December 2011 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KM063025	24,360,200	08.07.2011	06.01.2012	1.46
KZW1KM093063	59,385,104	05.08.2011	04.05.2012	1.65
KZW1KM063108	3,087,004	26.08.2011	24.02.2012	1.46
KZW1KM093113	36,983,739	02.09.2011	01.06.2012	1.75
KZW1KM063140	60,255,702	16.09.2011	16.03.2012	1.46
KZW1KM093154	9,125,376	23.09.2011	22.06.2012	1.73
KZW1KD913187	12,955,727	14.10.2011	13.01.2012	1.01
KZW1KM093204	6,294,843	28.10.2011	27.07.2012	1.75
KZW1KD913211	30,144,646	04.11.2011	03.02.2012	1.01
KZW1KD913229	5,304,165	11.11.2011	10.02.2012	1.01
KZW1KM063231	6,557,218	18.11.2011	18.05.2012	1.46
KZW1KD913252	13,154,163	02.12.2011	29.02.2012	1.01
KZW1KM093261	23,281,681	09.12.2011	07.09.2012	1.75
KZW1KM063272	35,566,185	15.12.2011	15.06.2012	1.46
KZW1KD883281	52,935,701	23.12.2011	20.03.2012	1.00
KZW1KM063298	6,952,092	23.12.2011	22.06.2012	1.46
KZW1KD913302	107,367,389	30.12.2011	30.03.2012	0.96
	493,710,935			

31 Reserves of guarantee funds

As at 31 December 2012 reserves of guarantee funds for deposits of individuals were KZT 97,661,126 thousand (2011: 73,458,067 thousand).

32 Other liabilities

	2012 KZT'000	2011 KZT'000
Other creditors on non-banking activity	1,878,679	2,337,665
Other creditors on banking activity	360,866	401,068
General and administrative expenses payable	67,780	84,782
Other	5,723	1,440
Total other financial liabilities	2,313,048	2,824,955
Salaries payable	2,366,762	2,003,694
Tax payable (except for corporate income tax)	716,504	535,990
Other prepayments received	383,252	458,438
Payables on purchase of property and equipment	7,713	21,173
Total other non-financial liabilities	3,474,231	3,019,295
Total other liabilities	5,787,279	5,844,250

33 Share capital and treasury shares

(a) Issued capital

The share capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments and alterations. In accordance with the amendments to the Decree dated 18 December 2000 the share capital shall comprise not less than KZT 20,000,000 thousand formed by appropriations of the net income as well as funding from the republican budget. As at 31 December 2012 and 2011, the share capital of the National Bank amounted to KZT 20,000,000 thousand.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should establish a capital reserve in the amount of not less than its share capital. As at 31 December 2012 and 2011, the capital reserve amounted to KZT 188,436,214 thousand and KZT 156,287,842 thousand, respectively. In addition, the reserve for general banking risk is formed by an annual transfer from retained earnings in the amount of 0.5% of the values of certain assets. As at 31 December 2012 and 2011, the reserve for general banking risks amounted to KZT 19,277,457 thousand and KZT 13,201,628 thousand, respectively. These reserves are non-distributable.

(b) Reserve capital

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” the Management Board decided (according to decree of the Management Board #152 dated 28 April 2012) to transfer a portion of retained earnings of the year 2011 to the replenishment of the reserve capital of the NBK.

(c) Capital management

Retained earnings are transferred to the share and/or reserve capital in the amount determined by the Management Board. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one year.

In case if reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank’s disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year the deficiency is compensated by the State budget with a deferral of one year.

34 Analysis by segment

The National Bank's operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

35 Risk management

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

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

The Management Board, Board of Directors, committees, commissions and related working groups review regularly matters related to the monetary, investment and currency policies of the National Bank and set up limits on the scope of management over its assets, as well as requirements for the assessment of the NBK's counterparties.

In accordance with Investment Strategy on gold and foreign currency assets management of the NBK approved by the decision of the Board on 27 October 2006, the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, saving purchasing power of assets and profitability growth.

In accordance with these goals, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, investment portfolio, strategic portfolio, gold portfolio and developing market portfolio.

The operations of the NBK's subsidiaries are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of the subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' boards of directors and internal control departments.

(b) Market risk

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

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

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and stop-loss limits.

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. In accordance with Investment Strategy, Tracking Error limit is 2% for the reporting period.

Tracking Error can be used only when the investor manages a portfolio against the benchmark portfolio on comparative basis.

35 Risk management, continued

(b) Market risk, continued

As at 31 December 2012 the benchmark portfolio for the investment portfolio of gold and foreign currency assets is a composite index of:

- Merrill Lynch United States Treasuries, 0-3 years - 30%,
- Merrill Lynch All Euro Government Index, DE, FR, NL, AT, LU, FI, 0-3 years - 28%,
- Merrill Lynch United Kingdom Gilts Index, 0-3 years - 10%,
- Merrill Lynch Japanese Government Index, 0-3 years - 10%,
- Merrill Lynch Australian Government Index, 0-3 years - 5%,
- Merrill Lynch Canadian Government Index, 0-3 years - 5%,
- Merrill Lynch South Korean Government Index, 0-3 years - 5%,
- Merrill Lynch Hong Kong Government Index, 0-3 years - 3%,
- Merrill Lynch Singapore Government Index, 0-3 years - 2%,
- Merrill Lynch Danish Government Index, 1-3 years - 2%.

As at 31 December 2011 the benchmark portfolio for investment portfolio of gold and foreign currency assets is a composite index of:

- Merrill Lynch United States Treasuries, 0-3 years - 30%,
- Merrill Lynch European Economic and Maturity Union Direct Governments 0-3 years AAA - 35%,
- Merrill Lynch United Kingdom Gilts Index, 0-3 years - 10%,
- Merrill Lynch Japanese Government Index, 0-3 years - 10%,
- Merrill Lynch Australian Government Index, 0-3 years - 5%,
- Merrill Lynch Canadian Government Index, 0-3 years - 5%,
- Merrill Lynch South Korean Government Index, 0-3 years - 5%.

(i) Interest rate risk

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

35 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2012							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	9,969,355	9,969,355
Gold	355,053,170	-	-	-	-	571,762,355	926,815,525
Placements with banks and other financial institutions	605,494,143	1,714,034	1,824,131	5,894,496	-	120,312,024	735,238,828
Financial instruments at fair value through profit or loss	642,080	3,131,544	2,974,043	74,140,992	128,969,748	92,533,818	302,392,225
Reverse repurchase agreements	475,659,709	-	102,343,271	-	-	-	578,002,980
Available-for-sale financial assets	44,108,440	228,034,054	569,932,061	1,644,012,794	149,996,468	51,451	2,636,135,268
Held-to-maturity investments	-	-	82,387	419,454	55,653,931	-	56,155,772
Investments in associates	-	-	-	-	-	186,770	186,770
Other financial assets	-	-	-	-	-	4,103,444	4,103,444
	1,480,957,542	232,879,632	677,155,893	1,724,467,736	334,620,147	798,919,217	5,249,000,167
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,737,000,230	1,737,000,230
Due to banks and other financial institutions	146,215,400	-	-	-	-	864,616,934	1,010,832,334
Financial instruments at fair value through profit or loss	-	-	-	-	-	269,103	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	606,710,642	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	177,848,958	177,848,958
Customer accounts	-	-	-	-	-	359,938,341	359,938,341
Debt securities issued	110,702,915	39,987,870	17,663,655	-	-	-	168,354,440
Reserves of guarantee funds	-	-	-	-	-	97,661,126	97,661,126
Other financial liabilities	-	-	-	-	-	2,313,048	2,313,048
	256,918,315	39,987,870	17,663,655	-	-	3,846,358,382	4,160,928,222
	1,224,039,227	192,891,762	659,492,238	1,724,467,736	334,620,147	(3,047,439,165)	1,088,071,945

35 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2011							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	21,081,881	21,081,881
Gold	423,034,946	-	-	-	-	192,975,824	616,010,770
Placements with banks and other financial institutions	189,386,171	-	3,371,015	2,082,867	-	237,828,659	432,668,712
Financial instruments at fair value through profit or loss	-	-	-	-	-	5,041,013	5,041,013
Reverse repurchase agreements	330,213,990	-	100,762,787	-	-	-	430,976,777
Available-for-sale financial assets	200,030,888	462,074,747	657,623,537	2,156,489,080	134,185,780	239,912	3,610,643,944
Investments in associates	-	-	-	-	-	810,037	810,037
Other financial assets	-	-	-	-	-	5,359,755	5,359,755
	1,142,665,995	462,074,747	761,757,339	2,158,571,947	134,185,780	463,337,081	5,122,592,889
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,548,493,471	1,548,493,471
Due to banks and other financial institutions	100,843,637	-	-	-	-	891,644,585	992,488,222
Financial instruments at fair value through profit or loss	-	-	-	-	-	4,267,768	4,267,768
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	473,186,260	473,186,260
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	129,617,516	129,617,516
Customer accounts	-	-	-	-	-	480,120,618	480,120,618
Debt securities issued	202,197,308	261,937,103	29,576,524	-	-	-	493,710,935
Reserves of guarantee funds	-	-	-	-	-	73,458,067	73,458,067
Other financial liabilities	-	-	-	-	-	2,824,955	2,824,955
	303,040,945	261,937,103	29,576,524	-	-	3,603,613,240	4,198,167,812
Effect of derivatives	-	-	-	-	-	3,501,583	3,501,583
	839,625,050	200,137,644	732,180,815	2,158,571,947	134,185,780	(3,136,774,576)	927,926,660

35 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below summarises the National Bank's average interest rates on interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of appropriate assets and liabilities.

	2012 KZT'000 Book value	Weighted average effective interest rate, %	2011 KZT'000 Book value	Weighted average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	355,053,170	0.04	423,034,946	0.07
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- JPY	6,439,521	0.05	187,705	0.01
- USD	4,906,900	2.93	16,570,247	0.01
- GBP	1,095,608	1.06	1,508,739	0.24
- EUR	953,317	3.05	1,368,548	0.37
- KRW	169,242	0.10	9,199,643	0.11
- AUD	135,863	5.42	8,324,665	4.25
- KZT	1,960	1.00	1,929	1.50
- Other currency	132,745	4.15	3,101,974	0.20
<i>Deposits</i>				
- USD	586,756,053	0.15	110,515,923	0.26
- KZT	14,335,595	6.29	7,464,278	7.05
- EUR	-	-	76,720,470	0.59
Financial instruments at fair value through profit or loss				
- USD	153,475,937	2.56	-	-
- EUR	43,263,892	1.95	-	-
- GBP	5,966,555	1.99	-	-
- CAD	3,875,921	2.88	-	-
- JPY	1,593,452	-	-	-
- AUD	1,373,869	5.20	-	-
- SGD	308,781	0.20	-	-
Reverse repurchase agreements				
-KZT	475,659,709	5.69	330,213,990	7.50
-USD	102,343,271	3.00	100,762,787	3.00

35 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

	2012 KZT'000 Book value	Weighted average effective interest rate, %	2011 KZT'000 Book value	Weighted average effective interest rate, %
Available-for-sale financial assets				
- USD	787,703,941	0.62	1,331,235,881	0.55
- EUR	644,570,647	0.96	1,038,659,384	1.17
- GBP	221,828,586	0.74	292,944,937	1.38
- JPY	193,150,333	0.17	282,870,716	0.20
- KRW	117,771,714	3.29	143,382,718	3.56
- AUD	111,630,975	3.13	157,241,428	4.26
- CAD	110,231,913	1.26	147,645,628	1.88
- KZT	249,776,587	5.21	182,223,281	3.26
- HKD	65,659,193	0.28	-	-
- DKK	50,424,406	0.06	-	-
- SGD	45,878,859	0.23	-	-
- SEK	37,456,663	0.67	34,200,059	1.08
Held-to-maturity investments	56,155,772	6.64	-	-
Due to banks and other financial institutions				
<i>Term deposits</i>				
- KZT	145,211,859	0.42	100,843,637	0.68
Current accounts of the Ministry of Finance of the Republic of Kazakhstan				
- KZT	176,138,092	0.26	128,936,007	0.32
Debt securities issued				
- KZT	168,354,440	1.56	493,710,935	1.31

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	40,693,942	40,693,942	38,039,006	38,039,006
300 bp parallel fall	(40,693,942)	(40,693,942)	(38,039,006)	(38,039,006)

35 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 50 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2012		2011	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	5,520,817	21,116,759	16,726,812	16,726,812
50 bp parallel rise	(5,797,449)	(29,516,478)	(32,167,261)	(32,167,261)

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

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

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank does not hedge its exposure to currency risk.

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2012 is presented in the table below:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
Assets									
Cash on hand in foreign currency	-	-	8,644,807	1,306,381	6,615	-	-	11,552	9,969,355
Gold	-	926,815,525	-	-	-	-	-	-	926,815,525
Placements with banks and other financial institutions	22,582,464	-	593,792,464	9,387,464	17,994,034	84,933,825	1,374,316	5,174,261	735,238,828
Financial instruments at fair value through profit or loss	-	-	202,010,025	50,776,982	13,867,050	-	13,490,320	22,247,848	302,392,225
Reverse repurchase agreements	475,659,709	-	102,343,271	-	-	-	-	-	578,002,980
Available-for-sale financial assets	249,779,282	-	787,752,697	644,570,647	193,150,333	-	221,828,586	539,053,723	2,636,135,268
Held-to-maturity investments	56,155,772	-	-	-	-	-	-	-	56,155,772
Investments in associates	186,770	-	-	-	-	-	-	-	186,770
Property, equipment and intangible assets	39,114,304	-	-	-	-	-	-	-	39,114,304
Current tax asset	192,814	-	-	-	-	-	-	-	192,814
Deferred tax asset	86,489	-	-	-	-	-	-	-	86,489
Other assets	10,686,504	-	-	14	-	-	-	-	10,686,518
Total assets	854,444,108	926,815,525	1,694,543,264	706,041,488	225,018,032	84,933,825	236,693,222	566,487,384	5,294,976,848

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,737,000,230	-	-	-	-	-	-	-	1,737,000,230
Due to banks and other financial institutions	532,804,906	-	379,878,885	9,288,804	1,973	84,725,376	-	4,132,390	1,010,832,334
Financial instruments at fair value through profit or loss	26,462	-	7,474	38,334	180,077	-	12,151	4,605	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	606,710,642	-	-	-	-	-	-	-	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	176,138,092	-	-	-	-	-	-	1,710,866	177,848,958
Customer accounts	329,650,595	-	29,918,702	339,691	-	-	2,284	27,069	359,938,341
Debt securities issued	168,354,440	-	-	-	-	-	-	-	168,354,440
Reserves of guarantee funds	97,661,126	-	-	-	-	-	-	-	97,661,126
Current tax liability	36,663	-	-	-	-	-	-	-	36,663
Deferred tax liability	1,249,460	-	-	-	-	-	-	-	1,249,460
Other liabilities	5,787,279	-	-	-	-	-	-	-	5,787,279
Total liabilities	3,655,419,895	-	409,805,061	9,666,829	182,050	84,725,376	14,435	5,874,930	4,165,688,576
Effect of derivatives	-	-	783,791	(3,841,860)	(4,135,213)	-	1,226,845	5,964,624	(1,813)
Net balance sheet and off balance sheet positions	(2,800,975,787)	926,815,525	1,285,521,994	692,532,799	220,700,769	208,449	237,905,632	566,577,078	1,129,286,459

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
Assets									
Cash on hand in foreign currency	-	-	20,267,282	791,788	7,506	-	103	15,202	21,081,881
Gold	-	616,010,770	-	-	-	-	-	-	616,010,770
Placements with banks and other financial institutions	10,654,721	-	184,885,238	103,618,127	14,465,757	83,259,112	2,359,682	33,426,075	432,668,712
Financial instruments at fair value through profit or loss	5,039,489	-	1,524	-	-	-	-	-	5,041,013
Reverse repurchase agreements	330,213,990	-	100,762,787	-	-	-	-	-	430,976,777
Available-for-sale financial assets	182,225,975	-	1,331,473,099	1,038,659,384	282,870,716	-	292,944,937	482,469,833	3,610,643,944
Investments in associates	810,037	-	-	-	-	-	-	-	810,037
Property, equipment and intangible assets	35,410,359	-	-	-	-	-	-	-	35,410,359
Current tax asset	1,007,631	-	-	-	-	-	-	-	1,007,631
Deferred tax asset	112,867	-	-	-	-	-	-	-	112,867
Other assets	11,451,424	-	-	-	-	-	-	-	11,451,424
Total assets	576,926,493	616,010,770	1,637,389,930	1,143,069,299	297,343,979	83,259,112	295,304,722	515,911,110	5,165,215,415

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,548,493,471	-	-	-	-	-	-	-	1,548,493,471
Due to banks and other financial institutions	488,849,814	-	399,058,753	4,429,972	3,108	83,054,127	5,154	17,087,294	992,488,222
Financial instruments at fair value through profit or loss	4,267,768	-	-	-	-	-	-	-	4,267,768
Current accounts of the National Fund of the Republic of Kazakhstan	473,186,260	-	-	-	-	-	-	-	473,186,260
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	128,936,007	-	-	-	-	-	-	681,509	129,617,516
Customer accounts	478,490,984	-	1,629,634	-	-	-	-	-	480,120,618
Debt securities issued	493,710,935	-	-	-	-	-	-	-	493,710,935
Reserves of guarantee funds	73,458,067	-	-	-	-	-	-	-	73,458,067
Current tax liability	50,304	-	-	-	-	-	-	-	50,304
Deferred tax liability	956,871	-	-	-	-	-	-	-	956,871
Other liabilities	5,844,250	-	-	-	-	-	-	-	5,844,250
Total liabilities	3,696,244,731	-	400,688,387	4,429,972	3,108	83,054,127	5,154	17,768,803	4,202,194,282
Effect of derivatives	(3,361,738)	-	10,588,076	(17,111,693)	-	-	-	13,386,938	3,501,583
Net balance sheet and off balance sheet positions	(3,122,679,976)	616,010,770	1,247,289,619	1,121,527,634	297,340,871	204,985	295,299,568	511,529,245	966,522,716

35 Risk management, continued

(b) Market risk, continued

(ii) *Currency risk, continued*

Management of the National Bank believes that given the current economic conditions in Kazakhstan that 10% appreciation and 15% depreciation is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only amounts in foreign currency as at 31 December 2012 and adjusts their translation for 10% for appreciation and 15% for depreciation in currency rates as at 31 December 2012, respectively.

Appreciation of KZT, as indicated in table below, against following currencies as at 31 December 2012 and 31 December 2011 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	Equity, KZT'000	
	2012	2011
10% appreciation of USD against KZT	128,473,820	123,670,154
15% depreciation of USD against KZT	(192,710,730)	(185,505,231)
10% appreciation of EUR against KZT	69,637,466	113,863,933
15% depreciation of EUR against KZT	(104,456,199)	(170,795,899)
10% appreciation of Troy ounce of gold against KZT	92,681,553	61,601,077
15% depreciation of Troy ounce of gold against KZT	(139,022,329)	(92,401,615)
10% appreciation of Japanese yen against KZT	22,483,598	29,734,087
15% depreciation of Japanese yen against KZT	(33,725,397)	(44,601,131)
10% appreciation of GBP against KZT	23,667,879	29,529,957
15% depreciation of GBP against KZT	(35,501,818)	(44,294,935)
10% appreciation of SDR against KZT	20,845	20,499
15% depreciation of SDR against KZT	(31,267)	(30,748)
10% appreciation of other currencies against KZT	56,061,245	49,814,231
15% depreciation of other currencies against KZT	(84,091,868)	(74,721,346)

Limitations of sensitivity analysis

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

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

Limitations of sensitivity analysis, continued

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

(iii) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in share prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Equity price risk arises when the National Bank takes a long or short position in a financial instrument.

	2012		2011	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	9,457,318	9,462,463	-	23,991
10% decrease in securities prices	(9,457,318)	(9,462,463)	-	(23,991)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the National Bank. The National Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and establishment of an Investment Committee, which is responsible for monitoring of credit risks. The National Bank's credit policy is reviewed and approved by the Board.

The National Bank's credit policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- Procedures for ongoing monitoring and review of the limit of the National Bank's counterparties.

Requests for inclusion in the list of counterparties are received by the National Bank's analysts. The analysts' report on a potential counterparty is based on a financial performance and financial position ratios analysis with use of international rating agencies' data. On the basis of this report the Investment Committee approves counterparty.

The National Bank analysts conduct daily monitoring of compliance with limits imposed on each individual counterparty. Apart to individual counterparty analysis, the National Bank performs valuation of portfolios in relation to concentration of credit risks.

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

35 Risk management, continued

(c) Credit risk, continued

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

	2012	2011
	KZT'000	KZT'000
ASSETS		
Available-for-sale financial assets	2,636,083,818	3,610,404,032
Placements with banks and other financial institutions	735,238,828	432,668,712
Reverse repurchase agreements	578,002,980	430,976,777
Gold	355,053,170	423,034,946
Financial instruments at fair value through profit or loss	207,819,047	5,041,013
Held-to-maturity investments	56,155,772	-
Other financial assets	4,103,444	5,359,755
Total maximum exposure	4,572,457,059	4,907,485,235

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

(d) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The National Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The National Bank's liquidity policy is reviewed and approved by the Management Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy consists of:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow (the "liquidity portfolio");
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

35 Risk management, continued

(d) Liquidity risk, continued

The department of Monetary Operations obtains information from the Department of Monetary Operations Accounting related to the liquidity of assets and liabilities and performs analysis of the liquidity position. After this the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold as soon as it possible if required.

According to the Investment Strategy of the National Bank the liquidity portfolio has to comply with the following parameters:

- duration of the portfolio should not exceed 1 year.
- base currency of the liquidity portfolio is USD.
- volume of liquidity portfolio should not fall below USD 1 billion without considering current liabilities
- volume of liquidity portfolio should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the 10 working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, it is replenished through the transfer of assets from the investment portfolio within 5 working days after the observance of non-compliance.

The assets of the liquidity portfolio can be invested cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 Moody's, agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A1 - Standard & Poor's or P1 – Moody's. The maximum term for the deposit should not exceed 1 month.

The following tables show the undiscounted cash flows on financial liabilities, derivatives and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment.

35 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	No maturity	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	925,969,810	-	-	-	84,874,485	1,010,844,295	1,010,832,334
Current accounts of the National Fund of the Republic of Kazakhstan	606,710,642	-	-	-	-	606,710,642	606,710,642
Current accounts of the Ministry of Finance	177,848,958	-	-	-	-	177,848,958	177,848,958
Customer accounts	359,938,341	-	-	-	-	359,938,341	359,938,341
Debt securities issued	38,934,854	71,957,597	40,227,842	17,905,315	-	169,025,608	168,354,440
Reserves of guarantee funds	97,661,126	-	-	-	-	97,661,126	97,661,126
Other financial liabilities	2,313,048	-	-	-	-	2,313,048	2,313,048
Derivative liabilities							
- Inflow	(15,795,517)	-	-	-	-	(15,795,517)	-
- Outflow	15,793,704	2,300,756	-	-	-	18,094,460	269,103
Total liabilities	2,209,374,966	74,258,353	40,227,842	17,905,315	84,874,485	2,426,640,961	2,423,927,992

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	No maturity	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	909,308,624	-	-	-	83,201,912	992,510,536	992,488,222
Current accounts of the National Fund of the Republic of Kazakhstan	473,186,260	-	-	-	-	473,186,260	473,186,260
Current accounts of the Ministry of Finance	129,617,516	-	-	-	-	129,617,516	129,617,516
Customer accounts	480,120,618	-	-	-	-	480,120,618	480,120,618
Debt securities issued	37,325,232	272,876,677	155,576,101	29,963,596	-	495,741,606	493,710,935
Reserves for guarantee funds	73,458,067	-	-	-	-	73,458,067	73,458,067
Other financial liabilities	2,824,955	-	-	-	-	2,824,955	2,824,955
Derivative liabilities							
- Inflow	(164,437,863)	-	-	-	-	(164,437,863)	-
- Outflow	167,939,446	-	-	-	-	167,939,446	4,267,768
Total liabilities	2,109,342,855	272,876,677	155,576,101	29,963,596	83,201,912	2,650,961,141	2,649,674,341

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

35 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Assets							
Cash on hand in foreign currency	9,969,355	-	-	-	-	-	9,969,355
Gold	313,788,574	41,264,596	-	-	-	571,762,355	926,815,525
Placements with banks and other financial institutions	723,682,264	3,243,386	2,418,682	5,894,496	-	-	735,238,828
Financial instruments at fair value through profit or loss	657,349	936,252	6,077,596	74,235,560	125,912,290	94,573,178	302,392,225
Reverse repurchase agreements	475,659,709	-	102,343,271	-	-	-	578,002,980
Available-for-sale financial assets	4,066,795	43,035,647	789,771,931	1,646,902,752	147,106,511	5,251,632	2,636,135,268
Held-to-maturity investments	-	-	347,166	263,893	55,544,713	-	56,155,772
Investments in associates	-	-	-	-	-	186,770	186,770
Other financial assets	4,103,444	-	-	-	-	-	4,103,444
Total assets	1,531,927,490	88,479,881	900,958,646	1,727,296,701	328,563,514	671,773,935	5,249,000,167
Liabilities							
Currency in circulation	-	-	-	-	-	1,737,000,230	1,737,000,230
Due to banks and other financial institutions	1,010,832,334	-	-	-	-	-	1,010,832,334
Financial instruments at fair value through profit or loss	197,223	71,880	-	-	-	-	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	606,710,642	-	-	-	-	-	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	177,848,958	-	-	-	-	-	177,848,958
Customer accounts	359,938,341	-	-	-	-	-	359,938,341
Debt securities issued	38,911,829	71,791,086	57,651,525	-	-	-	168,354,440
Reserves of guarantee funds	97,661,126	-	-	-	-	-	97,661,126
Other financial liabilities	2,313,048	-	-	-	-	-	2,313,048
Total liabilities	2,294,413,501	71,862,966	57,651,525	-	-	1,737,000,230	4,160,928,222
Net position	(762,486,011)	16,616,915	843,307,121	1,727,296,701	328,563,514	(1,065,226,295)	1,088,071,945

35 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2011:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Assets							
Cash on hand in foreign currency	21,081,881	-	-	-	-	-	21,081,881
Gold	241,695,200	181,339,746	-	-	-	192,975,824	616,010,770
Placements with banks and other financial institutions	426,281,545	1,072,667	3,314,500	2,000,000	-	-	432,668,712
Financial instruments at fair value through profit or loss	5,041,013	-	-	-	-	-	5,041,013
Reverse repurchase agreements	330,213,990	-	100,762,787	-	-	-	430,976,777
Available-for-sale financial assets	7,217,903	185,516,798	1,121,636,234	2,158,245,921	137,787,176	239,912	3,610,643,944
Investments in associates	-	-	-	-	-	810,037	810,037
Other financial assets	5,359,755	-	-	-	-	-	5,359,755
Total assets	1,036,891,287	367,929,211	1,225,713,521	2,160,245,921	137,787,176	194,025,773	5,122,592,889
Liabilities							
Currency in circulation	-	-	-	-	-	1,548,493,471	1,548,493,471
Due to banks and other financial institutions	992,488,222	-	-	-	-	-	992,488,222
Financial instruments at fair value through profit or loss	4,267,768	-	-	-	-	-	4,267,768
Current accounts of the National Fund of the Republic of Kazakhstan	473,186,260	-	-	-	-	-	473,186,260
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	129,617,516	-	-	-	-	-	129,617,516
Customer accounts	480,120,618	-	-	-	-	-	480,120,618
Debt securities issued	37,315,928	272,248,769	184,146,238	-	-	-	493,710,935
Reserves of guarantee funds	73,458,067	-	-	-	-	-	73,458,067
Other financial liabilities	2,824,955	-	-	-	-	-	2,824,955
Total liabilities	2,193,279,334	272,248,769	184,146,238	-	-	1,548,493,471	4,198,167,812
Net position	(1,156,388,047)	95,680,442	1,041,567,283	2,160,245,921	137,787,176	(1,354,467,698)	924,425,077

36 Commitments

The National Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

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

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2012	2011
	KZT'000	KZT'000
Contracted amount		
Guarantees and letters of credit	414,784	227,732
Loan and credit line commitments	96,607	96,607
	511,391	324,339

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

37 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

37 Contingencies, continued

(c) Taxation contingencies, continued

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

38 Funds management, trust and custody activities

(a) Funds management and trust activities

The National Bank provides trust and asset management services to the National fund of the Republic of Kazakhstan and to a retirement contribution plan, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2012 and 2011, the total amount of assets that National Bank holds and manages for outside organisations is KZT 459,724,958 thousand and KZT 349,782,810 thousand, respectively.

As at 31 December 2012 and 2011, the total amount of assets that National Bank holds and manages for the National Fund is KZT 9,427,727,651 thousand and KZT 7,383,624,933 thousand, respectively. A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

(b) Custody activities

Custody and broker services were not provided by the National Bank in 2012 and 2011.

39 Related party transactions

(a) Transactions with the members of the Board of Directors and the Management Board

The remuneration to the members of the National Bank's Management Board and the Board of Directors for the years ended 31 December 2012 and 2011, comprised KZT 779,416 thousand and KZT 483,952 thousand, respectively. The remuneration consists of salary and other payments.

39 Related party transactions, continued

(b) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2012 and 2011 and related profit or loss amounts of transactions for the year ended 31 December 2012 and 2011 with other related parties are as follows.

	State companies and organisations			
	31 December 2012		31 December 2011	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Placements with banks and other financial institutions	1,365,029	-	694,964	-
Reverse repurchase agreements	553,788,645	5.53	430,976,777	7.00
Financial instruments at fair value through profit or loss	-	-	4,567,087	-
Available-for-sale financial assets	249,994,654	5.11	183,441,981	6.65
Held-to-maturity investments	56,155,772	6.64	-	-
Current tax asset	192,814	-	1,007,631	-
Deferred tax asset	86,489	-	112,867	-
Other assets	823,096	-	2,124,631	-
LIABILITIES				
Due to banks and other financial institutions	192,088,981	0.56	126,329,187	0.88
Current accounts of the National Fund of the Republic of Kazakhstan	606,710,642	-	473,186,260	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	177,848,958	-	129,617,516	-
Customer accounts	359,805,709	-	480,039,562	-
Debt securities issued	40,523,488	-	52,258,967	-
Current tax liability	36,663	-	50,304	-
Deferred tax liability	1,249,460	-	956,871	-
Other liabilities	502,343	-	1,287,191	-
Consolidated income statement				
Interest income	39,281,931		38,532,816	
Interest expense	(1,450,314)		(1,354,599)	
Fee and commission income	3,932,733		2,566,027	
Fee and commission expense	(28,444)		(419,463)	
Net gain on available-for-sale financial assets	863		-	
Net gain on financial instruments at fair value through profit or loss	-		4,567,087	
Loss on held-to-maturity investments	(15,170,270)		-	
Other operating income, net	188,167		1,589,911	
Banknotes and coins production expenses	(39,489)		(29,826)	
Funding of third parties	(182,017)		(1,315,655)	
Personnel expenses	(7,929)		(1,000,603)	
Other general administrative expenses	(393,046)		(914,921)	
Income tax expense	(1,433,185)		(1,012,000)	

40 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

KZT'000	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	9,969,355	-	-	9,969,355	9,969,355
Placements with banks and other financial institutions	-	-	735,238,828	-	-	735,238,828	735,238,828
Financial instruments at fair value through profit or loss	302,392,225	-	-	-	-	302,392,225	302,392,225
Reverse repurchase agreements	-	-	578,002,980	-	-	578,002,980	578,002,980
Available-for-sale financial assets	-	-	-	2,636,135,268	-	2,636,135,268	2,636,135,268
Held-to-maturity investments	-	56,155,772	-	-	-	56,155,772	56,155,772
Other financial assets	-	-	4,103,444	-	-	4,103,444	4,103,444
	302,392,225	56,155,772	1,327,314,607	2,636,135,268	-	4,321,997,872	4,321,997,872
Currency in circulation	-	-	-	-	1,737,000,230	1,737,000,230	1,737,000,230
Due to banks and other financial institutions	-	-	-	-	1,010,832,334	1,010,832,334	1,010,832,334
Financial instruments at fair value through profit or loss	269,103	-	-	-	-	269,103	269,103
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	606,710,642	606,710,642	606,710,642
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	177,848,958	177,848,958	177,848,958
Customer accounts	-	-	-	-	359,938,341	359,938,341	359,938,341
Debt securities issued	-	-	-	-	168,354,440	168,354,440	168,354,440
Reserves of guarantee funds	-	-	-	-	97,661,126	97,661,126	97,661,126
Other financial liabilities	-	-	-	-	2,313,048	2,313,048	2,313,048
	269,103	-	-	-	4,160,659,119	4,160,928,222	4,160,928,222

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

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

KZT'000	Designated at fair value	Loans and receivables	Available- for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	21,081,881	-	-	21,081,881	21,081,881
Placements with banks and other financial institutions	-	432,668,712	-	-	432,668,712	432,668,712
Financial instruments at fair value through profit or loss	5,041,013	-	-	-	5,041,013	5,041,013
Reverse repurchase agreements	-	430,976,777	-	-	430,976,777	305,599,089
Available-for-sale financial assets	-	-	3,610,643,944	-	3,610,643,944	3,610,643,944
Other financial assets	-	5,359,755	-	-	5,359,755	5,359,755
	5,041,013	890,087,125	3,610,643,944	-	4,505,772,082	4,380,394,394
Currency in circulation	-	-	-	1,548,493,471	1,548,493,471	1,548,493,471
Due to banks and other financial institutions	-	-	-	992,488,222	992,488,222	992,488,222
Financial instruments at fair value through profit or loss	4,267,768	-	-	-	4,267,768	4,267,768
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	473,186,260	473,186,260	473,186,260
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	129,617,516	129,617,516	129,617,516
Customer accounts	-	-	-	480,120,618	480,120,618	480,120,618
Debt securities issued	-	-	-	493,710,935	493,710,935	493,710,935
Reserves of guarantee funds	-	-	-	73,458,067	73,458,067	73,458,067
Other financial liabilities	-	-	-	2,824,955	2,824,955	2,824,955
	4,267,768	-	-	4,193,900,044	4,198,167,812	4,198,167,812

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

(a) Accounting classifications and fair values, continued

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

(b) Fair value hierarchy

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

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

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	302,026,977	-	302,026,977
- Derivative assets	-	365,248	365,248
- Derivative liabilities	-	(269,103)	(269,103)
Available-for-sale financial assets			
- Debt and other fixed income instruments	2,344,491,743	291,592,075	2,636,083,818
- Equity investments	-	51,450	51,450
	2,646,518,720	291,739,670	2,938,258,390

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	5,041,013	5,041,013
- Derivative liabilities	-	(4,267,768)	(4,267,768)
Available-for-sale financial assets			
- Debt and other fixed income instruments	3,357,365,278	253,038,754	3,610,404,032
- Equity investments	-	239,912	239,912
	3,357,365,278	254,051,911	3,611,417,189

41 Acquisition of subsidiary and non-controlling interest

In July 2011 the National Bank purchased the entire non-controlling stake of 9.9906% in JSC “Accumulation Pension Fund “GNPF”, from the European Bank for Reconstruction and Development”, for a cash consideration of KZT 1,694,849 thousand. Equity reserves attributable to non-controlling interest at acquisition were reallocated to equity reserves of the parent and the resulting difference of KZT 2,390,288 thousand was recognised directly in equity within “retained earnings”.

In December 2012 the National Bank acquired the entire additional share issue of JSC “KACD Central Securities Depository” for KZT 5,600 thousand. This acquisition increased the share of the National Bank in the entity from 49.79% to 54.98% and was accounted for as an acquisition of subsidiary.

The amount of assets and liabilities of the acquired subsidiary recognised in the National Bank’s consolidated financial statements were as follows at the date of acquisition:

KZT’000	Recognised amounts on acquisition
Assets	
Cash and cash equivalents	105,878
Placements with banks	173,939
Held-to-maturity investments	1,198,150
Investments in associates	186,770
Property, equipment and intangible assets	92,558
Other assets	200,821
Liabilities	
Other liabilities	(26,776)
Net identifiable assets and liabilities	1,931,340
Investments in associate derecognised	(929,627)
Non-controlling interest recognised	(869,461)
Consideration paid	(5,600)
Net gain on acquisition of subsidiary	126,652
Cash and cash equivalents acquired	105,878
Consideration paid	(5,600)
Net cash inflow	100,278

The held-to-maturity portfolio of the acquired subsidiary comprised of government securities with fair values approximating their cost. Based on this factor and analysis of other identifiable assets and liabilities the management concluded that, at acquisition date, fair values of identifiable assets and liabilities approximated their carrying amounts. Difference of KZT 126,652 thousand between the carrying value of investment in associate at control acquisition date, consideration paid less share in net assets acquired is recognised in “other income”.

Non-controlling interest of KZT 869,461 thousand, representing the proportion of the subsidiary’s net identifiable assets and liabilities attributable to owners of 45.02% shares, was recognised on acquisition.

During 2012 non-controlling interest holders of JSC “Integrated Securities Registrar” contributed KZT 26,483 thousand into equity of the subsidiary.