Deloitte

JOINT STOCK COMPANY BANK CENTERCREDIT

Consolidated Financial Statements
for the year ended 31 December 2012

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JOINT STOCK COMPANY BANK CENTERCREDIT

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Joint Stock Company Bank CenterCredit and its subsidiaries ("the Group") as at 31 December 2012, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining accounting records in compliance with legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2012 were authorized for issue on 15 February 2013 by the Management Board of the Group.

On behalf of the Management Board of the Group:

Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit:

We have audited the accompanying consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and 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 International Financial Reporting Standards, 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.

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Member of Deloitte Touche Tohmatsu Limited

Opinion

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

Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice 78586
Australia

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan №0000015, type MFU - 2, issued by the Ministry of Finance of the Republic of Kazakhstan dated 13 September 2006

Nurlan Bekenov
Qualified Auditor
Certificate of competence № 0082 dated 13 June 1994
General Director
Deloitte, LLP

15 February 2013
Almaty

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

(in Kazakhstani tenge and in millions, except for earnings per share which is in tenge)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	4, 28	73,631	87,558
Interest expense	4, 28	(54,154)	(62,057)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		19,477	25,501
Provision for impairment losses on interest bearing assets	5	(11,932)	(18,379)
NET INTEREST INCOME		7,545	7,122
Net gain on financial assets and liabilities at fair value through profit or loss	6	634	877
Net realized gain/(loss) on disposal and impairment of investments available-for-sale	7	94	(975)
Net loss on repurchase of debt securities issued	23	(1,483)	-
Net gain on foreign exchange operations	8	3,849	4,044
Fee and commission income	9	20,059	18,652
Fee and commission expense	9	(1,797)	(1,955)
(Provision)/recovery of provision for impairment losses on other transactions	5	(1,400)	586
Other (expenses)/income		(18)	90
NET NON-INTEREST INCOME		19,938	21,319
OPERATING INCOME		27,483	28,441
OPERATING EXPENSES	10, 28	(26,882)	(25,812)
OPERATING PROFIT BEFORE INCOME TAX		601	2,629
Income tax (expense)/benefit	11	(251)	102
NET PROFIT		350	2,731
Attributable to:			
Owners of the parent		222	2,579
Non-controlling interest		128	152
		350	2,731
EARNINGS PER SHARE			
Basic (KZT)	12	1.10	12.79
Diluted (KZT)	12	1.10	12.79

On behalf of the Management Board of the Group:

Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

The notes on pages 10-77 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

(in Kazakhstani tenge and in millions)

	Year ended 31 December 2012	Year ended 31 December 2011
NET PROFIT	350	2,731
OTHER COMPREHENSIVE LOSS		
Net change in fair value of investments available-for-sale	(540)	(90)
(Gain)/loss transferred to income statement on sale of investments available for sale	(94)	2
Net loss on investments available-for-sale	(634)	(88)
Exchange differences on translation of foreign operations	593	(594)
OTHER COMPREHENSIVE LOSS	(41)	(682)
TOTAL COMPREHENSIVE INCOME	309	2,049
Attributable to:		
Owners of the parent	181	1,897
Non-controlling interest	128	152
TOTAL COMPREHENSIVE INCOME	309	2,049

On behalf of the Management Board of the Group:

Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

The notes on pages 10-77 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in Kazakhstani tenge and in millions)

	Notes	31 December 2012	31 December 2011
ASSETS:			
Cash and cash equivalents	13, 28	149,129	148,771
Financial assets at fair value through profit or loss	14	25,178	16,331
Investments available-for-sale	15	57,549	86,369
Investments held to maturity	16	26,373	20,778
Due from banks	17	2,036	6,010
Loans to customers and banks	18, 28	789,096	764,806
Current income tax assets		2,148	2,713
Deferred income tax assets	11	2,036	2,008
Other assets	19	11,058	10,747
Property, equipment and intangible assets	20	23,214	23,384
TOTAL ASSETS		1,087,817	1,081,917
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and financial institutions	21, 28	106,176	106,176
Customer and banks accounts	22, 28	790,550	727,334
Debt securities issued	23	65,204	121,565
Other liabilities	24	5,520	6,642
Subordinated bonds	25	33,249	33,392
Total liabilities		1,000,699	995,109
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	26	69,798	69,797
Investments available-for-sale fair value reserve		32	666
Foreign currency translation reserve		(26)	(619)
Statutory reserves		3,723	1,633
Retained earnings		12,385	14,253
Total equity attributable to owners of the parent		85,912	85,730
Non-controlling interest		1,206	1,078
Total equity		87,118	86,808
TOTAL LIABILITIES AND EQUITY		1,087,817	1,081,917
Book value per ordinary share (KZT)	12	452	449
Book value per preference share (KZT)	12	300	300

On behalf of the Management Board of the Group:

Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

The notes on pages 10-77 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

(in Kazakhstani tenge and in millions)

	Share capital	Investments available-for-sale fair value reserve	Foreign currency translation reserve	Statutory reserves	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
31 December 2010	69,841	754	(25)	-	13,307	83,877	904	84,781
Net profit	-	-	-	-	2,579	2,579	152	2,731
Net change in fair value of investments available-for-sale	-	(88)	-	-	-	(88)	-	(88)
Exchange differences on translation of foreign operations	-	-	(594)	-	-	(594)	-	(594)
Total comprehensive (loss)/income	-	(88)	(594)	-	2,579	1,897	152	2,049
Transfer to statutory reserve	-	-	-	1,633	(1,633)	-	-	-
Purchase of treasury shares	(44)	-	-	-	-	(44)	-	(44)
Changes in non-controlling interest	-	-	-	-	-	-	22	22
31 December 2011	69,797	666	(619)	1,633	14,253	85,730	1,078	86,808
Net profit	-	-	-	-	222	222	128	350
Net change in fair value of investments available-for-sale	-	(634)	-	-	-	(634)	-	(634)
Exchange differences on translation of foreign operations	-	-	593	-	-	593	-	593
Total comprehensive (loss)/income	-	(634)	593	-	222	181	128	309
Transfer to statutory reserve	-	-	-	2,090	(2,090)	-	-	-
Sale of treasury shares	1	-	-	-	-	1	-	1
31 December 2012	69,798	32	(26)	3,723	12,385	85,912	1,206	87,118

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

15 February 2013
Almaty

Oh Ki Hong
Managing Director

15 February 2013
Almaty

Nurgaliyeva A.T.
Chief Accountant

15 February 2013
Almaty

The notes on pages 10-77 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in Kazakhstani tenge and in millions)

	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from financial assets at fair value through profit or loss	1,126	946
Interest received from investments available-for-sale	2,531	2,777
Interest received from investments held to maturity	1,406	2,805
Interest received on due from banks	303	518
Interest received on loans to customers and banks	69,288	74,210
Penalties received from loans to customers	1,384	866
Interest paid on due to banks and financial institutions	(6,857)	(8,012)
Interest paid on customer and banks accounts	(32,696)	(41,778)
Interest paid on debt securities issued	(11,333)	(14,486)
Interest paid on subordinated bonds	(2,977)	(3,632)
Fee and commission received	20,089	18,634
Fee and commission paid	(2,033)	(1,704)
Other (expense)/ income received	(18)	264
Operating expenses paid	(26,279)	(24,167)
Cash inflow from operating activities before changes in operating assets and liabilities	13,934	7,241
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Financial assets at fair value through profit or loss	(8,140)	(1,890)
Due from banks	3,966	(4,347)
Loans to customers and banks	(39,174)	(78,564)
Other assets	757	258
Increase/(decrease) in operating liabilities:		
Due to banks and financial institutions	25	(40,232)
Customer and banks accounts	61,142	(41,380)
Other liabilities	(1,729)	(235)
Cash inflow/(outflow) from operating activities before taxation	30,781	(159,149)
Income tax received/(paid)	286	(764)
Net cash inflow/(outflow) from operating activities	31,067	(159,913)

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)
(in Kazakhstani tenge and in millions)

	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds on sale of investments available-for-sale	113,165	250,952
Purchase of investments available-for-sale	(86,758)	(241,027)
Proceeds on maturity of investments held to maturity	9,889	246,381
Purchase of investments held to maturity	(13,630)	(100,623)
Purchase of property, equipment and intangible assets	(2,098)	(3,979)
Proceeds on sale of property and equipment	10	1,158
Net cash inflow from investing activities	20,578	152,862
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of treasury shares	1	-
Purchase of treasury shares	-	(44)
Repayment of debt securities issued	(56,122)	(52,954)
Proceeds from debt securities issued	2,221	859
Repayment of subordinated bonds issued	-	(2,000)
Net cash outflow from financing activities	(53,900)	(54,139)
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	2,613	798
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	358	(60,392)
CASH AND CASH EQUIVALENTS, beginning of the year (Note 13)	148,771	209,163
CASH AND CASH EQUIVALENTS, end of the year (Note 13)	149,129	148,771

On behalf of the Management Board of the Group:

Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

The notes on pages 10-77 form an integral part of these consolidated financial statements.

1. ORGANIZATION

JSC Bank CenterCredit ("the Bank") is a Joint Stock Company ("JSC"), which was incorporated in the Republic of Kazakhstan and started its operations in 1988. The Bank is regulated by the legislation of the Republic of Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") and the Committee for control and supervision of the financial market and financial organizations of the NBRK ("the FMSC"). The Bank conducts its business under license number 248, renewed on 13 December 2007 by the FMSC. On 27 August 2008, Kookmin Bank (South Korea) purchased 23% of the Bank's issued ordinary share capital. As at 31 December 2012, Kookmin Bank's share was 41.93% and the International Financial Corporation's ("IFC") share was 10% of the issued capital of the Bank.

The Bank's primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, loan origination activities and guarantees.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF").

The registered address is: 98 Panfilov Street, Almaty, the Republic of Kazakhstan.

As at 31 December 2012 and 2011, the Bank had 20 branches in the Republic of Kazakhstan.

The Bank is a parent company of a banking group (the "Group") which consists of the following subsidiaries consolidated in its consolidated financial statements:

Name	Country of operation	31 December 2012	31 December 2011	Type of operation
JSC APF Capital	Republic of Kazakhstan	75.06%	75.06%	Pension fund management
LLP Center Leasing	Republic of Kazakhstan	90.75%	90.75%	Finance lease
JSC BCC Invest	Republic of Kazakhstan	100%	100%	Brokerage and dealer activity
CenterCredit International B.V.	Netherlands	100%	100%	Issuance of capital on international financial markets
LLC Bank BCC-Moscow	Russian Federation	100%	100%	Banking services

JSC Accumulated Pension Fund Capital ("APF Capital") was established as a closed joint stock company in October 2001, in accordance with legislation of the Republic of Kazakhstan.

In December 2003, APF Capital was registered as a joint stock company. APF Capital manages pension contribution inflows and the accumulation of individual pension accounts in accordance with the requirements of legislative authorities of the Republic of Kazakhstan.

In September 2002, LLP Center Leasing was established as a limited liability partnership in accordance with the legislation of the Republic of Kazakhstan. The main activity of LLP Center Leasing is leasing operations, which are carried out in accordance with Article 10 on financial leasing of the Republic of Kazakhstan.

In May 1998, JSC BCC Invest was established as a limited liability partnership (previously named "LLP KIB ASSET MANAGEMENT") in accordance with legislation of the Republic of Kazakhstan. On 26 September 2006, LLP KIB ASSET MANAGEMENT was registered as a joint stock company. The main activity of JSC BCC Invest consists of management of assets of mutual funds and management of investment portfolios.

CenterCredit International B.V. was registered in January 2006 in Rotterdam, Netherlands, as a special purpose entity. Its main activity was to raise capital on international financial markets. In December 2012, the Board of Directors of the Group decided to liquidate this entity.

In August 2006, the Bank received permission from the FMSC for establishment of its subsidiary LLC Bank BCC-Moscow. On 21 March 2008, LLC Bank BCC-Moscow received its license from the Central Bank of Russian Federation. The main activity of LLC Bank BCC-Moscow consists of banking services.

As at 31 December 2012 and 2011 the following ultimate beneficial shareholders owned individually more than 5% of the issued shares of the Group:

	31 December 2012 %	**31 December 2011** %
Kookmin Bank	41.93	41.93
Baiseitov B.R.	24.84	25.10
IFC	10.00	10.00
Other (individually hold less than 5%)	23.23	22.97
Total	100.00	100.00

The consolidated financial statements were authorized for issue by the Management Board of the Group on 15 February 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in millions of Kazakhstani tenge ("KZT millions"), unless otherwise indicated. These consolidated financial statements have been prepared on the accrual basis of accounting under the historical cost convention, except for the measurement of investments available-for-sale, financial assets and liabilities at fair value through profit or loss, and derivative financial instruments at fair value.

The Group maintains its accounting records in accordance with the accounting policies authorized by the Resolution of the Board of Directors of the Group.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 33.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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 owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income. Penalties for late interest payments are classified within interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances on correspondent and time deposit accounts. For the purposes of determining cash flows, cash and cash equivalents include cash and balances with the NBRK and due from banks with original maturities of 90 days or less. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, investments held to maturity, investments available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'net gain/(loss) on financial assets and liabilities at fair value through profit or loss' line item in the consolidated income statement.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. Fair value is determined in the manner described in Note 30.

Investments available-for-sale

Investments available-for-sale are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in other comprehensive income, except for impairment losses, foreign exchange gains or losses on monetary debt investments and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled to the consolidated income statement.

The Group uses quoted market prices to determine the fair value for the Group's debt securities held as investments available-for-sale (equity securities are not material) where available. If the market for investments is not active, the Group establishes fair value by using valuation techniques including discounted future cash flows and option pricing models. When valuation techniques are used, the input data is based on market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty, recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Dividends earned on investments available-for-sale are included in other income in the consolidated income statement.

Equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments and fixed maturity dates. The Group has the positive intent and ability to hold such securities to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

If the Group were to sell or reclassify more than an insignificant amount of investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as investments available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks and loans to customers and banks.

The difference between the sale and repurchase price is treated as interest expense in the consolidated income statement and accrued over the life of the repo agreement using the effective interest rate method.

The Group enters into repos and reverse repos agreements using the automated system of the Kazakhstan Stock Exchange ("KASE") in accordance with the trading rules established by KASE (the "Rules"). According to the Rules the automated repos and reverse repos are concluded using open sale methods. For open sale methods the counterparty remains undefined and all risks the Group undertakes, including credit and settlement risks, are with KASE.

Loans to customers and banks

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

Loans to customers and bank granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers and banks are carried net of any allowance for impairment losses.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statements is transferred from equity to the consolidated income statement.

In respect of equity securities classified as investments available-for-sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of debt securities classified as investments available-for-sale, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Individual assessment of impairment of loans to customers

Individual assessment of impairment losses is calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held and the timing of anticipated receipts. The impairment allowances on individually significant loans are reviewed at least quarterly and more regularly if circumstances required.

Collective assessment of impairment of loans to customers

The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default on each assets (or pool of assets) and loss given default by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans

Overdue loans are written off against the allowance for impairment losses based on the decision of the Group's Credit Committee, after the Group has exercised all possible measures for recovery of the overdue debt, and the possibility of recovery of these amounts is low or does not exist. Subsequently, if in the assessment of the Credit Committee, a loan previously written off is deemed recoverable, the amounts previously written off are recorded in loans to customers and banks and the related allowance for impairment loss accounts. Due to the inherent uncertainty of recovery of such loans, the amount recovered will be reflected in the consolidated income statement only when realized.

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including due to banks and financial institutions, customer and bank accounts, debt securities issued and subordinated debt, are initially recognized at fair value plus related transaction costs that directly relate to the issuance of the financial liabilities. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in consolidated income statement.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 14. Derivative financial instruments entered into by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive to the Group and as liabilities when it is negative to the Group. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as a loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives to their residual values. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	1.25-2.5%
Furniture and computer equipment	7-20%
Intangible assets	12-60%

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share capital

Share capital is recognized at historical cost.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is charged to share capital (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Financial guarantee contracts issued and letters of credit

A financial guarantee or letters of credit contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts and letters of credit issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Contingencies

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

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Retirement and other benefit obligations

In accordance with the requirements of the countries in which the Group operates, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged to the consolidated income statement in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the historical rate at the date of the transaction. Exchange differences on monetary items are recognized in the income statement in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KZT using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Rates of exchange

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

	31 December 2012	**31 December 2011**
Tenge/1 US Dollar	150.74	148.40
Tenge/1 Euro	199.22	191.72
Tenge/1 JPY	1.75	1.91

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- 'Investment available-for-sale' reserve which comprises changes in fair value of available-for-sale investments;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Statutory reserve' which reflects the difference between provisions calculated in accordance with local requirements and provisions calculated under IFRS. The difference is attributable to fundamental methodological deviations including the impact of discounted future cash flows and the impact which certain forms of collateral have on the level of provision. This reserve is required by legislation of the Republic of Kazakhstan and is created through appropriations of retained earnings.

Offsetting of financial assets and liabilities

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

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the Group's revenue is included in reportable segments.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Investments held-to-maturity

The management has reviewed the Group's investments held-to-maturity in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. Details of these assets are set out in Note 16.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for impairment of loans and receivables

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

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

As at 31 December 2012 and 2011 the gross loans to customers totalled KZT 920,891 million and KZT 880,235 million, respectively, and allowance for impairment losses amounted to KZT 137,420 million and KZT 124,536 million, respectively.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Valuation of financial instruments

As described in Note 30, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 30 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Recoverability of deferred tax assets

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax to be recovered. The carrying value of deferred tax assets amounted to KZT 2,036 million and KZT 2,008 million as at 31 December 2012 and 2011, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements

Amendments to IFRSs affecting presentation and disclosure only

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*

The Group has applied the amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

See Note 21 for disclosures for all transferred financial assets that are not derecognized, existing at the reporting date. In accordance with the transitional provisions set out in the amendments to IFRS 7 *Financial instruments: Disclosures*, the Group has not provided comparative information for the disclosures required by the amendments.

Amendments to IAS 12 *Income Taxes* "Deferred tax: Recovery of Underlying Assets"

The Group has applied the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" did not have an effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[3];
- IFRS 10 *Consolidated Financial Statements*[2];
- IFRS 11 *Joint Arrangements*[2];
- IFRS 12 *Disclosure of Interest in Other Entities*[2];
- IFRS 13 *Fair Value Measurement*[1];
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – "Disclosures – Offsetting Financial Assets and Financial Liabilities"[1];
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"[3];
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* – "Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance"[1];
- IAS 19 (as revised in 2011) *Employee Benefits*[1];
- IAS 27 (as revised in 2011) *Separate Financial Statements*[2];
- IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*[2];
- Amendments to IAS 32 *Financial Instruments: Presentation* – "Offsetting Financial Assets and Financial Liabilities"[4];
- Amendments to IFRSs – *Annual Improvements to IFRSs 2009-2011 cycle*.

[1] Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
[2] Each of the five standards becomes effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).
[3] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
[4] Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments*, issued in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

Key requirements of IFRS 9 *Financial instruments*:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of

principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 *Financial Instruments*, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 *Financial Instruments* requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.
- Phases two and three of the financial instruments project, being the impairment of financial assets and hedge accounting phases respectively, are still a work in progress. The IASB is also considering limited improvements to IFRS 9 regarding the classification and measurement of financial instruments.

The Group management anticipates that IFRS 9 *Financial Instruments* in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 *Financial Instruments* until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

Key requirements of these five Standards are described below.

IFRS 10 *Consolidated Financial Statements* replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10 Consolidated Financial Statements. Under IFRS 10 Consolidated Financial Statements, there is only one basis for consolidation, that is, control. In addition, IFRS 10 Consolidated Financial Statements includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 Consolidated Financial Statements to deal with complex scenarios.

IFRS 10 requires investors to reassess whether or not they have control over their investees on transition to IFRS 10. In general, IFRS 10 requires retrospective application, with certain limited transitional provisions.

IFRS 11 ***Joint Arrangements*** replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 *Joint Arrangements* deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11 *Joint Arrangements*. Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 *Joint Arrangements* are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 *Interests in Joint Ventures* can be accounted for using the equity method of accounting or proportional consolidation. IFRS 11 requires retrospective application with specific transitional provisions.

IFRS 12 ***Disclosure of Interests in Other Entities*** is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interest in Other Entities* were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The Group management anticipates that the application of these five standards will have a significant impact on amounts reported in the consolidated financial statements. A detailed review will be performed by the Group management to quantify the impact on the application of these five standards.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 *Fair Value Measurement* are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 *Fair Value Measurement* to cover all assets and liabilities within its scope. IFRS 13 should be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of IFRS 13 need not be applied in comparative information provided for periods before initial application of the Standard.

The Group management anticipates that the application of the new Standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation – "Offsetting Financial Assets and Financial Liabilities and the related disclosures"

The amendments to IAS 32 *Financial Instruments: Presentation* clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The disclosures should be provided retrospectively for all comparative periods.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

Amendments to* IAS 1 *Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012)

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012

The *Annual Improvements to IFRSs 2009-2011 Cycle* include a number of amendments to various IFRSs. The following list does not represent the complete list of amendments and reflects only amendments that are relevant to the Group's operations:

Amendments to IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 *Financial Instruments: Presentation* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management anticipates that the amendments to IAS 32 *Financial Instruments: Presentation* will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to IAS 1 *Presentation of Financial statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period

Amendments to IAS 34 *Interim Financial Reporting*

The amendments to IAS 34 *Interim Financial Reporting* clarify requirements for segment information disclosures. The total assets and total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

4. NET INTEREST INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired assets	34,233	40,290
- interest income on unimpaired assets	35,540	43,454
Interest income on financial assets recorded at fair value	3,858	3,814
Total interest income	73,631	87,558
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers and banks	66,834	79,375
Interest on investments held to maturity	1,260	2,841
Interest on due from banks	295	662
Penalties on loans to customers and banks	1,384	866
Total interest income on financial assets recorded at amortized cost	69,773	83,744
Interest income on financial assets recorded at fair value comprises:		
Interest income on investments available-for-sale	2,659	2,799
Interest income on financial assets at fair value through profit or loss	1,199	1,015
Total interest income on financial assets recorded at fair value	3,858	3,814
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	54,154	62,057
Total interest expense	54,154	62,057
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer and banks accounts	34,770	38,014
Interest on debt securities issued	9,770	13,193
Interest on due to banks and financial institutions	6,832	7,498
Interest on subordinated bonds	2,782	3,352
Total interest expense on financial liabilities recorded at amortized cost	54,154	62,057
Net interest income before provision for impairment losses on interest bearing assets	19,477	25,501

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Consumer loans	Corporate loans	Credit cards	Total* (Note 18)
31 December 2010	12,069	93,679	41	105,789
Additional provision recognized	2,852	15,520	7	18,379
Write-off of assets	(4,827)	(5,494)	-	(10,321)
Recoveries of assets previously written off	1,933	8,506	-	10,439
Exchange rate difference	38	212	-	250
31 December 2011	12,065	112,423	48	124,536
Additional provision recognized	1,881	9,877	174	11,932
Write-off of assets	(237)	(314)	(180)	(731)
Recoveries of assets previously written off	328	55	-	383
Exchange rate difference	253	1,047	-	1,300
31 December 2012	14,290	123,088	42	137,420

*In order to reconcile provision for impairment losses on interest bearing assets in consolidated income statement, amount of provision on loans to customers and banks should be considered together.

The movements in provision for impairment losses on other transactions were as follows:

	Investments held to maturity (Note 16)	**Property, equipment and intangible assets** (Note 20)	**Other assets** (Note 19)	**Guarantees and letters of credit** (Note 24)	**Total**
31 December 2010	749	5,639	6,766	1,050	14,204
Recovery of provision	(5)	-	(525)	(56)	(586)
Write-off of assets	(638)	(5,639)	(6,144)	-	(12,421)
Recoveries of assets previously written off	-	-	1,052	-	1,052
Exchange rate difference	-	-	-	(26)	(26)
31 December 2011	106	-	1,149	968	2,223
Additional provision recognised	-	-	483	917	1,400
Write-off of assets	-	-	(531)	(17)	(548)
Recoveries of assets previously written off	-	-	130	-	130
Exchange rate difference	-	-	11	(89)	(78)
31 December 2012	106	-	1,242	1,779	3,127

6. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2012	**Year ended 31 December 2011**
Realized gain on trading operations	338	487
Unrealized gain on fair value adjustment	234	24
Realized gain/(loss) on operations with derivative financial instruments	48	(204)
Unrealized gain on operations with derivative financial instruments	14	570
Total net gain on financial assets and liabilities at fair value through profit or loss	634	877

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

7. NET REALIZED GAIN/(LOSS) ON DISPOSAL AND IMPAIRMENT OF INVESTMENTS AVAILABLE-FOR-SALE

	Year ended 31 December 2012	Year ended 31 December 2011
Net gain/(loss) on disposal of investments available-for-sale	94	(2)
Impairment loss on investments available-for-sale	-	(973)
Total net realized gain/(loss) on disposal and impairment of investments available-for-sale	94	(975)

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2012	Year ended 31 December 2011
Dealing, net	4,355	3,759
Translation differences, net	(506)	285
Total net gain on foreign exchange operations	3,849	4,044

9. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2012	Year ended 31 December 2011
Fee and commission income:		
Cash operations	4,500	3,970
Settlements	4,379	4,028
Payment cards	3,585	3,002
Guarantees	2,977	3,065
Trust operations	1,952	1,865
Foreign exchange operations	1,018	1,056
Custodian activities	559	565
Internet-banking operations	364	318
Documentary operations	172	389
Other	553	394
Total fee and commission income	20,059	18,652
Fee and commission expense:		
Settlements	808	715
Custodian activities	510	537
Documentary operations	101	464
Brokerage services	90	25
Foreign exchange operations	40	23
Purchase and sale of securities	23	12
Rating agencies services	7	21
Legal services	2	31
Financial activities	66	52
Other	150	75
Total fee and commission expense	1,797	1,955

10. OPERATING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	11,016	10,542
Operating leases expenses	3,335	3,434
Deposit Insurance Fund expenses	2,923	2,666
Taxes other than income tax	2,182	2,141
Depreciation and amortization	2,144	1,815
Administrative expenses	1,548	1,317
Security expenses	656	668
Telecommunications	646	633
Advertising costs	600	629
Property and equipment maintenance	352	300
Business trip expenses	294	258
Professional services	229	296
Other	957	1,113
Total operating expenses	26,882	25,812

11. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses such as business development expenses and a tax free regime for certain income such as income on finance lease and income from operations with state securities and securities listed on the Kazakhstan Stock Exchange.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012 and 31 December 2011 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

In December 2012, changes in the Tax Code were introduced that affect taxation of the Group. Thus, Kazakhstan's banks are required to calculate dynamic provisions and adjust taxable base subject to dynamic provision amount changes. As of the date of the report, the rules for calculating dynamic provisions was not approved by the NBRK and the management of the Bank calculated deferred tax based on a draft version of rules published by the NBRK.

Temporary differences as at 31 December 2012 and 2011 comprise:

	31 December 2012	31 December 2011
Deductible temporary differences:		
Tax losses carried forward	3,387	15,864
Accrued interest on loans to customers, written off	14,582	19,316
Impairment loss on debt securities	5,506	5,512
Other	456	568
Total deductible temporary differences	23,931	41,260
Taxable temporary differences:		
Loans to customers	(3,991)	(3,769)
Property, equipment and intangible assets	(3,501)	(2,884)
Unrealised revaluation of financial assets and liabilities at fair value through profit or loss	(3,485)	(3,003)
Other	-	(188)
Total taxable temporary differences	(10,977)	(9,844)
Net deferred tax asset	12,954	31,416
Deferred tax asset at the statutory tax rates	2,591	6,283
Unrecognized deferred tax asset	(555)	(4,275)
Net deferred tax asset at the statutory tax rates	2,036	2,008

The deductible temporary differences do not expire under current tax legislation. The tax losses carried forward expire in 2022. Based on the business plans prepared, management concluded that it is appropriate to recognise a deferred tax asset amounting to KZT 2,036 million and KZT 2,008 million as at 31 December 2012 and 2011, respectively.

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2012	31 December 2011
Impairment losses on debt securities	555	1,102
Tax losses carried forward	-	3,173
	555	4,275

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Relationships between tax expenses and accounting profit for the period ended 31 December 2012 and 2011 are explained as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Operating profit before income tax	601	2,629
Tax at the statutory tax rate	120	526
Tax effect of permanent differences:		
Change in deferred tax asset not recognized	(3,720)	(568)
Tax-exempt interest income and other related income on state and other qualifying securities	(236)	(803)
Non-deductible interest expense	1,572	470
Non-deductible provision for impairment losses on doubtful debt and qualifying securities	1,357	177
Non-deductible operating and other expenses	1,158	96
Income tax expense/(benefit)	251	(102)
Current income tax expense	279	213
Deferred income tax benefit	(28)	(315)
Income tax expense/(benefit)	251	(102)

The tax rate used for the year ended 31 December 2012 and 2011 reconciliations above is the corporate tax rate of 20%, payable by corporate entities in the Republic of Kazakhstan on taxable profits under tax law in that jurisdiction.

	31 December 2012	31 December 2011
Deferred income tax assets		
Beginning of the year	2,008	1,693
Change in deferred tax assets	28	315
End of the year	2,036	2,008

12. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

	Year ended 31 December 2012	Year ended 31 December 2011
Basic earnings per share		
Net profit for the year attributable to owners of the Parent	222	2,579
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	(44)	(502)
Earnings attributable to ordinary shareholders	178	2,077
Weighted average number of ordinary shares for purposes of basic earnings per share	161,860,158	162,403,170
Earnings per share - basic (KZT)	1.10	12.79
Diluted earnings per share		
Net profit for the period attributable to ordinary shareholders	178	2,077
Add: additional dividends that would be paid on full distribution of profit to the preferred shareholders	44	502
Net profit used in the calculation of total diluted earnings per share	222	2,579
Weighted average number of ordinary shares for purposes of diluted earnings per share	161,860,158	162,403,170
Shares deemed to be issued:		
Weighted average number of common shares that would be issued for the convertible preferred shares	39,249,255	39,249,255
Weighted average number of ordinary shares for purposes of diluted earnings per share	201,109,413	201,652,425
Earnings per share - diluted (KZT)	1.10	12.79

On 25 August 2010 the KASE has introduced new rules for listed companies that require the disclosure of book value of one share per each class of shares in the listed company's financial statements. The Group has calculated the book value of one share per each class of shares in accordance with the methodology for computation of the book value of one share, provided by KASE.

The book value of one share per each class of shares as at 31 December 2012 and 2011 is as follows:

Class of shares	31 December 2012 Outstanding shares (number outstanding)	31 December 2012 Amount for calculation of book value KZT million	31 December 2012 Book value of one share, KZT	31 December 2011 Outstanding shares (number outstanding)	31 December 2011 Amount for calculation of book value KZT million	31 December 2011 Book value of one share, KZT
Ordinary shares	162,155,381	73,230	452	162,225,170	72,980	449
Preference shares	39,249,255	11,775	300	39,249,255	11,775	300
		85,005			84,755	

The book value of one preference share is calculated as the ratio of the amount of equity attributable to preference shares to the outstanding number of preference shares as at the reporting date. The book value of one ordinary share is calculated as the ratio of the amount of net asset value of the Group for ordinary shares to the outstanding number of ordinary shares as at reporting date. The net asset value of the Group for ordinary shares is calculated as the total equity net of intangible assets and the amount of equity attributable to preference shares as at reporting date. Outstanding number of ordinary and preference shares is calculated as outstanding shares authorized and issued net of repurchased shares by the Group as at reporting date.

The Management of the Group believes that it fully complies with the requirement of KASE as at the reporting date.

13. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Deposits with financial institutions	109,269	114,022
Cash on hand	34,725	31,334
Cash in transit	5,129	3,395
	149,123	148,751
Accrued interest	6	20
Total cash and cash equivalents	149,129	148,771

Minimum reserve requirements are determined as a percentage of average balances of deposits and international borrowings in accordance with the requirements of the NBRK and amounted to KZT 13,566 million and KZT 25,494 million as at 31 December 2012 and 2011, respectively. The Group was in compliance with the NBRK requirements by maintaining an average balance with the NBRK and therefore was able to use the amounts without any restrictions. As at 31 December 2012 and 2011, the obligatory reserves deposited with the Central Bank of Russian Federation amounted to KZT 971 million and KZT 828 million, respectively.

Components of deposits with financial institutions with original maturity equal or less than three months:

	Interest rates (%)		31 December 2012	31 December 2011
	Min.	Max.		
Demand deposits with banks	0.08	6.00	109,269	108,022
Demand deposits with NBRK	-	-	-	6,000
			109,269	114,022
Accrued interest			6	20
Total			109,275	114,042

As at 31 December 2012 the Group had deposits with Citibank, N.Y., BNP Paribas, France, Societe Generale, France, JP Morgan A.G Frankfurt and LBW Stuttgart, Germany which individually and in the aggregate exceeded 10% of the Group's equity. As at 31 December 2011 the Group had deposits with Citibank, N.Y., Deutsche Bank, London, Landesbank Baden-Wurttemberg AG, Societe Generale, France, JP Morgan A.G Frankfurt and ING Bank, which individually and in the aggregate exceeded 10% of the Group's equity.

14. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2012	31 December 2011
Financial assets held for trading:		
Debt securities	20,976	12,201
Equity securities	284	313
Total financial assets held for trading	21,260	12,514
Derivative financial instruments	3,918	3,817
Total financial assets at fair value through profit or loss	25,178	16,331

	31 December 2012		31 December 2011	
	Nominal interest rate %	Fair value	Nominal interest rate %	Fair value
Debt securities:				
Government bonds of the Republic of Kazakhstan	3.70-6.00	8,109	3.70-7.80	2,263
Kazakhstan corporate bonds	7.00-13.00	6,276	5.72-13.00	4,930
Russian corporate bonds	3.15-11.25	5,817	6.75-9.75	5,008
Government bonds of the Russian Federation	6.88-7.10	774	-	-
Total debt securities		20,976		12,201

	31 December 2012		31 December 2011	
	Ownership interest %*	Fair value	Ownership interest %*	Fair value
Equity securities*:				
Shares of Kazakhstan corporations	-	284	-	313
Total equity securities		284		313

*Ownership interest in equity securities is below 1%

	31 December 2012			31 December 2011		
	Notional Value	Net fair value		Notional Value	Net fair value	
		Asset	Liability (Note 24)		Asset	Liability (Note 24)
Foreign currency contracts:						
Swaps	35,046	3,786	95	17,509	3,673	4
Embedded derivatives	857	132	-	961	144	-
Total derivative financial instruments		3,918	95		3,817	4

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index. Cross currency swap is an exchange of differently defined interest rates payable and different currencies on a fixed nominal amount (principal) between two contracting parties.

As at 31 December 2012 and 2011 financial assets at fair value through profit or loss included Treasury bonds of the Ministry of Finance of Republic of Kazakhstan and other securities of KZT 6,731 million

and KZT 131 million, respectively, were pledged under repurchase agreements with the other banks (Note 21). All repurchase agreements as at 31 December 2012 mature before 4 January 2013.

15. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2012	31 December 2011
Debt securities	57,310	86,156
Equity securities	239	213
Total investments available-for-sale	57,549	86,369

	31 December 2012		31 December 2011	
	Nominal interest rate %	Fair value	Nominal interest rate %	Fair value
Debt securities:				
Government bonds of the Republic of Kazakhstan	2.25-8.75	46,239	0.00-8.75	82,856
Kazakhstan corporate bonds	5.36-9.00	11,071	7.00-10.40	3,300
Total debt securities		57,310		86,156

	31 December 2012		31 December 2011	
	Ownership interest %	Fair value	Ownership interest %	Fair value
Equity securities:				
Kazakhstan corporate shares	-	239	-	213
Total equity securities		239		213
Total investments available-for-sale		57,549		86,369

During 2011, the Group has recognized impairment loss on JSC BTA Bank shares in the amount of KZT 1,058 million due to the worsening of financial position of the JSC BTA Bank. As at 31 December 2012 and 2011 carrying amount of equity securities of JSC BTA Bank amounted to KZT nil.

As at 31 December 2012 and 2011 investments available-for-sale included short-term NBRK notes and Treasury bonds of the Ministry of Finance of Republic of Kazakhstan of KZT 9,367 million and KZT nil, respectively, were pledged under repurchase agreements with the other banks (Note 21). All repurchase agreements as at 31 December 2012 mature before 4 January 2013.

16. INVESTMENTS HELD TO MATURITY

	31 December 2012		31 December 2011	
	Nominal interest rate %	Amount	Nominal interest rate %	Amount
Government bonds of the Republic of Kazakhstan	4.30-8.75	19,061	4.30-8.75	15,788
Kazakhstan corporate bonds	5.01-13.00	5,877	5.89-13.00	4,794
Russian corporate bonds	5.03-9.63	1,241	-	-
International corporate bonds	5.05	300	5.26	302
		26,479		20,884
Less: allowances for impairment losses		(106)		(106)
Total investments held to maturity		26,373		20,778

Movement in allowances for impairment losses on investments held to maturity for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

As at 31 December 2012 and 2011 investments held to maturity included short-term NBRK notes and Treasury bonds of the Ministry of Finance of Republic of Kazakhstan pledged under repurchase agreements with other banks amounting to KZT 5,797 million and KZT nil, respectively (Note 21). All repurchase agreements as at 31 December 2012 mature before 4 January 2013.

17. DUE FROM BANKS

	31 December 2012	31 December 2011
Due from banks	2,024	5,990
Accrued interest	12	20
Total due from banks	2,036	6,010

As at 31 December 2012 and 31 December 2011, Group has guarantee deposits for credit card limits amounting to KZT 854 million and KZT 662 million, respectively.

18. LOANS TO CUSTOMERS AND BANKS

	31 December 2012	31 December 2011
Originated loans to customers	866,044	811,406
Net investment in finance lease	5,947	6,393
Accrued interest	48,900	62,236
	920,891	880,035
Less: allowance for impairment losses	(137,420)	(124,536)
Total loans to customers	783,471	755,499
Originated loans to banks	5,617	4,978
Accrued interest	8	7
Total loans to banks	5,625	4,985
Loans under reverse repurchase agreements	-	4,322
Total loans to customers and banks	789,096	764,806

Movement in allowances for impairment losses on loans to customers and banks for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

The table below summarizes the amount of loans to customers secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2012	31 December 2011
Loans collateralized by real estate	671,391	644,457
Loans collateralized by goods	100,118	88,903
Loans collateralized by equipment	52,415	58,806
Loans collateralized by corporate guarantees	43,765	39,752
Loans collateralized by other assets	30,738	26,143
Loans collateralized by cash	10,321	8,478
Unsecured loans	12,143	13,496
	920,891	880,035
Less: allowance for impairment losses	(137,420)	(124,536)
Total loans to customers	783,471	755,499

	31 December 2012	31 December 2011
Analysis by sector:		
Individuals	325,994	305,705
Trading	186,439	178,671
Industrial construction	61,832	54,083
Manufacturing	50,716	57,434
Residential construction	49,464	48,174
Food industry	49,269	47,885
Rent of real estate	43,632	40,232
Agriculture	36,542	37,608
Transportation and equipment maintenance	26,432	27,138
Oil and gas	22,377	20,794
Telecommunications and transport	12,653	12,658
Energy	8,620	8,120
Mass media	3,431	5,726
Other	43,490	35,807
	920,891	880,035
Less: allowance for impairment losses	(137,420)	(124,536)
Total loans to customers	783,471	755,499

During the years ended 31 December 2012 and 2011 the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2012 and 2011 such assets amounting to KZT 6,999 million and KZT 6,724 million, respectively, are included in other assets (Note 19).

Loans to individuals comprise the following products:

	31 December 2012	31 December 2011
Mortgage loans	157,862	154,732
Consumer loans	106,386	88,671
Business development	56,853	58,088
Car loans	4,893	4,214
	325,994	305,705
Less: allowance for impairment losses	(16,203)	(12,090)
Total loans to individuals	309,791	293,615

As at 31 December 2012 and 2011 the Group provided loans to 16 and 16 borrowers totaling KZT 251,502 million and KZT 234,501 million, which individually and in aggregate exceeded 10% of the Group's equity, respectively.

As at 31 December 2012 and 2011 the maximum credit risk exposure on loans to customers and banks amounted to KZT 926,516 million and KZT 889,342 million, respectively.

As at 31 December 2012 and 2011 a significant amount of loans (98% and 96% of total portfolio, respectively) were granted to companies operating in the Republic of Kazakhstan, which represents a significant geographical concentration in one region.

As at 31 December 2012 and 2011 loans to customers and banks included loans totaling KZT 103,981 million and KZT 111,449 million, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

	31 December 2012			31 December 2011		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually determined to be impaired	293,076	(106,112)	186,964	276,474	(105,374)	171,100
Loans to customers collectively determined to be impaired	177,552	(14,498)	163,053	149,667	(6,236)	143,431
Unimpaired loans	450,263	(16,810)	433,454	453,894	(12,926)	440,968
Total	920,891	(137,420)	783,471	880,035	(124,536)	755,499

As at 31 December 2012 and 2011 the Group entered as a lessor into finance leasing agreements. The interest rate inherent in leases is fixed at the contract date for all of the lease terms.

In determining the impairment allowance for the loans that are individually significant, management makes the assumption of delay of 1-3 year in obtaining proceeds from sale of collateral.

The components of net investment in finance lease as at 31 December 2012 and 2011 are presented as follows:

	31 December 2012	**31 December 2011**
Not later than one year	2,049	1,976
From one year to five years	1,915	2,535
More than five years	6,495	7,468
Minimum lease payments	10,459	11,979
Less: unearned finance income	(4,512)	(5,586)
Net investment in finance lease	5,947	6,393
Current portion	2,049	1,483
Long-term portion	3,898	4,910
Net investment in finance lease	5,947	6,393

As at 31 December 2012 and 2011, the Group's finance lease agreements have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these contracts.

Fair values of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2012 and 2011 are presented as follows:

	31 December 2012		31 December 2011	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
NBRK notes	-	-	3,500	3,684
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	822	904
Total	-	-	4,322	4,588

19. OTHER ASSETS

	31 December 2012	31 December 2011
Other financial assets:		
Receivables	2,155	1,782
Accrued commission	440	470
Western Union and other wireless transfers	34	24
Other	31	12
	2,660	2,288
Less allowances for impairment losses	(240)	(375)
Total other financial assets	2,420	1,913
Other non-financial assets:		
Non-current assets held for sale	6,999	6,724
Advances paid	1,362	1,251
Tax settlements, other than income tax	1,075	1,411
Inventory	204	222
	9,640	9,608
Less allowances for impairment losses relating to assets held for sale	(1,002)	(774)
Total other non-financial assets	8,638	8,834
Total other assets	11,058	10,747

Movement in allowances for impairment losses on other assets for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

As at 31 December 2012 and 2011 non-current assets held for sale are represented by assets foreclosed by the Group from non-performing borrowers. These assets have been initially recognized at fair value and subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active program to locate a buyer and complete the sale plan has been initiated. The Group expects to dispose of these assets within a year. The Group does not occupy repossessed properties for business use.

20. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Construction in progress	Intangible assets	Total
At initial cost					
31 December 2010	2,995	11,404	17,037	3,272	34,708
Additions	800	1,023	1,685	435	3,943
Transfers	10,455	-	(10,455)	-	-
Write off of asset	-	-	(5,639)	-	(5,639)
Disposals	(560)	(538)	-	(621)	(1,719)
31 December 2011	13,690	11,889	2,628	3,086	31,293
Additions	17	1,020	96	851	1,984
Transfers	1,740	-	(1,740)	-	-
Write off of asset	-	(802)	-	(81)	(883)
Disposals	-	(32)	-	-	(32)
Foreign exchange effect	10	-	-	-	10
31 December 2012	15,457	12,075	984	3,856	32,372
Accumulated depreciation and impairment					
31 December 2010	(132)	(5,419)	(5,639)	(1,104)	(12,294)
Depreciation expenses	(125)	(1,427)	-	(263)	(1,815)
Write off of asset	-	-	5,639	-	5,639
Disposals	17	519	-	25	561
31 December 2011	(240)	(6,327)	-	(1,342)	(7,909)
Depreciation expenses	(205)	(1,454)	-	(485)	(2,144)
Write off of asset	-	802	-	69	871
Disposals	-	24	-	-	24
31 December 2012	(445)	(6,955)	-	(1,758)	(9,158)
Net book value					
As at 31 December 2012	15,012	5,120	984	2,098	23,214
As at 31 December 2011	13,450	5,562	2,628	1,744	23,384

Movement in allowances for impairment losses on property, equipment and intangible assets for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

As at 31 December 2010 construction in progress includes a building repossessed by the Group from a non-performing borrower. During 2011, the Group has written off the cost of the building down to its recoverable amount.

Intangible assets include software, patents and licenses.

21. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Interest rate, %	31 December 2012	31 December 2011
Long-term loans due to banks and financial institutions	1.05-8.60	26,896	33,054
Subordinated loan	LIBOR -4.5-LIBOR +6.5	25,538	22,260
Loans due to international credit organizations	4.28-7.65	14,245	24,630
Perpetual debt	9.13	11,563	13,357
Short-term loans due to banks and financial institutions	1.39-10.12	5,961	10,958
Accrued interest	-	1,094	1,124
Correspondent accounts of banks	-	348	328
Loans due to Government of the Republic of Kazakhstan and NBRK	5.5	262	345
		85,907	106,056
Loans under repurchase agreements	1.50-2.60	20,269	120
Total due to banks and financial institutions		106,176	106,176

The Perpetual non-cumulative debt was issued by the Group in March 2006 with an option to repay in whole, but not in part, on any interest payment date from and including 3 March 2016 at face value of USD 100 million. Interest payment dates are 3 March and 3 September in each year. Interest and principal on loans due to banks are repayable either quarterly, semiannually or at the end of the term, depending on the agreed repayment schedule.

Interest on the subordinated loan is repayable semiannually, and principal is repayable at the end of the term in 2014 and 2019.

During the year ended 31 December 2012 the Group has repaid loans received from Asian Development Bank and certain loans received from European Bank for Reconstruction and Development and International Financial Corporation in amounts of KZT 1,200 million, KZT 7,716 million and KZT 2,356 million respectively. During the year ended 31 December 2011 the Group has repaid loans received from Deutsche Investitions-Und Entwicklungsgesellschaft MBH.

During the year ended 31 December 2011 the Group has converted a loan from financial institution into debt securities in the amount of USD 160 million and the Bank has replaced CenterCredit International B.V. as the issuer of these debt securities.

In the event of bankruptcy or liquidation of the Group, repayment of all subordinated loans is subordinate to the repayments of the Group's liabilities to all other creditors.

The Group is obligated to comply with financial covenants in relation to due to banks and subordinated loans. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2012 and 2011.

As at 31 December 2012, the Group had long-term loans received from Eurasian Development Bank, JSC Entrepreneurship Development Fund DAMU, International Finance Corporation that individually and in aggregate exceeded 10% of the Group's equity. As at 31 December 2011, the Group had long-term loans received from Eurasian Development Bank, JSC Entrepreneurship Development Fund DAMU, International Finance Corporation that individually and in aggregate exceeded 10% of the Group's equity.

As at 31 December 2012 and 2011, the Group had long-term loans received from JSC Development Bank of Kazakhstan that individually exceeded 10% of the Group's equity.

As at 31 December 2012 and 2011 included in deposits by banks are loans under repurchase agreements of KZT 20,269 million and KZT 120 million that were settled before 4 January 2013 and before 9 January 2012, respectively.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2012 and 2011 are presented as follows:

	31 December 2012		31 December 2011	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Bonds of the Ministry of Finance of the Republic of Kazakhstan	9,072	9,765	120	131
NBRK notes	8,001	8,421	-	-
Government bonds of Russian Federation	759	774	-	-
Bonds of OJSC Rosselhozbank	657	751	-	-
Bonds of JSC Agricultural Credit Corporation	177	211	-	-
Bonds of other banks	1,603	1,896	-	-
Total	20,269	21,818	120	131

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2012 are disclosed below:

	Financial assets at fair value through profit or loss (Note 14)	**Investments available-for-sale (Note 15)**	**Investments held-to-maturity (Note 16)**	**Total**
Total carrying amount of the original assets before the transfer	6,731	9,367	5,595	21,693
As at 31 December 2012:				
Carrying amount of assets	6,731	9,367	5,595	21,693
Carrying amount of associated liabilities (Loans under repurchase agreements)	6,024	8,744	5,501	20,269

22. CUSTOMER AND BANKS ACCOUNTS

	31 December 2012	31 December 2011
Recorded at amortized cost:		
Customer accounts	772,387	711,526
Banks accounts	11,885	11,605
	784,272	723,131
Accrued interest	6,278	4,203
Total customer and banks accounts	790,550	727,334

	31 December 2012	31 December 2011
Time deposits	524,058	461,757
Demand deposits	248,329	249,769
	772,387	711,526
Accrued interest	5,477	4,001
Total customer accounts	777,864	715,527

As at 31 December 2012 and 2011 customer accounts totalling KZT 45,000 million and KZT 35,761 million, respectively, were due to 2 customers, which represents a significant concentration.

	31 December 2012	31 December 2011
Analysis by sector:		
Individuals	368,710	379,485
Social services	162,924	101,613
Real estate construction	58,297	60,804
Trade	37,499	39,650
Insurance companies and pension funds	36,581	9,408
Transportation and communication	15,756	17,624
Fuel	14,732	17,583
Energy	11,757	4,188
Metallurgy	9,756	20,710
Research and engineering	9,104	9,871
Manufacturing	8,754	13,181
Agriculture	6,759	8,476
Entertainment services	4,639	4,869
Machinery	1,342	2,685
Chemical production	1,309	802
Other	29,945	24,578
Total customer accounts	777,864	715,527

Banks accounts as at 31 December 2012 and 2011 comprised the following:

	31 December 2012	31 December 2011
Time deposits	11,600	11,600
Demand deposits	285	5
	11,885	11,605
Accrued interest	801	202
Total banks accounts	12,686	11,807

23. DEBT SECURITIES ISSUED

	CCY	Issue date	Maturity date	Annual coupon rate %	31 December 2012	31 December 2011
International bonds	USD	30/01/2007-22/03/2011	07/05/2013-30/01/2014	8.63-12.50	55,713	94,135
Kazakhstani bonds	KZT	29/12/2004-27/12/2005	29/12/2014-27/12/2015	5.70-6.50	7,676	11,788
International bonds	JPY	-	-	6.24	-	11,043
Bonds issued in Russian Federation	USD	18/08/2011	30/05/2013	1.00	19	675
Bonds issued in Russian Federation	RUR	07/03/2012	07/04/2013	-	15	581
					63,423	118,222
Accrued interest					1,781	3,343
Total debt securities issued					65,204	121,565

During the twelve months ended 31 December 2012, the Bank repurchased Eurobonds with par value of KZT 52,340 million and incurred a loss on repurchase of debt securities issued amounted to KZT 1,483 million.

The Group is obligated to comply with financial covenants in relation to debt securities issued. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2012 and 2011. Interest on debt securities issued is repayable semiannually.

24. OTHER LIABILITIES

	31 December 2012	31 December 2011
Other financial liabilities:		
Settlements on other transactions	2,085	3,780
Accrued commission expenses	261	497
Derivative financial instruments (Note 14)	95	4
	2,441	4,281
Other non-financial liabilities:		
Provision for guarantees and letters of credit (Note 5)	1,779	968
Taxes payable, other than income tax	1,072	957
Other non-financial liabilities	228	436
Total other liabilities	5,520	6,642

Movement in the provision for guarantees and letters of credit for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

25. SUBORDINATED BONDS

	CCY	Issue date dd/mm/yy	Maturity date dd/mm/yy	Annual coupon rate %	31 December 2012	31 December 2011
Floating rate	KZT	11/11/2008	11/11/2023	5.70-6.70	26,961	26,904
Fixed rate	KZT	27/06/2008	27/06/2018	11.00	5,994	5,999
					32,955	32,903
Accrued interest					294	489
Total subordinated bonds					33,249	33,392

Interest on the subordinated bonds is repayable semiannually, and principal is repayable at the end of the term.

In the event of bankruptcy or liquidation of the Group, repayment of all subordinated bonds is subordinate to the repayments of the Group's liabilities to all other creditors.

26. SHARE CAPITAL

As at 31 December 2012 the Bank's share capital comprised the following number of shares:

	Authorized share capital	Share capital authorized and not issued	Repurchased share capital	Total share capital
Ordinary shares	260,750,745	(98,293,945)	(301,419)	162,155,381
Preference shares	39,249,255	-	-	39,249,255

As at 31 December 2012 the Bank's share capital represented by:

	Authorized and issued share capital (KZT million)	Repurchased shares (KZT million)	Total (KZT million)
Ordinary shares	58,087	(64)	58,023
Preference shares	11,775	-	11,775
Total	69,862	(64)	69,798

As at 31 December 2011 the Bank's share capital comprised the following number of shares:

	Authorized share capital	Share capital authorized and not issued	Repurchased share capital	Total share capital
Ordinary shares	260,750,745	(98,293,945)	(231,630)	162,225,170
Preference shares	39,249,255	-	-	39,249,255

As at 31 December 2011 the Bank's share capital represented by:

	Authorized and issued share capital (KZT million)	Repurchased shares (KZT million)	Total (KZT million)
Ordinary shares	58,087	(65)	58,022
Preference shares	11,775	-	11,775
Total	69,862	(65)	69,797

All ordinary shares are ranked equally, carry one vote, and have no par value.

Preference shares are cumulative and convertible into ordinary shares according to the decision of the Board of Directors, one preferred share can be exchanged for one ordinary share.

According to Kazakhstan legislation on joint stock companies dividends are payable on ordinary shares in the form of money or securities of the Bank on condition that the decision was made at the annual meeting of shareholders of the Bank. In accordance with Regulation of the Group dividend payments are made on the basis of financial results for the year.

Preference shares have no voting rights and are not redeemable. Preference shares have a right to receive dividends prior to common stockholders. Conversion of preferred shares is performed based on the decision of the Board of Directors. Preference shares receive dividends of KZT 0.01 per share.

	31 December 2012 Quantity	**31 December 2011** Quantity
Preference shares, beginning of the year	39,249,255	39,249,255
Preference shares issued	-	-
Preference shares, end of the year	39,249,255	39,249,255
Ordinary shares, beginning of the year	162,225,170	162,437,982
Ordinary shares issued	-	-
Treasury shares purchased	(1,178,837)	(327,857)
Treasury shares sold	1,109,048	115,045
Ordinary shares, end of the year	162,155,381	162,225,170

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

Provision for losses on financial guarantees and commitments totaled KZT 1,779 million and KZT 968 million as at 31 December 2012 and 2011, respectively.

As at 31 December 2012 and 2011 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2012		31 December 2011	
	Nominal amount	Risk weighted amount	Nominal Amount	Risk weighted amount
Financial guarantees and commitments				
Guarantees issued and similar commitments	91,487	85,777	76,650	72,584
Letters of credit and other transaction related contingent obligations	3,210	642	4,070	814
Total financial guarantees and commitments	94,697	86,419	80,720	73,398

The table below summarizes the amounts of financial guarantees and similar commitments secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2012	31 December 2011
Receivables	26,436	15,131
Corporate guarantees	13,236	16,510
Real estate	9,416	13,024
Movables	7,201	921
Cash deposits	5,710	4,066
Goods in turnover	2,024	548
Land	714	1,228
Other	195	-
Unsecured guarantees	26,555	25,222
Total	91,487	76,650

The table below summarizes the amounts of letters of credit and other transactions related to contingent obligations secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2012	31 December 2011
Cash deposits	2,159	1,993
Real estate	826	1,156
Goods in turnover	-	854
Movables	-	67
Unsecured letters of credit	225	-
Total	3,210	4,070

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as at 31 December 2012 and 2011.

Rental commitments

There was no material rental commitment outstanding as at 31 December 2012 and 2011.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited right of decision making with clients for management of their assets in accordance with specific criteria established by the client. The Group may be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The balance of the clients' funds under the management of the Group as at 31 December 2012 and 2011, including assets under trusteeship are KZT 241,042 million and KZT 219,690 million, respectively.

Managed assets are not included in the consolidated statement of financial position of the Group, as these assets are not assets of the Group. The face values of the securities presented below differ from the market value of the indicated securities. Fiduciary assets are divided by face value into the following categories:

	31 December 2012	31 December 2011
Securities	216,444	209,732
Units of investment funds	13,586	3,606
Bank deposits	9,979	3,088
Investments into real estate, cars, equipment, transport and other property	854	1,460
Other assets	179	1,804
Total fiduciary assets	241,042	219,690

As at 31 December 2012 and 2011 assets of pension funds comprise KZT 84,114 million and KZT 75,484 million, respectively.

The Group also provides depository services to its customers. As at 31 December 2012 and 2011 the Group had customer securities totaling KZT 2,588 million and KZT 20,531 million, respectively, in its nominal holder accounts.

The Group maintains the accounting records and prepares financial statements related to the assets and results of operations of the pension and investment funds, which manages assets, other legal entities and operations with their assets, performs reconciliations with the managing company in respect of served assets in accordance with the requirements of the legislation of the Republic of Kazakhstan and rules of the FMSC.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material losses will be incurred and respectively no provision has been made in these consolidated financial statements.

Taxation

Commercial legislation of the Republic of Kazakhstan and countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Pensions and retirement plans

Employees of the Group receive pension benefits from pension funds in accordance with the laws and regulations of the Republic of Kazakhstan and Russian Federation. As at 31 December 2012 and 2011 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

28. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2012		31 December 2011	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Cash and cash equivalents	148	149,129	76	148,771
- entity with significant influence over the Group	148		76	
Loans to customers and banks	473	926,516	687	889,342
- close family members of key management personnel	473		687	
Provision for impairment losses on loans to customers and banks	(3)	(137,420)	(93)	(124,536)
- close family members of key management personnel	(3)		(93)	
Due to banks and financial institutions	1	106,176	3,394	106,176
- key management personnel of the entity or its parent	1		3,394	
Customer and banks accounts	22,051	790,550	23,830	727,334
- key management personnel of the entity or its parent	12,645		17,694	
- close family members of key management personnel	9,406		6,136	
Guarantees issued and similar commitment	2	94,697	1	80,720
- key management personnel of the entity or its parent	2		1	

Secured and unsecured loans and guarantees are made to key management personnel of the entity and shareholders in the ordinary course of business. The transactions did not involve more than the normal risk of repayment or present other unfavorable features.

Amounts deposited by the parent and other related parties earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees within the Group.

Included in the consolidated income statement for the years ended 31 December 2012 and 2011 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	5	73,631	326	87,558
- key management personnel of the entity or its parent	-		16	
- close family members of key management personnel	5		310	
Interest expense	(1,780)	(54,154)	(3,192)	(62,057)
- key management personnel of the entity or its parent	(1,049)		(2,494)	
- close family members of key management personnel	(731)		(698)	
Operating expenses	(233)	(26,882)	(250)	(25,812)
- key management personnel of the entity or its parent	(233)		(250)	

Key management personnel compensation for the years ended 31 December 2012 and 2011 represent short-term employee benefits. Total remuneration of members of Board of Directors and Management Board amounted to KZT 233 million and to KZT 250 million for the year ended 31 December 2012 and 2011 respectively.

29. SEGMENT REPORTING

Operating segments

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's 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.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, and merger and acquisitions advice.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Board reviews discrete financial information for each of its segments, including measures of operating income, assets and liabilities. The segments are managed primarily on the basis of their results, which do not include the effects of intercompany eliminations.

Segment assets and liabilities comprise all assets and liabilities, excluding income tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. All revenues and expenses are attributable only to external customers, and there are no transactions between business segments.

More specific information on the revenues from external customers for each product and service, or each group of similar products and services is not available and the cost to develop it is excessive. Hence the Group presents operating segments on the basis of three main products. Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Investment banking	Year ended 31 December 2012
Interest income*	32,693	36,314	5,136	74,143
Interest expense*	(26,139)	(28,002)	(525)	(54,666)
Provision for impairment losses on interest bearing assets	(2,055)	(9,877)	-	(11,932)
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	634	634
Net realized gain on investments available-for-sale and investments impairment available-for-sale	-	-	94	94
Net loss on repurchase of debt securities issued	-	-	(1,483)	(1,483)
Net gain on foreign exchange operations	(2,940)	4,920	1,869	3,849
Fee and commission income*	3,951	15,897	177	20,025
Fee and commission expense*	-	(1,276)	(555)	(1,831)
Other expenses	-	(18)	-	(18)
Provision for impairment losses on other transactions	(4)	(1,393)	(3)	(1,400)
Operating income	5,506	16,565	5,344	27,415
Operating expenses	(12,146)	(13,062)	(1,674)	(26,882)
Operating (loss)/profit before income tax	(6,640)	3,503	3,670	533
Income tax expense	(50)	(152)	(49)	(251)
Net (loss)/profit	(6,690)	3,351	3,621	282
Segment assets**	324,373	645,607	113,653	1,083,633
Segment liabilities	394,333	470,230	136,136	1,000,699
Other segment items:				
Depreciation and amortization charge on property, equipment and intangible assets	(195)	(1,914)	(35)	(2,144)
Loans to customers and banks	309,791	479,305	-	789,096
Property, equipment and intangible assets	1,679	21,411	124	23,214
Customer and bank accounts	368,710	421,840	-	790,550
Financial guarantees and commitments	-	94,697	-	94,697
Capital expenditures	-	2,098	-	2,098

*- In order to reconcile to the amounts presented in the consolidated income statement, interest income, interest expense, fee and commission income and fee and commission expense include non-eliminated intercompany transactions in the amount of KZT 512 million, KZT (512) million, KZT 34 million and KZT (34) million, respectively.

**- Excluding current income tax assets and deferred income tax assets

	Retail banking	Corporate banking	Investment banking	Year ended 31 December 2011
Interest income*	31,961	52,569	4,615	89,145
Interest expense*	(26,401)	(36,667)	(576)	(63,644)
Provision for impairment losses on interest bearing assets	(2,859)	(15,520)	-	(18,379)
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	877	877
Net realized loss on investments available-for-sale	-	-	(975)	(975)
Net gain on foreign exchange operations	1,618	2,426	-	4,044
Fee and commission income*	3,661	14,940	82	18,683
Fee and commission expense*	-	(1,134)	(852)	(1,986)
Other income	-	90	-	90
Recovery of provision for impairment losses on other transactions	21	57	508	586
Operating income	8,001	16,761	3,679	28,441
Operating expenses	(10,233)	(14,113)	(1,466)	(25,812)
Operating (loss)/profit before income tax	(2,232)	2,648	2,213	2,629
Income tax benefit	31	51	20	102
Net (loss)/profit	(2,201)	2,699	2,233	2,731
Segment assets**	304,447	637,962	134,787	1,077,196
Segment liabilities	378,778	425,323	191,048	995,149
Other segment items				
Depreciation and amortization charge on property, equipment and intangible assets	-	(1,782)	(33)	(1,815)
Loans to customers and banks	303,983	460,823	-	764,806
Property, equipment and intangible assets	1,891	21,390	103	23,384
Customer and bank accounts	382,893	344,441	-	727,334
Financial guarantees and commitments	358	80,362	-	80,720
Capital expenditures	-	4,013	-	4,013

*- In order to reconcile to the amounts presented in the consolidated income statement, interest income, interest expense, fee and commission income and fee and commission expense include non-eliminated intercompany transactions in the amount of KZT 1,587 million, KZT (1,587) million, KZT 31 million and KZT (31) million, respectively.

**- Excluding current income tax assets and deferred income tax assets

Geographical segments

The Group operates principally with the Kazakhstan. However, management believes, based on the distribution of its operations, that the below breakdown is the most appropriate geographically.

The geographic information comprises:

	Kazakhstan	Other non-OECD countries	OECD countries	As at and for the year ended 31 December 2012
Interest income	70,067	3,564	-	73,631
Interest expense	(52,801)	(1,353)	-	(54,154)
Segment assets*	1,046,275	37,344	14	1,083,633
Segment liabilities	969,969	30,726	4	1,000,699
Financial guarantees and commitments	94,697	-	-	94,697
Capital expenditure	2,034	64	-	2,098

	Kazakhstan	Other non-OECD countries	OECD countries	As at and for the year ended 31 December 2011
Interest income	83,554	2,551	1,453	87,558
Interest expense	(59,833)	(807)	(1,417)	(62,057)
Segment assets*	1,045,772	31,388	36	1,077,196
Segment liabilities	970,381	24,751	17	995,149
Financial guarantees and commitments	80,720	-	-	80,720
Capital expenditure	3,679	334	-	4,013

*- Excluding current income tax assets and deferred income tax assets

Interest income, interest expenses, segment assets and segment liabilities, financial guarantees and commitments, and capital expenditure have generally been allocated based on domicile of the counterparty. Tangible assets (cash on hand, precious metals, premises and equipment) have been allocated based on the country in which they are physically held.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Assets for which fair value approximates carrying value

Due from banks, loans to customers and banks, due to banks and financial institutions, customer and banks accounts – for assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For assets and liabilities with maturity greater than one month, fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Financial investments

Investments held to maturity, debt securities issued and subordinated bonds – the securities are traded on active markets and quoted market prices have been used to determine the fair value.

Except as detailed below, management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value:

	31 December 2012		31 December 2011	
	Carrying value	Fair value	Carrying value	Fair value
Investments held to maturity	26,373	24,183	20,778	19,924
Loans to customers and banks	789,096	648,659	764,806	720,256
Due to banks and financial institutions	106,176	111,364	106,176	103,645
Customer and banks accounts	790,550	771,352	727,334	693,312
Debt securities issued	65,204	65,043	121,565	118,268
Subordinated bonds	33,249	30,670	33,392	35,117

The carrying amount of cash and cash equivalents, due from banks, other financial assets and other financial liabilities approximates fair value due to short-term nature of such financial assets.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unlisted equity securities.

	31 December 2012				31 December 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	21,260	3,918	-	25,178	12,514	3,817	-	16,331
Derivative financial instruments	-	3,918	-	3,918	-	3,817	-	3,817
Debt securities	20,976	-	-	20,976	12,201	-	-	12,201
Equity securities	284	-	-	284	313	-	-	313
Investments available-for-sale	57,310	-	239	57,549	86,156	-	213	86,369
Debt securities	57,310	-	-	57,310	86,156	-	-	86,156
Equity securities	-	-	239	239	-	-	213	213
Financial liabilities at fair value through profit or loss	-	95	-	95	-	4	-	4
Derivative financial instruments	-	95	-	95	-	4	-	4

There were no transfers between Level 1 and 2 in the period.

Equity securities included in Level 3 are carried at cost because it is practically difficult to quantify the intrinsic value of the equity securities issued by unlisted entities. In addition, probabilities and range of estimated cash flows of the unlisted equity securities cannot be reasonably assessed.

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Unquoted equity securities
31 December 2010	1,250
Losses recognized in the income statement	(1,058)
Purchases	58
Sales	(37)
31 December 2011	213
Purchases	26
31 December 2012	239

31. REGULATORY MATTERS

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes:

Composition of regulatory capital	31 December 2012	31 December 2011
Tier 1		
Share capital	69,798	69,797
Retained earnings and statutory reserves	16,108	15,886
Non-controlling interest	1,206	1,078
Total qualifying tier 1 capital	87,112	86,761
Tier 2		
Subordinated debt	43,556	43,381
Perpetual debt	11,918	13,752
Other reserves	6	47
Total qualifying tier 2 capital	55,480	57,180
Total regulatory capital	142,592	143,941
Risk weighted assets	891,670	850,035
Tier 1 capital ratio	9.77%	10.21%
Total capital adequacy ratio	15.99%	16.93%

Quantitative measures established by the Basel Committee to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total capital adequacy (8%) and tier 1 capital (4%) to risk weighted assets.

The total capital adequacy ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses.

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2012 and 2011 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors. Other reserves, included in tier 2, are represented by investment available-for-sale fair value reserve and foreign currency translation reserve.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Notes 21 and 25, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board reviews the capital structure on a quarterly basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2011.

33. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly, quarterly and annually by the Management Board, depending on the level of credit risk. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to financial guarantees as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any impairment loss, offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. Collateral pledged is determined based on its estimated fair value on the day of origination of the loan and limited to the outstanding balance of each loan as at reporting date.

As at 31 December 2012:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents	149,129	-	149,129	-	149,129
Financial assets at fair value through profit or loss	25,178	-	25,178	-	25,178
Investments available-for-sale	57,549	-	57,549	-	57,549
Investments held to maturity	26,479	-	26,479	-	26,479
Due from banks	2,036	-	2,036	-	2,036
Loans to customers and banks	926,516	-	926,516	908,748	17,768
Other financial assets	2,660	-	2,660	-	2,660
Total financial assets	1,189,547	-	1,189,547	908,748	280,799
Contingent liabilities and credit commitments	94,697	-	94,697	67,917	26,780

As at 31 December 2011:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents	148,771	-	148,771	-	148,771
Financial assets at fair value through profit or loss	16,331	-	16,331	-	16,331
Investments available-for-sale	86,369	-	86,369	-	86,369
Investments held to maturity	20,884	-	20,884	-	20,884
Due from banks	6,010	-	6,010	-	6,010
Loans to customers and banks	889,342	-	889,342	874,128	15,214
Other financial assets	2,288	-	2,288	-	2,288
Total financial assets	1,169,995	-	1,169,995	874,128	295,867
Contingent liabilities and credit commitments	80,720	-	80,720	55,498	25,222

Off-balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Collateral

Collateral value is assessed at the issuance of loan. Valuation of collateral is updated in accordance with the Collateral Policy of the Group.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions – securities;
- For commercial lending – charges over real estate properties, inventory; and
- For retail lending – mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Standard and Poor's, Fitch and Moody's Investors Service. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group as at 31 December 2012 and 2011:

	AAA	AA	A	BBB	<BBB	Not Rated	Total at 31 December 2012
Cash and cash equivalents	-	2,406	80,528	21,388	43,217	1,590	149,129
Financial assets at fair value through profit or loss	-	-	3,785	12,710	8,592	91	25,178
Investments available-for-sale	-	-	-	50,872	6,503	174	57,549
Investments held to maturity	-	300	-	20,317	5,756	-	26,373
Due from banks	-	15	839	512	670	-	2,036
Loans to customers and banks	-	-	-	1,996	3,267	783,833	789,096
Other financial assets	-	-	-	-	-	2,420	2,420

	AAA	AA	A	BBB	<BBB	Not rated	Total at 31 December 2011
Cash and cash equivalents	-	3,315	94,995	45,045	542	4,874	148,771
Financial assets at fair value through profit or loss	-	-	3,817	7,431	4,166	917	16,331
Investments available-for-sale	-	-	-	85,258	897	214	86,369
Investments held to maturity	-	-	-	19,933	813	32	20,778
Due from banks	-	-	4,918	-	443	649	6,010
Loans to customers and banks	-	-	-	4,322	-	760,484	764,806
Other financial assets	-	-	-	-	-	1,913	1,913

The banking industry is generally exposed to credit risk through its financial assets and financial guarantees and commitments, loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to ratings of international rating agencies. These models include rating models for corporate customers and scoring models for individuals and small business.

Rating model

The Group has developed an internal rating model, based on the principles and methods used by international rating agencies for the assessment of credit risk of corporate borrowers. The rating of a corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and the borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Group revises the model when deficiencies are identified.

Scoring models

The Group uses scoring models as a statistical tool to assess the future creditworthiness of new and existing borrowers of the Group. Scoring models are applied for assessment of the credit risk of individuals and small business enterprises.

The scoring models interpret socio-demographic and financial indicators, behavioural variables, the credit history of borrowers and historic data from external sources, such as Credit Bureau reports. Each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardize and automate the process of decision making and decrease the operating expenses and operational risks of the Group. The scoring model is also used in the internal management decision making process as it permits the forecasting of profits and losses of the credit departments. The scoring model is assessed on a continual basis for its effectiveness and validity.

The Group applies internal rating and scoring methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated statement of financial position. As such, more detailed information is not being presented.

The following table details the carrying value of financial assets before impairment loss that are impaired and the ageing of those that are past due but not impaired:

As at 31 December 2012:

		Financial assets past due but not impaired						
	Neither past due nor impaired	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been impaired**		**Total**
						Collectively	Individually	
Financial assets at fair value through profit or loss	25,178	-	-	-	-	-	-	25,178
Investments available-for-sale	57,549	-	-	-	-	-	-	57,549
Investments held to maturity	26,373	-	-	-	-	-	106	26,479
Due from banks	2,036	-	-	-	-	-	-	2,036
Loans to customers and banks	433,090	22,738	60	-	-	177,552	293,076	926,516
Other financial assets	2,420	-	-	-	-	-	240	2,660

As at 31 December 2011:

		Financial assets past due but not impaired						
	Neither past due nor impaired	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been impaired**		**Total**
						Collectively	Individually	
Financial assets at fair value through profit or loss	16,331	-	-	-	-	-	-	16,331
Investments available-for-sale	86,369	-	-	-	-	-	-	86,369
Investments held to maturity	20,747	-	-	-	-	-	137	20,884
Due from banks	6,010	-	-	-	-	-	-	6,010
Loans to customers and banks	446,715	7,866	5,435	3,185	-	149,667	276,474	889,342
Other financial assets	1,913	-	-	-	-	-	375	2,288

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2012 Total
Financial assets				
Cash and cash equivalents	49,947	7,904	91,278	149,129
Financial assets at fair value through profit or loss	18,587	6,591	-	25,178
Investments available-for-sale	57,549	-	-	57,549
Investments held to maturity	24,832	1,241	300	26,373
Due from banks	1,182	-	854	2,036
Loans to customers and banks	769,504	17,237	2,355	789,096
Other financial assets	2,348	72	-	2,420
Total financial assets	923,949	33,045	94,787	1,051,781
Financial liabilities				
Due to banks and financial institutions	50,259	23,089	32,828	106,176
Customer and banks accounts	781,206	9,344	-	790,550
Debt securities issued	65,170	34	-	65,204
Other financial liabilities	2,402	39	-	2,441
Subordinated bonds	33,249	-	-	33,249
Total financial liabilities	932,286	32,506	32,828	997,620
Net position	(8,337)	539	61,959	

	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2011 Total
Financial assets				
Cash and cash equivalents	46,712	3,792	98,267	148,771
Financial assets at fair value through profit or loss	6,494	6,020	3,817	16,331
Investments available-for-sale	86,369	-	-	86,369
Investments held to maturity	20,476	-	302	20,778
Due from banks	442	2,980	2,588	6,010
Loans to customers and banks	731,129	33,625	52	764,806
Other financial assets	1,814	99	-	1,913
Total financial assets	893,436	46,516	105,026	1,044,978
Financial liabilities				
Due to banks and financial institutions	45,719	2,470	57,987	106,176
Customer and banks accounts	715,065	12,269	-	727,334
Debt securities issued	120,259	1,306	-	121,565
Other financial liabilities	4,192	85	4	4,281
Subordinated bonds	33,392	-	-	33,392
Total financial liabilities	918,627	16,130	57,991	992,748
Net position	(25,191)	30,386	47,035	

Liquidity risk

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

The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimization. The Financial Department determines the optimum structure of balance and limits on liquidity ratios. Gap-positions are approved by the ALMC. The Financial Department performs monitoring of liquidity ratios.

This table does not reconcile to the consolidated statement of financial position as a result of property, equipment and intangible assets, current income tax assets, deferred income tax assets, other assets, deferred income tax liabilities and other liabilities being excluded.

During 2012 the Group amended its policy on liquidity gap disclosure to make it consistent with risk management policy applied. Thus, investments available-for-sale and financial assets at fair value through profit or loss are classified into "up to 1 month" category. Although investments held to maturity are grouped on the basis of the remaining period from the reporting date to their maturity date, in case of liquidity crisis the Group can immediately realise short-term Treasury Notes of the Republic of Kazakhstan that are classified as investments held to maturity.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the contractual maturity date. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
Financial assets								
Cash and cash equivalents	0.18%	45,173	23,371	-	-	-	-	68,544
Financial assets at fair value through profit or loss	6.96%	24,894	-	-	-	-	-	24,894
Investments available-for-sale	3.96%	57,310	-	-	-	-	-	57,310
Investments held to maturity	5.35%	231	5,361	6,940	12,622	1,219	-	26,373
Due from banks	6.24%	1,524	-	-	-	-	-	1,524
Loans to customers and banks	8.46%	119,887	53,381	168,456	279,604	167,768	-	789,096
Total interest bearing financial assets		**249,019**	**82,113**	**175,396**	**292,226**	**168,987**	-	**967,741**
Cash and cash equivalents		80,585	-	-	-	-	-	80,585
Financial assets at fair value through profit or loss		284	-	-	-	-	-	284
Investments available-for-sale		239	-	-	-	-	-	239
Due from banks		512	-	-	-	-	-	512
Other financial assets		2,420	-	-	-	-	-	2,420
Total financial assets		**333,059**	**82,113**	**175,396**	**292,226**	**168,987**	-	**1,051,781**
Financial liabilities								
Due to banks and financial institutions	7.14%	19,330	5,470	19,002	45,157	12,862	-	101,821
Customer and banks accounts	6.27%	36,365	61,466	309,068	132,854	6,632	-	546,385
Debt securities issued	9.45%	1,331	94	19,185	44,594	-	-	65,204
Subordinated bonds	6.79%	-	51	244	18,737	14,217	-	33,249
Total interest bearing financial liabilities		**57,026**	**67,081**	**347,499**	**241,342**	**33,711**	-	**746,659**
Due to banks and financial institutions		799	453	3,103	-		-	4,355
Customer and banks accounts		244,165	-	-	-	-	-	244,165
Other financial liabilities		2,441	-	-	-	-	-	2,441
Financial guarantees and commitments		22,906	15,411	14,069	42,262	49	-	94,697
Total financial liabilities and commitments		**327,337**	**82,945**	**364,671**	**283,604**	**33,760**	-	**1,092,317**
Liquidity gap		5,722	(832)	(189,275)	8,622	135,227	-	
Interest sensitivity gap		191,993	15,032	(172,103)	50,884	135,276	-	
Cumulative interest sensitivity gap		191,993	207,025	34,922	85,806	221,082	221,082	
Cumulative interest sensitivity gap as a percentage of total financial assets		18.25%	19.68%	3.32%	8.16%	21.02%	21.02%	

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
Financial assets								
Cash and cash equivalents	0.46%	60,166	19,312	-	-	-	-	79,478
Financial assets at fair value through profit or loss	6.19%	16,303	-	-	-	-	-	16,303
Investments available-for-sale	2.79%	86,156	-	-	-	-	-	86,156
Investments held to maturity	7.62%	12,410	167	557	5,634	2,010	-	20,778
Due from banks	0.10%	3,028	2,980	2	-	-	-	6,010
Loans to customers and banks	9.23%	103,267	50,034	144,671	363,009	103,825	-	764,806
Total interest bearing financial assets		281,330	72,493	145,230	368,643	105,835	-	973,531
Cash and cash equivalents		69,293	-	-	-	-	-	69,293
Financial assets at fair value through profit or loss		28	-	-	-	-	-	28
Investments available-for-sale		213	-	-	-	-	-	213
Other financial assets		1,913	-	-	-	-	-	1,913
Total financial assets		352,777	72,493	145,230	368,643	105,835	-	1,044,978
Financial liabilities								
Due to banks and financial institutions	6.75%	5,014	696	17,185	64,332	18,410	-	105,637
Customer and banks accounts	7.24%	48,959	30,793	183,108	217,022	4,345	-	484,227
Debt securities issued	9.24%	9	674	5,633	104,206	11,043	-	121,565
Subordinated bonds	8.38%	422	24	-	15,842	17,104	-	33,392
Total interest bearing financial liabilities		54,404	32,187	205,926	401,402	50,902	-	744,821
Due to banks and financial institutions		539	-	-	-	-	-	539
Customer and banks accounts		243,107	-	-	-	-	-	243,107
Other financial liabilities		4,281	-	-	-	-	-	4,281
Financial guarantees and commitments		11,502	7,979	16,479	44,716	40	4	80,720
Total financial liabilities and commitments		313,833	40,166	222,405	446,118	50,942	4	1,073,468
Liquidity gap		38,944	32,327	(77,175)	(77,475)	54,893	(4)	
Interest sensitivity gap		226,926	40,306	(60,696)	(32,759)	54,933	-	
Cumulative interest sensitivity gap		226,926	267,232	206,536	173,777	228,710	228,710	
Cumulative interest sensitivity gap as a percentage of total financial assets		21.72%	25.57%	19.76%	16.63%	21.89%	21.89%	

Based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration up to twelve months. In particular, management believe that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis forr financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2012 Total
Financial liabilities						
Due to banks and financial institutions	19,533	5,856	20,327	48,820	13,073	107,609
Customer and banks accounts	54,953	81,306	372,533	472,019	32,714	1,013,525
Debt securities issued	2,661	191	19,283	44,788	-	66,923
Subordinated bonds	-	99	783	20,093	14,702	35,677
Total interest bearing financial liabilities	77,147	87,452	412,926	585,720	60,489	1,223,734
Due to banks and financial institutions	799	453	3,103	-	-	4,355
Customer and banks accounts	244,165	-	-	-	-	244,165
Other financial liabilities	2,441	-	-	-	-	2,441
Total financial liabilities	324,552	87,905	416,029	585,720	60,489	1,474,695
Derivative financial instruments	-	-	8,621	-	-	8,621

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2011 Total
Financial liabilities						
Due to banks and financial institutions	4,963	7,711	18,931	75,691	9,519	116,815
Customer and banks accounts	53,944	79,813	365,691	463,350	32,113	994,911
Debt securities issued	3,069	941	12,511	101,632	17,790	135,943
Subordinated bonds	-	100	3,259	28,397	23,507	55,263
Total interest bearing financial liabilities	61,976	88,565	400,392	669,070	82,929	1,302,932
Due to banks and financial institutions	539	-	-	-	-	539
Customer and banks accounts	243,108	-	-	-	-	243,108
Other financial liabilities	4,281	-	-	-	-	4,281
Total financial liabilities	309,904	88,565	400,392	669,070	82,929	1,550,860
Derivative financial instruments	-	-	6,105	-	-	6,105

The timing of cash outflows has been prepared on the following basis:

Derivative financial instruments

Contractual payments for derivative financial instruments are determined based on gross settlements due to initial and final exchange of notional amounts and applicable interest rates in accordance with the terms of these financial instruments.

Prepaid liabilities

Where a financial liability can be prepaid by the counterparty, the cash outflow has been included at the earliest date on which the counterparty can require repayment regardless whether or not such early repayment results in penalty. If the repayment of financial liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, it is included at the earliest possible that the conditions could be fulfilled without considering probability of the conditions being met.

Market Risk

Market risk is that the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2012.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Financial Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Financial Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2012 and 2011 and the effect of revaluation instruments with fixed rates accounted at fair value. The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluation investments available-for-sale securities with fixed rates.

Impact on profit before tax based on asset values as at 31 December 2012 and 2011:

	As at 31 December 2012		As at 31 December 2011	
	Interest rate +1%	Interest rate -0.5%	Interest rate +1%	Interest rate -1%
Financial assets:				
Financial assets at fair value through profit or loss	(481)	268	(268)	287
Investments available-for-sale	(12)	6	(3)	3
Investments held to maturity	(220)	115	(58)	58
Financial liabilities:				
Due to banks and financial institutions	(276)	138	(541)	541
Net impact on profit before tax	(989)	527	(870)	889

Impact on shareholders equity:

	As at 31 December 2012		As at 31 December 2011	
	Interest rate +1%	Interest rate -0.5%	Interest rate +1%	Interest rate -1%
Financial assets:				
Investments available-for-sale	(1,186)	617	(864)	913
Net impact on shareholders equity	(1,186)	617	(864)	913

Currency risk

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

The Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The Financial Department determines limits on open currency positions, arbitrary positions and stop-loss. All limits and restrictions are approved by the ALMC. The Financial Department performs monitoring of the Group's currency position with the aim to match the requirements of the NBRK. Group's exposure to foreign currency exchange rate risk as at 31 December 2012 is presented in the tables below:

	KZT	USD 1 USD = 150.74 KZT	EUR 1 EUR = 199.22 KZT	JPY 1 JPY= 1.75 KZT	Other currency	31 December 2012 Total
Financial assets						
Cash and cash equivalents	33,179	94,581	16,325	38	5,006	149,129
Financial assets at fair value through profit or loss	17,769	883	-	4	6,522	25,178
Investments available-for-sale	54,382	1,867	1,300	-	-	57,549
Investments held to maturity	21,616	3,674	1,083	-	-	26,373
Due from banks	515	1,521	-	-	-	2,036
Loans to customers and banks	608,724	160,658	2,369	-	17,345	789,096
Other financial assets	1,542	593	279	4	2	2,420
Total financial assets	737,727	263,777	21,356	46	28,875	1,051,781
Financial liabilities						
Due to banks and financial institutions	44,372	49,334	3,295	-	9,175	106,176
Customer and banks accounts	592,150	164,899	23,576	20	9,905	790,550
Debt securities issued	7,773	57,416	-	-	15	65,204
Other financial liabilities	1,203	699	386	4	149	2,441
Subordinated bonds	33,249	-	-	-	-	33,249
Total financial liabilities	678,747	272,348	27,257	24	19,244	997,620
Open position	58,980	(8,571)	(5,901)	22	9,631	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2012:

	KZT	USD 1 USD = 150.74 KZT	EUR 1 EUR = 199.22 KZT	JPY 1 JPY= 1.75 KZT	Other currency	31 December 2012 Total
Accounts receivable on spot and derivative contracts	301	20,134	-	10,654	-	31,089
Accounts payable on spot and derivative contracts	(7,768)	(8,518)	-	(10,658)	-	(26,944)
Net spot and derivative financial instruments position	(7,467)	11,616	-	(4)	-	(4,145)
Total open position	51,513	3,045	(5,901)	18	9,631	

The Group's exposure to foreign currency exchange rate risk as at 31 December 2011 is presented in the table below:

	KZT	USD 1 USD = 148.40 KZT	EUR 1 EUR = 191.72 KZT	JPY 1 JPY= 1.91 KZT	Other currency	31 December 2011 Total
Financial assets						
Cash and cash equivalents	33,260	96,994	18,122	-	395	148,771
Financial assets at fair value through profit or loss	7,757	3,176	798	-	4,600	16,331
Investments available-for-sale	82,139	4,227	3	-	-	86,369
Investments held to maturity	20,778	-	-	-	-	20,778
Due from banks	15	4,069	1,926	-	-	6,010
Loans to customers and banks	505,318	240,309	4,436	-	14,743	764,806
Other financial assets	1,025	649	137	4	98	1,913
Total financial assets	650,292	349,424	25,422	4	19,836	1,044,978
Financial liabilities						
Due to banks and financial institutions	35,415	66,665	2,203	-	1,893	06,176
Customer and banks accounts	520,083	167,246	27,528	-	12,477	727,334
Debt securities issued	12,006	97,917	-	11,126	516	121,565
Other financial liabilities	2,000	1,947	196	-	138	4,281
Subordinated bonds	33,392	-	-	-	-	33,392
Total financial liabilities	602,896	333,775	29,927	11,126	15,024	992,748
Open position	47,396	15,649	(4,505)	(11,122)	4,812	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2011:

	KZT	USD 1 USD = 148.40 KZT	EUR 1 EUR = 191.72 KZT	JPY 1 JPY= 1.91 KZT	Other currency	31 December 2011 Total
Accounts receivable on spot and derivative contracts	-	-	-	11,836	-	11,836
Accounts payable on spot and derivative contracts	-	(8,042)	-	-	-	(8,042)
Net spot and derivative financial instruments position	-	(8,042)	-	11,836	-	3,794
Total open position	47,396	7,607	(4,505)	714	4,812	

Currency risk sensitivity

The ALMC and Investment Committee controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the NBRK.

A VaR calculation is used to determine the Group's exposure to currency risk, and is based on statistical data for previous periods Historical VaR assuming the following:

- benchmark data – average KASE rate used by the Group to recalculate currency positions;
- length of period – one year from the calculation date (252 working days);
- confidence interval – 95%; and
- positions are assessed for each risk currency, i.e. those which are more than 5% of the Group's equity.

The aim of this method is to assess the risk of a potential negative revaluation of the Group's open currency positions in order to ensure effective management of market currency risks.

The table below indicates the currencies in which the Group had significant exposure as at 31 December 2012 and 2011 and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in the consolidated income statement, while a positive amount reflects a net potential increase.

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

	As at 31 December 2012		As at 31 December 2011	
	KZT/USD +4.48%	KZT/USD -4.48%	KZT/USD +11.0%	KZT/USD -11.0%
Impact on profit or loss	133	(133)	307	(307)
Change in income tax accrual	27	(27)	61	(61)
Impact on equity after tax	106	(106)	245	(245)

	As at 31 December 2012		As at 31 December 2011	
	KZT/EUR +4.16%	KZT/EUR -4.16%	KZT/EUR +11.0%	KZT/EUR -11.0%
Impact on profit or loss	(65)	65	(215)	215
Change in income tax accrual	(13)	13	(43)	43
Impact on equity after tax	(52)	52	(172)	172

	As at 31 December 2012		As at 31 December 2011	
	KZT/JPY +3.45%	KZT/JPY -3.45%	KZT/JPY +14.3%	KZT/JPY -14.3%
Impact on profit or loss	-	-	105	(105)
Change in income tax accrual	-	-	21	(21)
Impact on equity after tax	-	-	84	(84)

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.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, 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 statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

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

Price risk

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

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

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

The results of the analysis of the sensitivity of the Groups profit before tax for the year to changes in prices of securities on a simplified scenario of 10% symmetrical increase or decrease in all securities prices for 2012 and 2011, respectively, are given in the table below:

	31 December 2012		31 December 2011	
	10% increase in equity securities price	10% decrease in equity securities price	10% increase in equity securities price	10% decrease in equity securities price
Impact on profit or loss before tax	19	(19)	39	(39)

Operational Risk

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

34. SUBSEQUENT EVENTS

On 23 January 2013, President of the Republic of Kazakhstan announced the plan to create one pension fund that will control all pension accounts of all private pension funds. At the date of approval of these consolidated financial statements, the legislative changes in this regard are incomplete and the Management cannot assess the future implication for the Group.