ANNUAL REPORT

HALYK BANK

Content:

At- a- Glance

Financial highlights

Indicator	2012		2011	
	KZTm	US$m	KZTm	US$m
Total assets	2,407,998	16,022	2,273,930	15,323
Total equity	339,639	2,260	310,327	2,091
Customer loans, net	1,319,208	8,778	1,184,240	7,385
Amounts due to customers	1,699,182	11,306	1,557,476	10,495
Net interest income	75,698	508	48,117	328
Fees and commissions, net	45,091	302	35,284	241
Net income	69,961	469	39,508	269

Indicator	2012	2011
	%	%
Return on average common equity	24.0	12.3
Return on average assets	2.9	1.8
Net interest margin	4.9	4.4
Net interest spread	5.2	4.2
Cost to income ratio	34.4	34.2
Cost to assets ratio	2.2	2.1
Tier 1 Capital Adequacy ratio (BIS guidelines)	16.2	16.7
Total Capital Adequacy ratio (BIS guidelines)	18.3	19.1

Number of customers/accounts

Indicator	2012	2011
Retail accounts: millions	6.5	5.8
Corporate clients	1,629	1,695
SME clients	74,247	62,483
Cards: millions	3.7	3.16
Retail loans: millions	0.5	0.44
Mortgage loans	22,374	25,077
Salary-backed consumer loans: millions	0.46	0.4
Other consumer loans	15,429	19,448
Payroll project customers: millions	2.3	2.0
Payroll project entities, including government entities	18,585	17,177
Pension Fund customers: millions	2.4	2.3

Distribution network

JSC "Halyk Bank"

554 outlets, including:
- 22 regional branches
- 122 district branches
- 4 VIP-centres
- 46 personal service centres
- 360 limited service branches

1,900 ATMs
7,608 POS-terminals
590 multikiosks

Halyk-Life

14 branches
8 representative offices

Halyk Bank Kyrgyzstan

9 branches, 5 cash units

Halyk Bank Georgia

3 branches

NBK Bank

1 branch

Halyk Pension Fund

166 outlets, including
- 8 territorial offices
- 129 service centres
- 29 servicing outlets
- 18 branches

Kazakhinstrakh

18 branches
247 sales outlets

Halyk Leasing

1 branch

Halyk Inkassatsiya

19 branches, 34 units

Halyk Group's headcount as at 31 December 2012 – 12,149.

Structure of Halyk Group

JSC «Halyk Bank»
Full service commercial bank

- 100% — NBK Bank, Russia (corporate & SME bank)
- 100% — Halyk Bank Kyrgyzstan (SME & retail bank)
- 100% — Halyk Bank Georgia (corporate & SME bank)
- 100% — Halyk Finance (brokerage and AM)
- 100% — Halyk Leasing (leasing activity)
- 100% — Halyk Life (life insurance)
- 100% — Kazakhinstrakh (general insurance)
- 96% — Halyk Pension Fund (pension fund and AM)
- 100% — Kazteleport (telecommunications)
- 100% — Halyk Inkassatsiya (cash collection)
- 100% — Halyk-Project (stress assets)

Ratings

Agency	Long-term
Moody's Investor Services	Ba2
Fitch Ratings	BB-
Standard&Poor's	BB

Shareholders of the Bank holding not less than 5% of total shares issued as at 1 January 2012*:

№	Name	Total number of shares owned	Total shares owned as % of total shares issued	Common shares owned (NIN KZ1C33870011)	Common shares owned as % of authorised common shares issued	Preferred shares owned (NIN KZ1P33870117, KZ1P33870216)	Pref. shares owned as % of total pref. shares issued
1	JSC "Holding Group "ALMEX"	7,559,973,820	68.2%	7,559,973,820	69.3%	-	-
2	JSC Accumulative Pension Fund of Halyk Bank	758,082,743	6.8%	661,367,710	6.1%	96,715,033	55.1%
3	held through GDR program (ISIN: US46627J3023, US46627J2033)	2,510,925,720	22.7%	2,510,925,720	23.0%	-	-
4	Total issued	11,518,603,103	-	11,128,518,451	-	390,084,652	-
5	held as treasury stock by the Bank	-407,293,461	-	-271,293,461	-	-190,000,000	-
6	held by group companies	-27,910,834	-	-3,263,335	-	-24,647,499	-
7	Total outstanding (on consolidated basis)	11,083,398,808	-	10,907,961,655	-	175,437,153	-

JSC "Holding Group "ALMEX" ("Almex") is a holding company, which, in addition to its controlling interest in the Bank, has interest in Insurance broker AON Kazakhstan LLP.

JSC Accumulative Pension Fund of Halyk Bank ("Halyk Pension Fund") is a leading pension fund in the Republic of Kazakhstan which was established in January 1998. Halyk Pension Fund holds the largest market share by assets under management and has the largest number of customers among pension funds in Kazakhstan. The main activity is collecting pension contributions and pension asset management. Halyk Pension Fund insures safety and real growth of pension savings by proving services in accordance with international standards.

* Shares of the Bank have been listed on the Kazakhstan Stock Exchange since 1998 and common shares in the form of global depositary receipts on the London Stock Exchange since December 2006.

1922-1930

Coin of one ruble nominal value dated 1922

1922 FIRST STAGE IN THE DEVELOPMENT OF THE SAVINGS INDUSTRY

Resolution of the Council of People's Commissars of the RSFSR «On the establishment of state savings (post office) banks» dated 26 December 1922 marked the beginning of the first stage in the development of savings industry in the country.

1923 OPENING OF THE FIRST SAVINGS (POST OFFICE) BANK

On August 15, 1923 by order of the Council of People's Commissars, in a period of new economic relations, first savings (post office) bank was opened in city of Aktyubinsk. In 2003, in the year of the 80th anniversary, it was decided to celebrate the birthday of Halyk Bank annually on October 10.

Banknote of ten rubles nominal value dated 1923

1925 EXPANSION OF SAVINGS (POST OFFICE) BANK'S FUNCTIONS

With the approval of the «Regulations on the Gostrudsberkassa of the Union of SSR» on 27 November 1925 in savings (post office) banks were identified types of deposits that are divided into current accounts, demand deposits, time deposits, contingent, with a particular purpose. Savings (post office) banks were permitted to issue term loans secured by government bonds and by other securities.

1927 FIRST BRANCH IN ALMA-ATA

On August 17, 1927 the Council of People's Commissars of KazASSR decided to open regional office of the Gostrudsberkassa in city of Alma-Ata.

1928 KAZAKHSTANI REPUBLICAN BRANCH

On February 24, 1928 at the technical meeting of the Glavsberkassa of RSFSR. The decision was made to organize the Kazakhstani republican savings (post office) bank. In April of the same year it was given responsibility to manage all savings (post office) banks in Kazakhstan.

Labor moneybox

Coin of five kopeks nominal value dated 1927

Coin of ten kopeks nominal value dated 1932

Statement of the Chairman

Dear shareholders,

As you know, 2013 is the year of the 90th anniversary of our Bank. Our history began in 1923 with opening the first cash-office in the city of Aktyubinsk. After passing all stages of development, Halyk Bank and Halyk Group have become the leading universal financial group in Kazakhstan.

Our primary goal is still to upkeep and obtaining leading positions in all the key segments of the country's economy.

During 2012 we analysed the progress in implementation of the previous Strategy of Halyk Group which was approved for 2010-2012. We assured that the Strategy was successfully implemented by the Group which resulted in growth of the shareholder value.

The new Strategy for development of Halyk Group for 2013-2015, which was approved by the Board of Directors the last autumn, we determined a number of new objectives.

For instance, we set an ambitious but achievable goal – to be the Bank No. 1 in Kazakhstan in net profits, market capitalization, assets quality, return ratios and cost efficiency. During the Strategy implementation we plan an annual growth of loans portfolio, interests and non-interest revenues at the level of not below 10%.

Our subsidiary companies have a clear goal to retain and strengthen the market positions, and to obtain leading positions in their sectors, regardless of the market dynamics.

We shall continue to develop single principles in corporate governance within the Group to improve transparency, timely and full informing shareholders.

An important event for the Bank was the Dividend Policy approval by the Board of

Directors. I believe this shall have a positive impact to the shareholder value of the Bank, and considering implementation of the strategic objectives, shall allow to ensure high yield to our shareholders.

In December, the Bank completed the procedure for increasing quantity of shares by way of splitting ordinary shares in the ratio of 1:10 to increase liquidity of shares and to attract the widest scope of retail investors both in Kazakhstan and abroad.

The next evidence of reliability and growth of the Bank was the buy-back of the vast majority of preferred shares from JSC National Welfare Fund Samruk-Kazyna (hereinafter – Samruk-Kazyna). Thus, we are the first and the only bank in Kazakhstan for today which almost completely returned the money received from Samruk-Kazyna within the anti-crisis actions of the Kazakhstan Government.

We remain to be a socially responsible business. During 2012 we financed social projects for the total amount of KZT 424 million tenge. In addition to a direct financial sponsorship to orphanages, students of Kazakh universities, veteran and medical organizations, the top-management of the Bank also chair the charity foundations and non-governmental institutions which are socially important to the country, such as the Public FoundationZhanaAlatau which united efforts of Kazakh people for recovery to the Medeu resort which suffered from a hurricane, Public Foundation Kazakhstan Gymnastics Federation which promotes popularization of Olympic sports and supports talented sportsmen of Kazakhstan, and others.

I hereby would like to thank all employees of the Bank and the Group for the successful and fruitful work of our well-knit team.

Alexander Pavlov
Chairman

Statement of the Chief Executive Officer

Dear colleagues, clients and partners!

Now is the moment when Halyk Bank is approaching its 90th anniversary. This event has historical meaning not only in the scale of the bank, but this is an important milestone in the development of the banking system of our country in a whole.

During the year we overcame and passed through many important and significant events: we were the first bank which almost returned in full governmental funds to Joint-Stock Company "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna") – the funds which were received during the financial crisis; we significantly increased loan portfolio of Halyk Bank across all business sectors.

This points to the fact that initially we assessed our capacities objectively – ours and capacities of the market, and we can say that our results are the consequence of precisely defined strategy, correctly formulated, realistic tasks and professional work of the whole team. This is reflected in mechanism of profit growth which is the results of effective operational activity, good quality loans and decrease in provision expenses. As the result – Halyk Bank for the first time in its history earned the highest net profit – KZT 70 billion.

Today Halyk Bank is the leader of many governmental programs on support of entrepreneurship. We successfully solve the important problem on cleaning the balance sheet from doubtful and loss assets. For this purpose in 2012 we were pioneers on the financial market of the country who established and registered "Halyk Project", a subsidiary company for managing distressed assets; we actively cooperate with the Problem Loans Fund which was established by the National Bank of the Republic of Kazakhstan.

In the end of 2012 Halyk Bank joined the founding members of the new payment system UnionPay International and the Member Council thereof, and was included to the Council's Board as a representative for the Central and Eastern Europe, CIS andCentral Asiaregion.

Effective operation of Halyk Bank during 2012 was noted by foreign and local independent experts and analysts. In 2012 Halyk was awarded six times by international editions and rating agencies. The bank was recognized "The most effective Bank in Kazakhstan" based on results of "Expert-100-Kazakhstan" rating, "Best Local Bank: Kazakhstan" based on results of Eurasian Bank Survey 2012. We have awards from Global Finance and emeafinance international editions.

All these achievements connected with improvement, optimization of business processes, growth of Halyk as modern financial institution are addressed first of all to our clients, partners, shareholders and employees. In this regard I would like to thank cordially each employee of the Bank for the contribution to our corporate business, the work which finally resulted in over-fulfilment of targeted financial performance.

2013 is the anniversary year for our Bank, the year of the 90th anniversary and the first year of realization of our new Strategy and Dividend policy approved by the Board of Directors of Halyk Bank. In this respect I would like to mention the importance of our goals.

Our main strategic goal for the coming three years – to become the bank #1 in the country. Today Halyk is already bank #1 by many positions: in retail business, deposits, active plastic cards, our non-banking financial subsidiaries hold leading positions in their segments. But we also want to be the first bank by equity, return on equity, by loans, remote servicing channels for which development the budget is higher in 2013. I think that achievement of set goals is the realistic target for solidary staff of the largest financial institution of our country.

In the past our Bank had challenging times of origination, establishment and strengthening of positions on the local and international markets. Ahead – further improvement of operations of financial institution, continuation of direction on innovative equipment and improvement of quality of services, entering new markets as absolute leader not only of the banking system of Kazakhstan but also the leader of the United Economic Area and Customs Union.

In the year of our anniversary I wish Halyk Bank prosperity and growth, high profits, increase in Halyk Bank's shares prices and stable, confident future for our staff, clients, partners, shareholders.

Umut Shayakhmetova
Chief Executive Officer

Board of Directors

Alexander Pavlov, 1953

Chairman, Independent Director

Mr. Pavlov was appointed as Chairman of the Board in March 2004. Between 1994 and 2000, he was Minister of Finance, then Deputy Prime Minister, and finally First Deputy Prime Minister of the Republic of Kazakhstan. From 2000 to 2002, he was Vice Chairman of the Management Board and Vice Chairman of the Board of Directors of copper mining company JSC "Kazakhmys". Between 2002 and 2004, he was First Deputy Prime Minister of the Republic of Kazakhstan. From 2006 to 2008 Mr. Pavlov was member of the Board of Directors of JSC "Kazakhstan Holding for Management of State Assets "Samruk". Mr. Pavlov is a graduate of the Belorussia State Institute of People's Economy, where he specialised in economics. He is honorary professor of Karaganda State University.

Kadyrzhan Damitov, 1959

Independent Director

Mr. Damitov holds PhD from the Moscow Finance Institute. In 1998, Mr. Damitov was appointed as the Governor of the National Bank of the Republic of Kazakhstan. From 1999 to 2000, he was adviser to the President of Kazakhstan. From 2000 to 2004, he was the Deputy Chairman of the management board of ABN AMRO Bank Kazakhstan. Since 2004, he has been a member of the Board of Directors and adviser to the CEO of Ust-Kamenogorsk Titanium-Magnesium Mining Company. From 2005 to 2007, Mr. Damitov was a member (Independent Director) of the Board of Directors of the Bank. He was member of the Board of Directors of Sustainable Development Fund "Kazyna" from 2006 to 2007. Mr. Damitov was Chairman of the Management Board of JSC "National Company "Social-Entrepreneurial Corporation "Yertys" from 2007 to 2009. Since May 2009, Mr. Damitov has been the President of the Kazakhstan Stock Exchange. He was appointed to the Board of Directors of the Bank in April 2010.

Franciscus Cornelis Wilhelmus (Frank) Kuijlaars, 1958

Independent Director

Mr. Kuijlaars was appointed to the Board in April 2009. In 1982 Mr. Kuijlaars received Masters Degree in Law from University of Erasmus, Rotterdam, the Netherlands. He holds the Certificate Bank and Insurance Company from Dutch Institute for Banks and Insurance Companies, the Netherlands. From 1990 to 2007 Mr. Kuijlaars served at ABN AMRO Bank as a Head Corporate and Investment Banking, Belgium, Regional Manager Brazil, Country Manager, Russia and Argentina, Head Integrated Energy, Member of the Supervisory Board in Russia, Kazakhstan and Uzbekistan, Global Head Oil & Gas, EVP Investment Banking, Global Head Oil & Gas/Chemicals, EVP Global Head Energy and Resources. In 2006 Mr. Kuijlaars was appointed as Independent Director of KazMunayGas. In 2008 he was Head of Energy and Resources CEEMEA, Western Europe, Global Head Energy and Resources, Member of EXCO Corporate & Investment Banking, CEO non presence countries at RBS. Mr. Kuijlaars is the member of the Foreign investor Council to the President of the Republic of Kazakhstan.

Zhomart Nurabayev, 1971

Member of the Board of directors, Representative of Holding Group "Almex" JSC

Mr. Nurabayev was appointed to the Board in December 2012. Between 1993 and 1995 he held various positions in the General Tax Inspection under the Ministry of Finance of the Republic of Kazakhstan. From 1995 to 2000 he was the Head of Division in the Almaty City Tax Committee, Deputy Chairman of the Tax Committee for Zhetysu district, then Almaly district and then Medeu district of Almaty. Between 2000 and 2003 he was the Chief Financial Officer of LLP TransOil Investments. Since 2003 he has been the Chief Financial Officer of JSC Holding Group Almex, and since 2007 he has also served as Deputy CEO. From December 2012 Mr. Nuravayev has been CEO of JSC Holding Group Almex. In 1993 he received a degree in Economics from the Kazakh State Academy of Management, and further in 2009 he received a degree in Law from the Kazakh National Pedagogical University.

Christof Ruehl, 1958

Independent Director

Mr. Ruehl was appointed to the Board in June 2007. In 2008 he became Chairman of the British Institute of Energy Economics, London. In 2007 he became Group Chief Economist and Vice President of BP plc. Since 2005, he had been the Deputy Chief Economist of BP plc and, before that, worked for The World Bank Group where he was Senior Economist in Washington from 1998 to 2001, Chief Economist in Moscow from 2001 to 2004, and Lead Economist and Sector Leader in Brazil from 2004 to 2005. He previously worked in academia, most recently at the University of California, Los Angeles, where he was Professor of Economics. Mr. Ruehl holds an MA in economics from the University of Bremen, Germany.

Umut Shayakhmetova, 1969

Member of the Board of Directors, Chief Executive Officer

Ms. Shayakhmetova was elected CEO of Halyk Bank in January 2009 and a member of the Board of Directors in April 2009. She has been a Deputy CEO of Halyk Bank since November 2004. From 1997, she worked at ABN AMRO Bank Kazakhstan where she held a number of positions in structured finance before becoming Chairperson of the Management Board of ABN AMRO Asset Management in 1998 and, in 2000, Deputy Chairperson of the Management Board of ABN AMRO Bank Kazakhstan. Ms. Shayakhmetova is a graduate in economics of the University of People's Friendship, Moscow, and holds an MBA from Rutgers University, New Jersey, USA.

Ulf Wokurka, 1962

Independent Director

Ulf Wokurka was appointed to the Board in April 2011. He graduated from the Martin Luther University (Germany) and from Moscow State Institute of International Relations. After graduation he joined Deutsche Bank AG in Frankfurt am Main, where he held various positions between 1990 and 1999 both in the Headquarters and foreign offices of Deutsche Bank AG. In 1999 he was appointed as a Director in the Corporate and Investment Banking Division in Deutsche Bank AG, Frankfurt. From 2006 to 2008 Mr. Wokurka was Deputy CEO and CFO of JSC "Kazakhstan Holding for Management of State Assets "Samruk" and Chairman of the board of directors of JSC Kazpost. In 2007 Mr. Wokurka was elected as member of the International Advisory Board of RFCA, Independent Director of JSC Kazakhstan Development Bank, member of Kazakhstan Independent Directors' Association, Independent Director of JSC Kazyna Capital Management. From 2008 to 2010 he served as Managing Director of Metzler Asset Management Gmbh, Frankfurt and Independent Director of the Board of Directors of JSC BTA Bank. In 2010 Mr. Wokurka was appointed Managing Director of Deutsche Bank, AG, Chief Country Officer Kazakhstan and Head of Deutsche Bank's Representative Office in Almaty. Since June 2012 Mr.Wokurka has been Independent Director of JSC National Investment Corporation of the National Bank of Kazakhstan.

1931-1940

Banknote of one and five rubles nominal value dated

Labor book

Coin of ten kopeks nominal value dated 1932

Labour moneybox

1933 REORGANIZATION

On December 25, 1933 a resolution №1017/34 «On results of reorganization of the network and work restructuring of the Gostrudsberkassa was adopted. "In particular it stated: «To require the Executive Committees no later than April 1, 1934 to achieve savings (post office) banks coverage of at least 40% of rural and aul Soviets to establish cash services in state farms and MTS which are beyond the Gostrudsberkassa points.

Card dated 1929

1931 PAYROLL AND UTILITY BILLS PAYMENT THROUGH SAVINGS (POST OFFICE) BANK

In 1930-1931 in the cities of republic payroll payment transactions for workers and employees widely developed through savings (post office) banks. Of great importance was the introduction of a new type of transaction in savings (post office) banks - non-cash settlements on payments for utility services.

EXEMPLARY SAVINGS (POST OFFICE) BANK

First exemplary savings (post office) bank was municipal savings (post office) bank with its network in city of Alma-Ata.

1940 PERSONNEL FOR THE SYSTEM

The system of the Gostrudsberkassa of Kazakh SSR headcount by the beginning of 1940 – 1.5 thousand people.

Management Board

Umut Shayakhmetova, 1969

Chief Executive Officer

See biography under Board of Directors

Marat Almenov, 1976

Deputy CEO: Retail Banking

Mr. Almenov started his career in 1997 at Halyk Bank. From 1997 to 2003, he held various positions in the Corporate Lending, Credit Risks and SME departments. In 2003, he served as Deputy Director responsible for retail banking in the Astana regional branch of the Bank. Between 2004 and 2009, he was Deputy Director of the Retail Sales Department, Director of the Retail Sales Support Department and Director of the Banking Products and Agency Services Department. In April 2009, he was appointed as Director of the Almaty regional branch of the Bank. In June 2010, Mr. Almenov was appointed Deputy CEO. He is an economics graduate of the Kazakh State Academy of Management.

Dauren Karabayev, 1978

Deputy CEO: International Activities, Treasury and Subsidiaries

Mr. Karabayev was appointed a Deputy CEO on 1 March 2007 after working as Managing Director of the Investment Banking and International Departments since 2004. He previously held a number of positions in credit analysis and project finance at ABN AMRO Bank Kazakhstan from 2001 to 2004. Mr. Karabayev is an economics graduate of the Kazakh State Academy of Management and holds a master's degree in finance from the Texas University, USA.

Aliya Karpykova, 1970

Deputy CEO: Finance, Accounting and Property

Mrs. Aliya Karpykova has worked in Kazakhstan banking system since 1992. She held various positions in Operational division, Accounting and Budget department and later became Deputy Head of division on reforms in the second-tier banks of the National State Bank of the Republic of Kazakhstan. From 1996 to 1997 Mrs. Karpykova worked in Barents Group as advisor on USAID project on reform of accounting in the banking system of the Republic of Kazakhstan. From 1998 to 2001 she was Chief accountant in Citibank Kazakhstan, from 2001 to 2004 – Managing director and later became First deputy Chairman of the Management Board of Nauryz Bank. Mrs. Karpykova joined Halyk Bank in 2004 as Managing director, responsible for Risk Management. Between 2007 and 2010 she was Head of Risk Management. In 2010 she was appointed as Finance Director. Mrs. Karpykova is a graduate of Kazakh State University where she specialised in political economy.

Saule Kishkimbayeva, 1968

Deputy CEO: Corporate Banking

Ms. Kishkimbayeva has worked in the Kazakhstan banking system since 1994. She held various positions in Credit Risk Management and later became Head of Credit Risk Management, Deputy Head and Head of Customer Services Division in ABN AMRO Bank Kazakhstan. She joined the Bank in February 2005 as Director of Corporate Lending Department #2. In February 2009, she was appointed as Deputy CEO. Ms. Kishkimbayeva graduated from Almaty Pedagogical Institute of Foreign Languages in 1991.

Stanislav Kosobokov, 1978

Deputy CEO: SME Banking

Mr. Kosobokov started his career in 2000 in the Operational Division of the Almaty branch of Kazkommertsbank. In 2002, he joined the Bank and worked as a manager and then senior manager of the Retail Sales Department and as Head of Coordination of sales channels division of the Retail Sales Department. In 2006, he was appointed as Director of the Retail Sales Department. He was appointed as a Deputy CEO in June 2010. Mr. Kosobokov is an economics graduate of the Kazakh State Academy of Management.

Askar Smagulov, 1975

Deputy CEO: Operations and Information Technologies

Mr. Smagulov started his career in 1998 in ABN AMRO Bank Kazakhstan and served as a Dealer of the Treasury, Head Dealer of the Treasury, Head of Trade Division of the Treasury and Head of the Treasury. From 2005 to 2007 Mr. Smagulov worked at Halyk Bank as a Head of Treasury and since September 2007 he has acted as Deputy Chairman of the Management Board. Mr. Smagulov graduated from Kazakh State University with a degree in economics. In 1998 he received an MBA from William Simon school of business, the University of Rochester, USA.

Kozhamurat Uskimbayev, 1954

Deputy CEO: Security and Problem Loans

Major-General Uskimbayev graduated from the Almaty School of Militia of the Ministry of Internal Affairs of USSR ("MIA") in 1980, from Karaganda High School of MIA USSR in 1986 and from the Academy of MIA USSR in 1991. In 1994 he was appointed as a Deputy Head of the Internal Affairs Department of Almaty city. From 1995 to 2002 Major-General Uskimbayev has served in various positions in the MIA of the Republic of Kazakhstan. In 2002 he was appointed as a Head of the Internal Affairs Department of the Aktobe region. He has held the rank of Major-General since 2003. From 2003 Major-General Uskimbayev has acted as Vice-Minister of Internal Affairs of the Republic of Kazakhstan. He has been a Deputy Chairman of the Bank since September 2007.

1941-1945

Coin of fifteen kopeks nominal value dated 1944

SAVINGS (POST OFFICE) BANKS DURING GREAT PATRIOTIC WAR OF 1941-1945.

The Great Patriotic War of 1941-1945 caused the second collapse of the network of savings (post office) banks, which is comparable to what happened during the civil war and military communism. The Gostrudsberkassa system was tasked to maximize the mobilization of temporarily free funds of the population in deposits, treasury bonds and cash and cash-prize lottery for the needs of national defense.

DEFENSE FUND

Through the savings (post office) banks working-people have contributed 4.5 billion rubles (in prices at that time) to the state budget of the USSR for the Defense Fund and the Fund of the Red Army. During the war, about 15% of defense expenditures were covered by funds raised in the form of loans. Cash items received by the Defense Fund of the country from population amounted to 103.5 million rubles in a state loan bonds.

Kazhymukan Munaitpassov (1871-1948) is a Kazakh wrestler. He won several times Greco-Roman wrestling World championships among professionals. He was the first Kazakh who became world champion in Greco-Roman wrestling, repeated winner of world, regional, Russian and later all-Soviet Union championships on Greco-Roman wrestling. He won 48 medals. In 1927 he received official honorary title “Batyr of Kazakh nation”. In 1944 Kazhymukan Munaitpassov participated in his last competition and money that he collected – 100,000 rubles – he contributed to Defense Fund.

Kazhymukan Munaitpassov (1871-1948)

Coin of three kopeks nominal value dated 1944

Key events 2012

Corporate events

- In January 2012 Global Finance international financial magazine awarded the Bank in "Best Trade Finance Bank in Kazakhstan 2012" nomination and also named the Bank "Best Foreign Exchange Provider in Kazakhstan 2012".

- In March 2012 Global Finance announced the Bank "Best Bank in Kazakhstan 2012".

- In April 2012 "emeafinance" announced that the Bank had won, fourth year in a row, "Best Bank in Kazakhstan" award in "Europe Banking Awards 2011" nomination.

- On 29 June 2012 the Bank bought back 150,000,000 of its preferred shares from Samruk-Kazyna at KZT 179,94 per share for the total amount of KZT 27 billion.

- On 5 July 2012 the Bank bought back 40,000,000 of its preferred shares from Samruk-Kazyna at KZT 180,21 per share for the total amount of KZT 7.2 billion.

- On 25 September 2012 the Bank's Board of Directors approved the Dividend policy of JSC "Halyk Bank".

- In November 2012 the Bank's Board of Directors approved «"The main priorities of strategic development of "Halyk" Group for 2013-2015".

- In November 2012 "Business-NewEurope" international magazine awarded the Bank in "Best Local Bank: Kazakhstan" nomination based on results of "Eurasian Bank Survey 2012" special research.

- In November 2012 the Bank was awarded in "Most effective bank in Kazakhstan" nomination based on results of "Expert-100-Kazakhstan" - the rating of the country's largest companies for 2011.

- On 6 December 2012 at the Extraordinary General Shareholders' Meeting Mr. Zhomart Nurabayev was elected the new member of the Bank's Board of Directors representing JSC Holding Group Almex, majority shareholder of the Bank.

- In December 2012 the Bank got the Winner's Diploma in "Best annual report in financial sector" nomination based on results of "Best Annual Reports 2011" II contest of annual reports organized by "Expert RA Kazakhstan" Rating Agency.

- In December 2012 Halyk Bank increased the total number of its authorized shares by way of a split of its common shares in the proportion of one common share to ten common shares. After the split each Global Depositary Receipt represents forty common shares of the Bank.

Business events

- In January 2012 new building of the Bank's regional branch was officially opened in Kostanay by the following address: 146, Taran Street.

- In February 2012 the country's largest personal service centre of the Bank was opened after renovation works in Astana by the following address: 26, Respublika avenue.

- In February 2012 года the Bank was one of the first in Kazakhstan to launch 3D Secure password processing service for its Visa card holders.

- Since 15 April 2012 the Bank started processing payments in Chinese Yuan (RMB) for legal entities.

- In April 2012 the Bank became an operator of Mastercard MoneySend money transfer system which allows the Bank's clients, Mastercard and Maestro card holders, making real time 24-hour card-to-card money transfers.

- In June 2012 the Bank and "Caspiy" Socially Responsible Corporation National Company signed the Memorandum on mutually beneficial cooperation.

- In July 2012 the Bank together with its MoneyGram company-partner announced that they started providing services in Euro on the territory of Kazakhstan.

- In July 2012 Halyk Bank received the status of insurance holding.

- In August 2012 the Bank was the first in Kazakhstan to launch tax payments via "HalykBank" and "Halyk+Beeline" mobile applications.

- In September 2012 new head office of JSC "Halyk Bank Georgia", the Bank's subsidiary, was opened in Tbilisi, the capital of Georgia by the following address: 40, Shartava Street.

- In September 2012 the Bank and Intervale Kazakhstan announced on the new service of traffic tickets payments through MyPaykz mobile application from banking cards of Kazakhstan banks.

- In October 2012 pension assets of Pension Fund of the Bank reached KZT1 trillion.

- On 8 October 2012 JSC "Fund Centre" registrar transferred data and documents constituting the Bank's security holders registrar to JSC "The Integrated Securities Registrar".

- In October 2012 the Bank was the first among commercial banks of Kazakhstan to receive the regulator's permission for establishment of the subsidiary on management of doubtful and bad assets – "Halyk Project" LLP.

- In October 2012 new head office of OJSC "NBK Bank", the Bank's subsidiary, was opened in Moscow, the capital of Russian Federation by the following address: bldg.20, 1, Malaya Ordynka Street.

- In December 2012 the Bank joined the founding members of UnionPay International (UPI) new payment system, the international division of China UnionPay payment system and was also included into the Council Board of UPI members.

- According to the results of 2012 Halyk Finance was number one by activity among members of KASE in "Debt securities" category.

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1946-1960

Bond of one hundred rubles nominal value dated 1951

Banknote of five rubles nominal value dated 1947

Coin of ten kopeks nominal value dated 1957

THE RECOVERY PERIOD

Savings system of Kazakhstan in 1946-1950 years, got task for the involvement of free household deposits. Only during 1946 and 1947 the total Kazakhstani deposits increased by 65.8 million rubles, in 1946, nearly 148,000 operations under letters of credit has been committed, paid 678,600 rubles commission (which is 2.8 times more than in 1940).

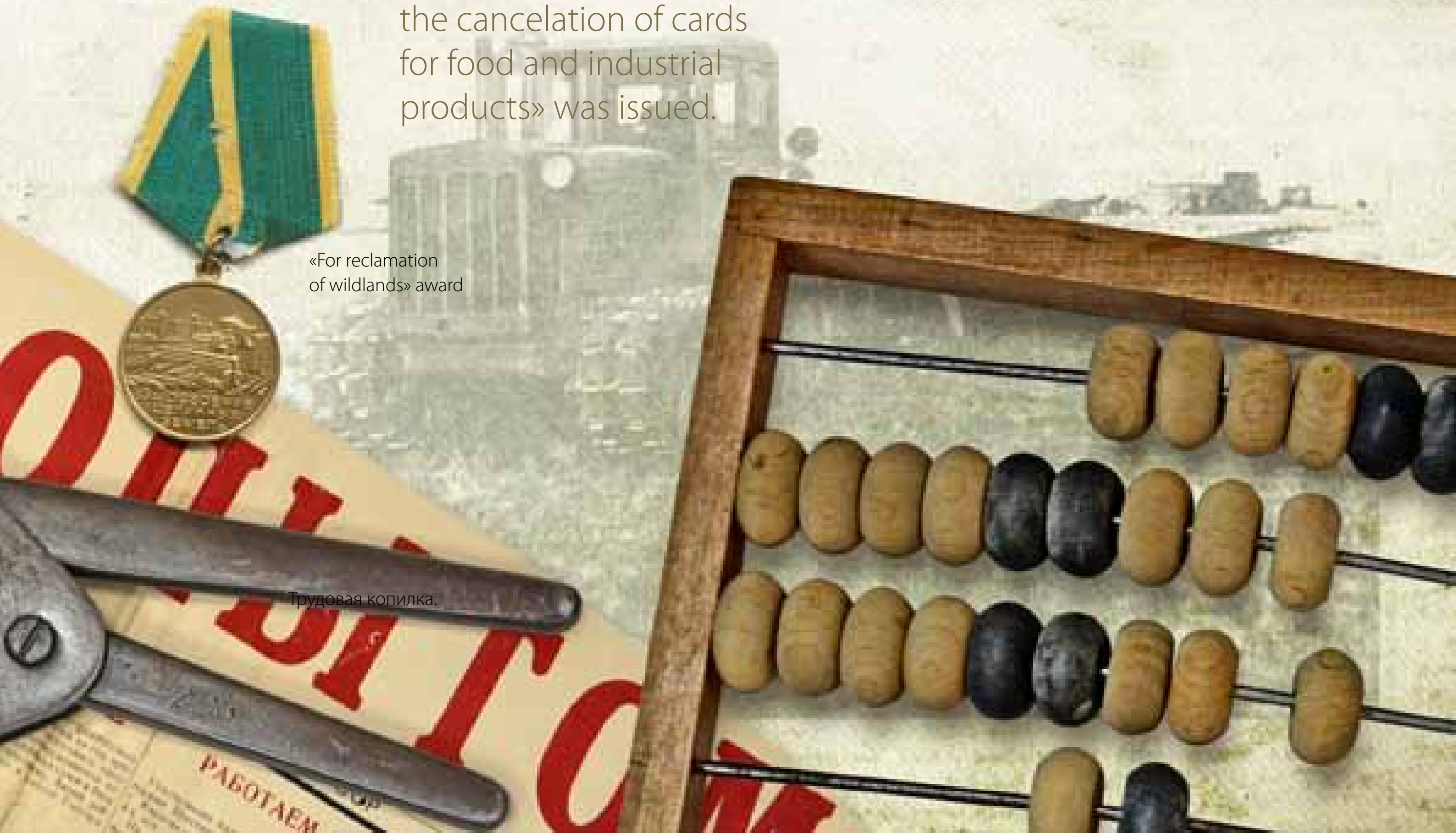
Mechanical calculator «Felix-M»

1947 FISCAL REFORM 1947

In 1947 there was a monetary reform, in which workers of saving system took an active participation. On December 14, 1947 the resolution of Council of Ministers of the USSR and the Central Committee of the CPSU (B) «On the currency reform and the cancelation of cards for food and industrial products» was issued.

WILDLAND CAMPAIGN

A huge role in the development of Kazakhstan and establishment of its economy has played the development of wild and virgin lands. Serious developments caused an inflow of material and financial resources to the Republic. That, in turn, required to change approaches to savings industry.



«For reclamation of wildlands» award

Трудовая копилка.

Macroeconomic environment and banking sector of the Republic of Kazakhstan

Economy of Kazakhstan

Economic growth in Kazakhstan moderated to 5.0% in 2012, down from 7.5% a year earlier, responding,with a lag, to the no-longer-improving terms of trade. The slowdown was driven by the decline in the production of mineral commodities and agricultural output. Industrial production was almost flat, having expanded by 0.5%. Services sector grew the strongest, by 10.0%. On the demand side, growth was supported by household spending (+11.4%[1]), which remained the most robust component of aggregate demand thanks to a rise in wage incomes (+13.5%), especially in public sector, and a nascent recovery in consumer lending (+39.6%). Strong consumption lifted consumer imports (39%), retail trade (12.9%), telecom (9.6%), lodging and dining (13.3%), recreational services (15.3%), and passenger transportation (12.2%).Investments grew 3.8% in real terms thanks to government incentives and efforts to improve the investment climate.

A slowdown in budget revenues led to a deceleration in budget spending, which in 2012 grew 12.8% after rising 20.3% in 2011 and 27.1% in 2010. Budget deficit rose to 2.9% of GDP from 2.1% in 2011, while the non-oil deficit rose to 7.5% of GDP from 6.5% in 2011.

Despite deteriorating trade balance, which surplus of USD 13.6 billion in 2011 declined to a surplus USD 8.8 billion in 2012, current account remained firmly in surplus at USD 7.7 billion. The FDI balance rose by 39% to USD 12.7 billion thanks to lower outbound FDI by the residents of Kazakhstan. The exchange rate remained relatively stable thanks to the NBK's interventions, which funded USD 2.7 billion deficit in the balance of payments.

The National Fund rose by USD 14.1 billion to USD 57.8 billion, acting as a potential cushion against external shocks. Banks continued to repay foreign debt. At the same time, the real sector continued to accumulate foreign liabilities (debt rose by USD 12.5 billion, foreign liabilities increased by USD 19.2 billion).

In World Bank's Doing Business 2013 rankings Kazakhstan moved seven rungs up to 49th position, ahead of China (91), Turkey (71), Poland (55), Russia (112), Belarus (58), Kyrgyzstan (70).Kazakhstan was also included in the list of countries which significantly simplified business requirements over the year.

Medium-term perspective

Weaker global demand for commodities, acting through trade channels,has already diminished the ability of Kazakhstan to grow and save simultaneously at the rates demonstrated in 2010-2011. If commodity prices remain at the current level, the deceleration is likely to persist with growth sliding to a more modest and sustainable rate of 4.0-5.0% per year. Already, the medium-term budget plan cuts growth of budget outlays from 13% in 2012 to 8% in 2013, 4% in 2014, before recovering to 10% in 2015. Should the revenues fall short of the plan, spending on discretionary items, mainly public infrastructure investments, will be slashed as well. We expect that imports,responding to theweakening of consumer demand, will slow too, but not enough to keep the current account from deteriorating. Investment demand in the absence of structural changes is likely to remain modest. Oil production in Kashagan,expected to commence in 2013,will add to aggregate growth, al-

[1] For January-September 2012

though its effect is already incorporated in government's revenue projections.

In the area of monetary policy we expect the central bank's mandate to control inflation to strengthen. To this end, the National Bank of Kazakhstan is expected to expand its arsenal of monetary policy tools. In particular, we expect the National Bank of Kazakhstan to become an active player in the secondary market for government bonds. However, these steps have not been accompanied by steps to increase the central bank's independence or by a recognized need of a more flexible exchange rate.

In the area of prudential regulation we expect the National Bank of Kazakhstan to introduce liquidity requirements that encourage lending, higher returns on assets, and mitigate the risks of short-term deposit funding.

On the orders of the President, the National Bank of Kazakhstan is expected to oversee the merger of private pension funds into a Unified Pension Fund. Fees and commissions income of consolidated banks is likely to decline after the asset managing companies owned or controlled by banks are disbanded.

The government was tasked to sell BTA Bank, Alliance Bank and Temirbank by year end. Should the banks be sold to domestic players in exchange for pension funds the level of concentration in the industry is bound to rise sharply

Banking sector

Credit growth accelerated in 2012, mainly due to a sharp increase in consumer lending while corporate loans grew little. Net incomes continued to rise thanks to the widening of the net interest margin, higher fees and commissions income,and lower provision charges. Aggregate capitalization has increased too, thanks to the second restructuring of BTA Bank, capital injections by shareholders of rapidly growing medium-sized banks and income retention.

Asset quality and capital

Metrics of asset quality for the banking sector, such as the share of bad loans, have stabilized. We expect them to improve further in the medium term, especially if lenders participate in the mechanisms designed by the regulator to encourage balance sheet clean up and restructuring of bad loans. These mechanisms included a temporary exemption from a 'tax on write-offs', a scheme to sell distressed assets to a government-run fund, and a legal framework for circumventing regulatory ban on control of non-financial assets through the creation of bad-bank vehicles. These became available in mid-2012, but so far the participation rateremained low. Effective January 2013 the regulator introduced an upper limiton the proportion of overdue loanson the regulated balance sheet. Six banks exceeding the limit will have to bring the NPLs below the limit or face the risk of intervention. Currently at 20%, the limit is set to decline to 15% in January 2014. This more forceful measure is likely to succeed at improving both participation and the observable metrics of asset quality by the end of this year.

Total capital of the banking sector rose substantially in 2012 thanks to the restructuring of BTA Banks, capital injections by shareholders into Sberbank, ATF Bank, Eurasian Bank, and Tsesna Bank and income retention. Second restructuring of BTA increased the sector's equity by USD 3 billion; capital injections amounted to USD 350 million. Return on average equity for the sector (ex BTA Bank and Alliance Bank) rose to 8.3% in 2012 from 3.5% in 2011 thanks to the widening of the net interest margin, higher fees and commissions income and lower provision charges. We expect the return on equity to keep rising in 2013 as the proportion of interest-earning assets increases and deposit rates decline.

Funding

Funding remains the main factor constraining long-term credit to firms. Regulatory penalties on foreign-currency lending and foreign-currency funding discourage banks from using low-cost long-term capital available in the international markets. Over the year external debt of the banking sector declined from USD 14.6 billion to USD 13.6 billion. In 2013, the banks plan to repay another USD 3.7 billion.

Deposits have been growing rapidly in past three years, thanks towage growth (retail) and repatriation of offshore bank accounts by the national companies (corporate). Deposit rates came down since the peak of 2008, but last year changed little as deposit-funded banks compete on rates. Deposits substituted foreign debt on the banks' balance sheets, but proved costly given the risks of withdrawal and short-term maturity. The ability of the banks to perform maturity transformation remains limited without the central bank acting as a liquidity provider of last resort. This is likely to continue as long as the exchange rate remains closely managed.

Pension asset shave historically been a minor part of banks' funding, largely because of pension fund regulations. This is unlikely to change after the pension funds are merged.

Bank credit

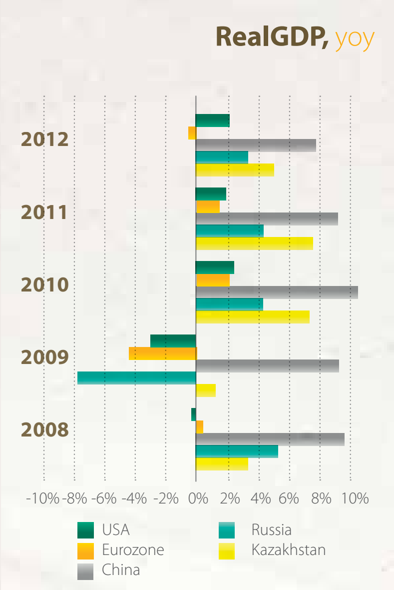
Bank credit (ex BTA and Alliance) grew by 17% in 2012, outpacing nominal GDP (+10%) for the first time since the beginning the crisis. Lending growth was driven by consumer loans (+40%), which became increasingly attractive as a product because of a better match with the maturity of deposits while and better risk-adjusted returns given the rising incomes of the households and their demonstrated ability to deleverage in adverse economic environment.

Corporate loans expanded by 10%, also affected by the persisting balance sheets weakness of corporate borrowers. Corporate lending rates declined in 2012, as in the previous four years. The decline was observed primarily in short-term loans, such as working capital financing. At the same time, the rates on loans to finance fixed-capital investment have gone up. Mortgage and consumer loan interest rates also rose marginally. Interest rates in the near future will be shaped by the availability of long-term Tenge-denominated funding, such as described above.

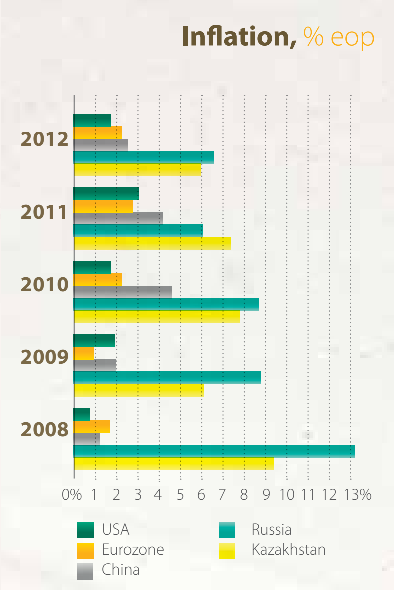
Slower income growth is likely to raise the risks of consumer lending. Mortgage lending is likely to lag behind other products because housing remains prohibitively expensive for the credit-constrained households. The expected completion of some unfinished construction projects, financed by banks, should check the rise of housing prices.

We expect banking sector assets to grow at 7-8%, slower than the nominal GDP, while bank credit is likely to grow 15% in 2013, ahead of the nominal GDP. The competition for good borrowers, both corporate and retail, is likely to intensify.

Macroeconomic indicators



Source: IMF, Stat. agency of RK, Bloomberg



Source: IMF, Stat. agency of RK, Bloomberg

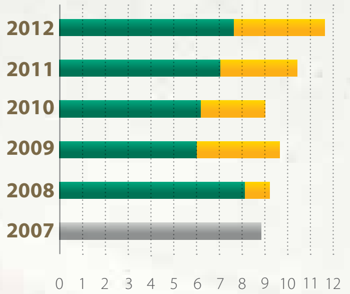
Source: IMF, Stat. agency of RK, Bloomberg

Indicators of the banking sector of Kazakstan

Gross loans portfolio with a breakdown on provision and net loans*:

Sector, trln tenge

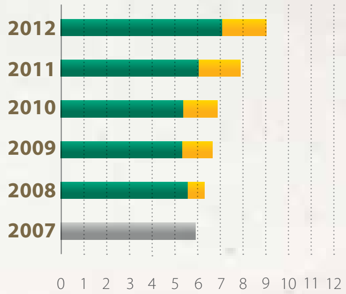
* A breakedown by net loans and provisions for 2007 is unavailable



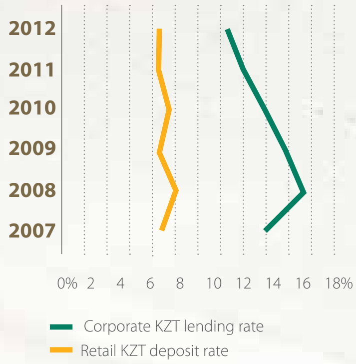
Source: FMSC NBRK

Sector excl. BTA and Alliance, trln tenge

* A breakedown by net loans and provisions for 2007 is unavailable

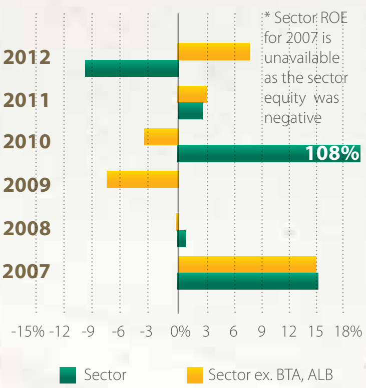


Average interest rates on corporate loans and household deposits



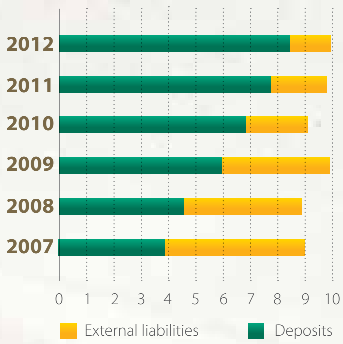
Source: FMSC NBRK

Return on capital: sector vs. sector excl. BTA and Alliance*



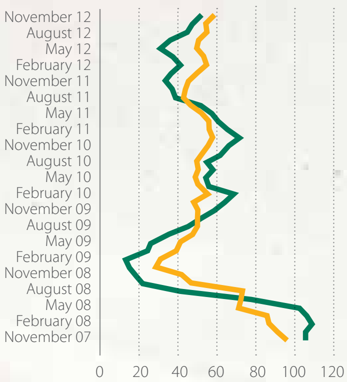
Source: FMSC NBRK

Banks' external debt and deposits



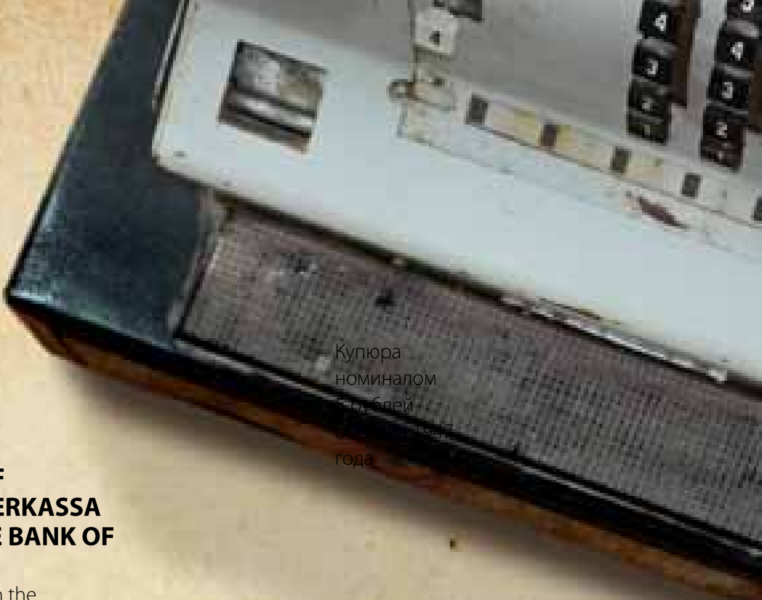
Source: FMSC NBRK

Stock prices of Halyk and KKB



Source: Bloomberg

1961-1980



Купюра номиналом 5 рублей образца 1947 года

1962 TRANSFER OF GOSTRUDSBERKASSA TO THE STATE BANK OF THE USSR

In accordance with the Resolution of the Council of Ministers № 1061 dated October 4, 1962 starting from January 1, 1963 the savings (post office) banks have been transferred from the structure of Ministry of Finance of the USSR to the State Bank of the USSR.

1970 ELECTRICITY CHARGES

From 1 July 1970 the Council of Ministers of the Kazakh SSR gave authority to the Gostrudsberkassa and post offices to receive payments for electricity consumed by the population living in rural areas.

Table statuette devoted to miners of «Karagandaugol»

Coin of 10 kopeks nominal value dated 1957

Postage stamp «50 years of Savings banks of the USSR»

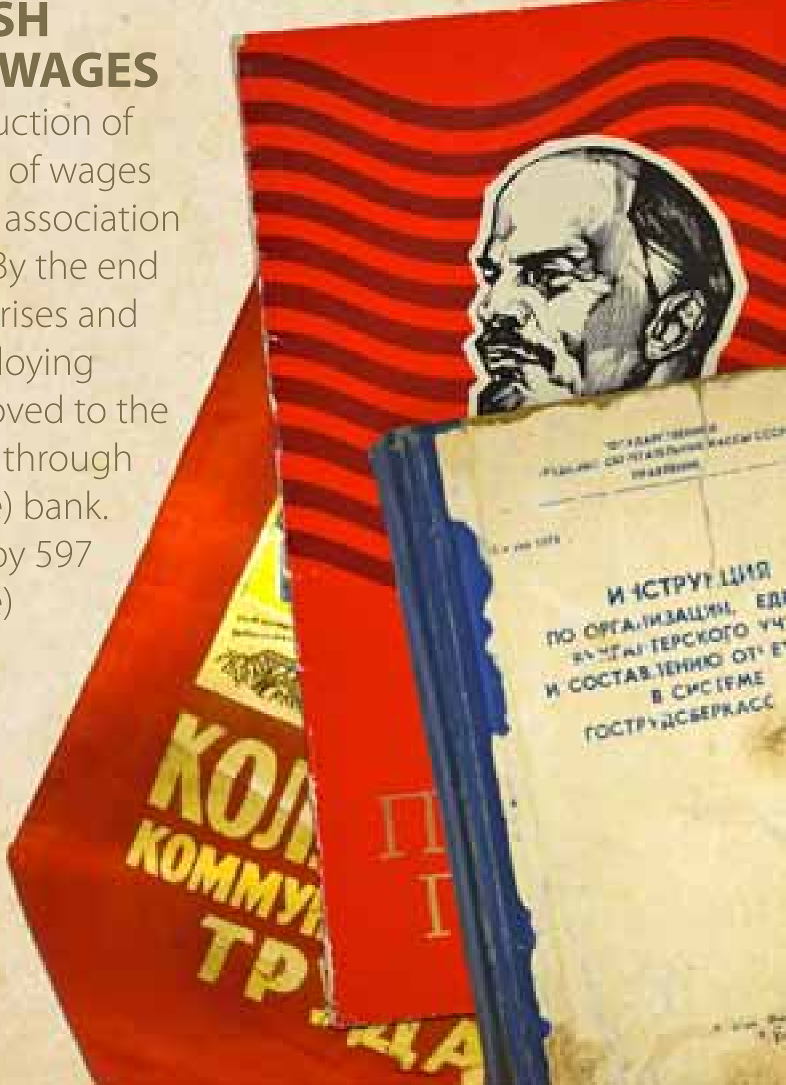
Cash machine

1980 PREPARING THE OPERATING-CASH WORKERS

Starting from 1980, for the first time in the country operating-cash workers were trained in vocational schools. 319 people studied this profession annually in eight schools, including in Alma-Ata - 60. Moreover, in the Karaganda State University, a new study course which was called «Savings business» was introduced.

1972 TRANSITION OF COMPANIES AND ORGANIZATIONS FOR NON-CASH PAYMENT OF WAGES

In 1972, the introduction of non-cash payment of wages began with a large association «Karagandaugol». By the end of 1975 269 enterprises and organizations employing 125,000 people moved to the payment of wages through savings (post office) bank. They were served by 597 savings (post office) banks.



Certificate of honour

Drawing index of savings bank equipment

Financial review

Consolidated Income Statements

Interest income decreased by 3.1% for 12m 2012 vs. 12m 2011, and by 9.8% for 12m 2012 vs. 12m 2010 mainly due to decline in average interest rate on loans to customers to 12.1% p.a. for 12m 2012 vs. 13.2% p.a. for 12m 2011 and vs. 14.5% p.a. for 12m 2010. The decrease in interest rate on loan portfolio was partially off-set by increase in average balances of loans to customers by 6.0% for 12m 2012 vs. 12m 2011 and by 6.4% for 12m 2012 vs. 12m 2010 as well as increase in average interest rate on debt securities to 4.8% p.a. for 12m 2012 vs. 3.4% p.a. for 12m 2011 and vs. 3.5% p.a. for 12m 2010 due to purchases of higher-yielding corporate securities to replace maturing lower-yielding NBK notes and T-bills in the securities portfolio of the Bank and its subsidiaries. Interest expense decreased by 11.4% for 12m 2012 vs. 12m 2011, and by 19.0% for 12m 2012 vs. 12m 2011 mainly due to decline in average interest rate on amounts due to customers to 2.7% p.a. for 12m 2012 vs. 3.4% p.a. for 12m 2011, and vs. 4.4% p.a. for 12m 2010. As a result, net interest income before impairment charge increased by 4.3% to KZT 91.1 billion for 12m 2012 vs. 12m 2011 and decreased by 1.1% for 12m 2012 vs. 12m 2010.

Impairment charge decreased by 60.8% for 12m 2012 vs. 12m 2011 and by 68.3% for 12m 2012 vs. 12m 2010, reflecting sufficient provisioning level achieved by the Bank and continued stabilization of the loan portfolio quality. Allowances for loan impairment decreased to 18.7% of gross loans to customers as at YE 2012 vs. 19.7% of gross loans to customers as at YE 2011 and vs. 18.9% as at YE 2010, mainly due to growth in the loan portfolio.

Fee and commission income from transactional banking (i.e. excluding pension fund and asset management) increased by 17.0% for 12m 2012 vs. 12m 2011, and by 40.0% for 12m 2012 vs. 12m 2010, as a result of growing volumes of transactional banking business, as well as increase in tariffs per certain types of customer transactions in 2011.

Net pension fund and asset management fees increased by 48.0% for 12m 2012 vs.12m 2011 and by 58.1% for 12m 2012 vs. 12m 2010. The loss incurred in 3Q 2011 from management of pension assets and recognized as liabilities due to customers of pension fund was fully off-set against the income received by the Pension Fund by 31 July 2012. Performance-linked fees increased to KZT 10.6 billion for 12m 2012 from KZT 1.3 billion for 12m 2011 mainly due to favourable global market situation during 12m 2012 vs. 12m 2011. Asset management fees increased by 24.5% for 12m 2012 vs. 12m 2011, and by 55.9% for 12m 2012 vs. 12m 2010 as a result of growing number of pension fund customers and average size of pension contributions.

Other non-interest income (excluding insurance) increased by 24.3% for 12m 2012 vs. 12m 2011 mainly as a result of increase in net dealing by 50.3% for 12m 2012 vs. 12m 2011, increase in net realized gain from available-for-sale investment securities to KZT 1.6 billion for 12m 2012 from KZT 0.1 billion for 12m 2011, and was partially off-set by decrease in gain on foreign exchange translation differences by 54.6% for 12m 2012 vs. 12m 2011. Increase in net foreign exchange dealing was attributable to higher volumes of customer transactions, partially off-set by decrease in margins on those transactions. 2.1-fold increase in other income was mainly due to higher dividends received on investment securities. Gain on foreign exchange translation differences decreased by 54.6% for 12m 2012 vs. 12m 2011 due to lower volumes of transactions with foreign exchange swap instruments during 12m 2012 vs. 12m 2011.

Other non-interest income (excluding insurance) increased by 21.1% for 12m 2012 vs. 12m 2010, mainly as a result of increase in net gain on foreign exchange operations by 22.6% for 12m 2012 vs. 12m 2010, 2.8-fold increase in net realized gain from available-for-sale investment securities for 12m 2012 vs. 12m 2010, increase in other income by 53.5% for 12m 2012 vs. 12m 2010.

Insurance underwriting income increased by 18.7% for 12m 2012 vs. 12m 2011 and by 48.1% for 12m 2012 vs. 12m 2011, mainly due to growing volumes of life and non-life insurance businesses. Insurance claims incurred, net of reinsurance increased by 22.5% for 12m 2012 vs. 12m 2011, and by 70.5% for 12m 2012 vs. 12m 2010 mainly as a result of increase in insurance payments by 38.7% for 12m 2012 vs. 12m 2011 and by 91.7% for 12m 2012 vs. 12m 2010. The increase in insurance payments was mostly due to growing pay-outs under pension annuity products in life insurance business. As a result, insurance underwriting income less insurance claims incurred, net of reinsurance, increased by 9.9% for 12m 2012 vs. 12m 2011 and by 11.2% for 12m 2012 vs. 12m 2010.

Non-interest expenses (excluding insurance) increased by 7.6% for 12m 2012 vs. 12m 2011, and by 23.1% for 12m 2012 vs. 12m 2010, mainly as result of increase in operating expenses by 11.8% for 12m 2012 vs. 12m 2011, and by 14.6% for 12m 2012 vs. 12m 2010, as well as KZT 2.1 billion one-off impairment loss recognized by the Bank as a result of revaluation of its assets held-for-sale. The increase in operating expenses was mainly due to increase in salaries and other employee benefits by 20.3% for 12m 2012 vs. 12m 2011, and by 29.1% for 12m 2012 vs. 12m2011, as a result of higher employee bonuses accrued for 12m 2012 vs. 12m 2011 and vs. 12m 2010, salary adjustment to inflation in July 2011, as well as increase in number of employees at some of the Bank's subsidiaries. In 2011 non-interest expenses were affected by KZT 6.2 billion loss recognized from management of pension assets in 3Q 2011. This loss was fully recovered by 31 July 2012 on the back of investment income received by the Pension Fund from management of pension assets.

The Bank's net income increased by 77.1% for 12m 2012 vs. 12m 2011, and by 93.2% 12m 2012 vs. 12m 2010 to KZT 70.0 billion.

.Consolidated Statements of Financial Position

Total assets increased during 2012 by 5.9% vs. YE 2011 mainly as a result of increase in net loans to customers by 11.4%, as well as amounts due from credit institutions by 55.5%, available-for-sale investment securities by 9.3% and cash and cash equivalents by 2.7%, partially off-set by decrease in investments held to maturity by 67.3%. Compared to YE 2010 total assets increased by 14.8% mainly due to increase in obligatory reserves by 77.6%, cash equivalents by 35.9%, loans to customers by 21.1%, available-for-sale investment securities by 18.9%, partially off-set by decrease in investments held to maturity by 85.2%.

Loans to customers grew during 2012 by 9.9% on a gross basis and by 11.4% on a net basis vs.YE 2011. Gross loan portfolio growth was attributable to increase in corporate loans by 9.0%, loans to SMEs by 8.1% and consumer loans by 30.2%, partially off-set by 7.6% decrease in mortgage loans. Compared to YE 2010, loans to customers grew by 20.8% on a gross basis and by 21.1% on a net basis. Gross loan portfolio was due to increase in corporate loans by 23.0%, loans to SMEs by 9.9% and consumer loans by 61.3%, partially off-set by 17.8% decrease in mortgage loans.

30-day and 90-day NPLs were at 17.5% and 17.0%, respectively, as at 31 December 2012 vs. 19.8%, and 18.7% respectively, as at 31 December 2011, and 18.0% and 16.3%, respectively, as at 31 December 2010. The decrease of 30-day and 90-day NPLs compared to YE 2011 was mostly due to 9.9% growth in gross loan portfolio. The increase of 90-day NPLs compared to YE 2010 was mostly due to migration of restructured loans into NPLs. The Bank created regulatory provisions that covered 30-day NPLs by 125.3% and 90-day NPLs by 128.5% as at 31 December 2012, by 120.2% and by 127.4%, respectively, as 31 December 2011, and by 129.8% and by 143.0%, respectively, as 31 December 2010.

Term deposits of legal entities decreased during 2012 by 4.5% vs. YE 2011, and by 24.4% vs. YE 2010 mainly as a result of lower interest rates offered by the Bank compared to its peers in 1H 2012 and during 12m 2011, as well as partial withdrawal of funds by some corporate clients to finance their ongoing business needs. Current accounts of legal entities increased during 2012 by 5.7% vs. YE 2011 and by 53.2% vs. YE 2010 as a result of growing volumes of transactional banking business and FX business.

Term deposits and current accounts of individuals increased during 2012 by 27.5% and 7.6% respectively, vs.YE 2011 and by 40.3% and 45.7%, respectively, vs. YE 2010 due to growing volumes of retail banking business.

Debt securities issued decreased during 2012 by 2.9% vs.YE 2011 and increased by 19.7% vs. YE 2010. The decrease as at YE 2012 vs. YE 2011 was mainly due to repayment of EUR- and USD-indexed unsubordinated local debt securities in March 2012. The increase as at YE 2012 vs. YE 2010 was mainly attributable to USD 500 million Eurobond issue on 28 January 2011.

As at YE 2012, the Bank had four outstanding Eurobond issues for USD 300 million, USD 500 million, USD 700 million and USD 500 million with bullet maturity in May 2013, October 2013, May 2017 and January 2021, respectively.

Total equity increased during 2012 by 9.4% vs. YE 2011 and by 6.8% vs. YE 2010 mainly on the back of net profit earned during 2012, partially off-set by the buy-back of preferred and common shares from "Samruk-Kazyna" during 2012 and 2011.

On 28 March 2011 the Bank repurchased 213,000,000 shares of its common shares from "Samruk-Kazyna" for the total amount of KZT 27 billion. On 29 June 2012, the Bank repurchased 150,000,000 of its preferred shares from "Samruk-Kazyna" for the total amount of KZT 27 billion. On 5 July 2012, the Bank repurchased 40,000,000 of its preferred shares from "Samruk-Kazyna" for the total amount of KZT 7.2 billion. As a result, "Samruk-Kazyna" continues owning 6,232,499 preferred shares of the Bank which may be repurchased by the Bank as per terms and conditions of the option.

Regulatory Tier 1 capital adequacy ratios k1-1 and k1-2 and total capital adequacy ratio k2 were 8.4%, 10.2% and 15.4%, respectively, as at 31 December 2012 vs. 9.2%, 11.9% and 16.4%, respectively, as at 31 December 2011 and 10.9%, 13.5% and 18.3%, respectively, as at 31 December 2010. Basel Tier 1 capital adequacy ratio and total capital adequacy ratio were 16.2% and 18.3%, respectively, as at 31 December 2012 vs. 16.7% and 19.1%, respectively, as at 31 December 2011 and 17.3% and 20.5%, respectively, as at 31 December 2010.

1981-1990

«Elektronika MK 71»
calculator

1976 **COMPUTING MACHINERY**

During 1976-1980 the Gostrudsberkassa system of Kazakhstan has received more than 5.2 thousand accounting machines, summarizing and computing machinery.

Banknote of fifty five rubles nominal value dated 1991

Advertisement of lottery loan on bandbox

Banknote of twenty five rubles nominal value dated 1961

«Savings bank of the USSR for 50 years» anniversary issue

IMPROVING OF PUBLIC SERVICES

One of the priorities of the savings (post office) bank was to improve public services. As a result, employees of 517 savings (post office) banks started their working day from 8:00 am, 2710 employees – from 8:30 a.m. Savings (post office) banks started to close later than usual - at 7 p.m., or even 8 p.m.

Ascota check machine

SINGLE PAYMENT DOCUMENT

In accordance with the Resolution of the Council of Ministers of the Kazakh SSR №35 in city of Alma-Ata and other cities of the country single payment document was introduced, which significantly reduced the number of transactions made by savings (post office) banks to receive payments of the population for the apartment, utilities and other services..

1988 BANKING REFORM OF 1988

Banking reform of 1988 set out a shift to a two-tier banking system: central bank - specialized banks.

Coin box

1984 COST ACCOUNTING

Since 1984, in the Republican headquarter of the Gostrudsberkassa of the USSR a system of cost accounting was introduced.

Business review

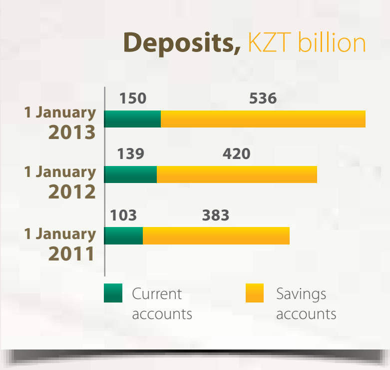
The Bank's core business is focused on retail, corporate and SME banking. Through subsidiary companies, the Bank's services also include pension fund operations, insurance, leasing, asset management and brokerage services.

Retail banking

Retail deposits

The Bank continues to hold leading positions on the market of retail deposits. As at 1 January 2013 the market share of the Bank deposits is 20.1%, the market share of the Bank by term deposits is 18.3% and demand deposits is 32.75%.

The Bank is the leader by growth in absolute term of retail deposits portfolio among second tier banks in 2012 – the portfolio of the Bank increased by KZT 127 billion.



Retail lending

Retail loan portfolio increased by 15% in 2012 compared to 2011. The market share of the Bank by retail lending in 2012 was 14.4%.

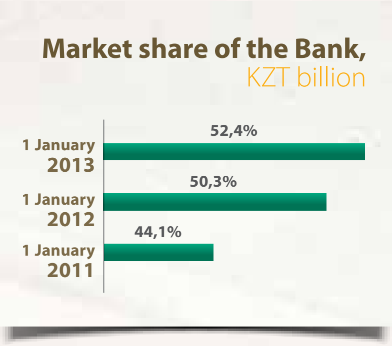
The volume of issuance credits in 2012 increased from KZT 45,6 billion (by 37.7%) compared to 2011.

In 2012 the Bank offered to participants of salary projects new attractive terms on programs of unsecured lending "Narodnaya" and "Pension loan" (the maximum term and amount have been increased) and this allowed to increase loan portfolio of the Bank on this programs in 2012 by more than 40%. In 2012 under the "Narodnaya" and "Pension loan" program the Bank issued loans for the amount KZT 150 billion.

On mortgage programs the Bank continues to maintain competitive terms on the market. In addition, in 2012 the Bank offered refinancing of loans issued by other banks on decreased interest rates that stimulated the growth of mortgage loans. The volume of issued loans in 2012 increased the same indicator in 2011 by 19%.

Payment cards

As at 1 January 2013 the Bank was the leader in the banking services market on payments cards servicing. The number of cards issued by the second-tier banks as at 1 January 2013 was over 6.3 million pieces. The market share was 52.4%.



Currently the Bank cooperates with three international payment card systems – VISA International, Mastercard Worldwide, UnionPay International. The Bank is one the founding members of UnionPay International payment system and was also included into the Council Board of UPI members which contain 24 international financial organizations.

One of the main strategic services of the Bank is salary projects. The Bank holds leading positions by quantity of clients who receive their salary through the Bank's cards.

In 2012 the number of organizations-participants of salary project increased by 7.8%. The total payroll of new organizations was KZT 14.7 billion.

To provide effective servicing to the clients the Bank expands its payment cards network (ATMs, POS-terminals, multikiosks) and develops services related to payment cards.

As at 1 January 2013 the market share of the Bank by placing the multikiosks was 35.2%, POS-terminals – 22.8%, ATMs – 22%.

For holders of Mastercard payment cards of foreign and local banks the new service "MastercardMoneySend" was introduced for the first time which allows making transfers through ATMs of the Bank to holders of Mastercard payment cards worldwide.

To increase the security of payments in Internet in 2012 the Bank launched the service of secured payments in Internet "3D-secure".

3D Secure – is the advanced technology developed by VISA (Verified by VISA system) and Mastercard (Secure Code system) which allows additional identification of card holder though entry of 3D Secure password. 3D Secure allows to decrease significantly the number of disputable operations and the level of fraud in the Internet with the use of payment cards.

In 2012 the Bank implemented products/services packages on cards of VISA Infinite/Platinum/Gold, Mastercard/UnionPay Gold with the Mobile banking connection, issue of insurance policy, receipt of Virtuon card designed for online payments and issue of additional card of other payment system.

Fees and tariffs

In 2012 the Bank transferred from charging fees for crediting of funds to current accounts to charging fees for cash withdrawal. The Bank continued servicing current accounts of pensioners, welfares, scholarships and salaries within agreement of the Bank with State Center on Pension Payments and salaries to organizations without changes i.e. zero fees for crediting of funds to account and for cash withdrawal.

In 2012 the Bank changed mechanism for charging fees for servicing debit cards from annual to monthly charges. The transfer significantly reduced the burden of cardholders on one-off payment of annual fee.

Transfer-agent services

Starting from 1 October 2012 the Bank launched in its branches transfer-agent service on securities market within participation in the "People's IPO" program.

The transfer-agent services include services on acceptance and transferring of documents (information) between professional participants of securities market and investors.

From the launch date of this service until placement of shares of JSC "Kaztransoil" (from 1 October until 5 December) the Bank served 726 clients including 661 clients who made application for purchase of 1,151,622 shares for the total amount KZT 834,925,950.

Payments

The Bank has long-term experience on acceptance of utility, tax and other payments of individuals, systematically develops IT, telecommunications, terminals, software products. The number of payments is increasing annually. In 2012 the number of payments increased by 1,731.6 thousands of operations, i.e. by 7.5% compared to 2011 and comprised 24.9 million payments. The volume of payments in 2012 increased by KZT 38.9 billion or by 35% compared to 2011, the average monthly volume was KZT 12.5 billion.

Social payments

The Bank being the one of the main operators of pension payments in Kazakhstan since 1996 services more than 1.3 million pensioners and benefit recipients. The market share of the Bank by volume of all payments in Kazakhstan is 53%.

Remote services to individuals

One of the priority tasks for the Bank is development of remote sales channels as this is convenient for the clients and gives an opportunity to make payments and transfers without visiting the Bank. To expand the range of services in "Internet-banking for individuals" and banking terminals (kiosks) in 2012 the Bank significantly expand the list of regional suppliers of services – more than 150 companies were have been connected. As the result in 2012 more than 43,000 clients connected to "Internet-banking for individuals" system and the number of users of the system comprised more than 69 thousands as at 1 January 2013 who made 703.9 thousands payments and transfers through the system.

The number of clients-users of "Mobile banking" continued to grow. In 2012 the number of registered clients in the system was more than 600 thousands, the number of active users has reached 313 thousands.

In general, the number of payments made through remote sales channels increased by 1.7 million payments in 2012.

In order to develop e-commerce, the Bank, jointly with «CNP Processing GmbH», launched the Processing Centre for servicing of online card transactionsin August 2012. The service is about payment for purchase of goods/services by cardholders of international payment systems in online stores of Kazakhstani trade companies by entering personal payment requisites without physical presenting of card.

Within the joint project, the processing of payments and money transfers to accounts of entrepreneurs is executed by the Bank through its card system. «CNP Processing GmbH» is responsible for setting-up of interfaces between web-sites and Card database of the Bank and for technical support to entrepreneurs. From the launch of the project to acquiring system of the Bank 14 online stores have been connected where 4,875 payments were executed for the total amount KZT 29,995 thousands.

Since June 2012 the Bank launched the servicing of online cards operations for "Kar-Tel" Ltd. (Beeline mobile network operator) and for its subsidiary company "2Day Telecom". The replenishment of customer's Beeline phone number and payment for "Internet at home" service of Beeline is made online through web-site of the company www.beeline.kz by using cards of VISA and Mastercard of any banks and local cards Altyn. From the date of launch of the service cardholders made 108,759 payments.

The Bank continued to develop self-service machines and devices. In October 2012 the Bank launched the project "Development of payment terminals network" based in Almaty regional branch. The Bank purchased for its branch 50 payment terminals which allow the clients of the Bank who do not have payment card of the Bank the following opportunities:

• Payment for services in favour of suppliers;
• Replenishment of current accounts.

Within the projects on optimization and automation of providing separate governmental services by the Bank, several projects have been implemented, including:

1) In December 2012 the integration with payment gateway of e-government for making payments to budget from web-site of e-government www.egov.kz was implemented;

2) For users of mobile application MyPaykz (program installed by the client on his mobile phone which provides convenient and clear menu for making payments) the Bank, jointly with "Intervale Kazakhstan", in September 2012 realized convenient, secured way of payment penalties for violation of road rules identified by representatives of Road Police Committee. The payment is made online;

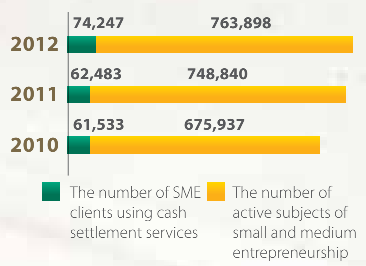
3) For users of "Mobile banking" system the opportunity of payment of land, property, transportation taxes through application for mobile phones "HalykBank" has been launched in August 2012.

SME banking

The Bank's SME banking operations include lending, transactional banking services, leasing, insurance, credit cards and trade finance. Although the Bank does not treat its SME business as a separate segment for accounting purposes, the SME business is supervised by a separate dedicated department in the Bank– Sales to SME Department.

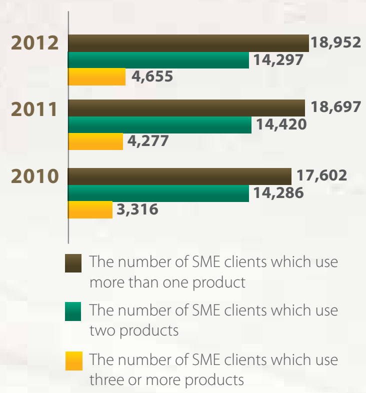
As at 1 January 2013 the number of SME clients of the Bank was 74,247 entities including 8,197 borrowers, the number of SME loans was 19,853. The share of SME clients using cash-settlement services in total active SME clients increased to 9.7% from 8.3%.

Number of subjects of small and medium entrepreneurship



As at 1 January 2013 the number of SME clients using cash-settlement services was 74,247 including clients which use the Bank's products[2]:

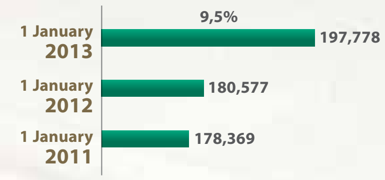
- More than one product – 18,952 clients, increase by 1.4%;
- 2 products –14,297 clients, insignificant decrease by 0.9%;
- 3 products – 4,655 clients, increase by 8.8%.



In SME lending there were the following trends:

- In medium business the growth of loan portfolio in 2012 was more than 20% compared to 2011;

SME loan portfolio dynamics, KZT million



- In small business there was a trend of gradual monthly increase of volumes of issued loans, loans issued in 2012 amounted KZT 16.7 billion which is higher by 42.7% than the loans issued in 2011 (KZT 11.7 billion).

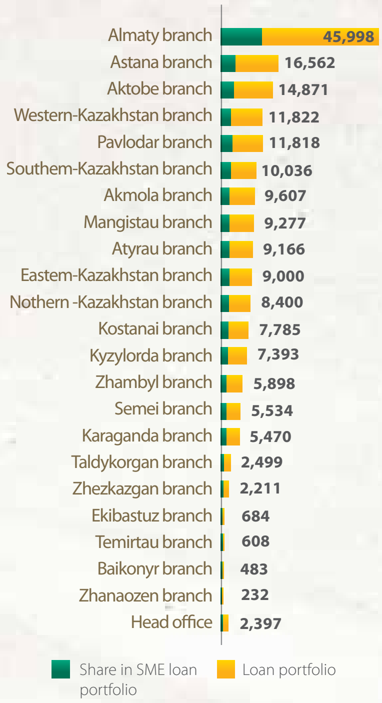
This fact is an evidence of increase in economic activity of medium and small businesses and interest in loans for business purposes.

The largest part of portfolio is represented by Almaty regional branch – 23.3%, Astana regional branch – 8.4%, Aktobe regional branch – 7.5%, Western-Kazakhstan regional branch – 6.0%, Pavlodar regional branch – 6.0%.

The Bank continues to participate actively in governmental programs on support of entrepreneurship in Kazakhstan. During 2012 medium and small business participated in three government programs within the arrangements on realisation of Action Plan of the Government of the Republic of Kazakhstan on support to private entrepreneurship:

1. The program on support to Private Entrepreneurship of processing industry – "Damu-Onderis". The total amount of allocated funds

The breakdown of SME loan portfolio by regions as at 1 January 2013, KZT million



is KZT 2,856 million. Within the SME program 18 borrowers were financed for the total amount KZT 1,868 million.

2. The program of the Ministry of agriculture of the Republic of Kazakhstan "Financing of interest rate on loans for support of agriculture". The total amount of funds used in financing of interest rate on SME loans in 2012 was KZT 74.3 million (KZT 63.6 million under the financing agreement #11 dated 17 July 2012, KZT 10.7 million under the financing agreement #22 dated 4 April 2012). The number of SME

[2] Cash-settlement, loans, payroll projects, acquiring, cards, internet-banking

borrowers financed within the program – 11 including 3 borrowers of small business and 8 borrowers of medium business.

3. "Business Road Map-2020". Within the program there accepted 389 application for the amount KZT 60,335 million including 371 projects for the total amount KZT 52,988 which have been approved by the authorized body of the Bank. The Ministry of economic development and trade approved 299 projects for the total amount KZT 38,302 million.

It should be noted that Halyk Bank is the leader by the volume of transferred subsidies and volume of loan portfolio of the Bank's borrowers with approved participation in government program "Business Road Map-2020". The market share of the Bank by volume of transferred subsidies is 18.52% or more than KZT 5 billion. The volume of loan portfolio of the Bank's borrowers is KZT 102.8 billion which represents 15.88% of total volume of loan portfolio of the second tier banks' customers participating in "Business Road Map-2020" program.

The projects in processing industry, transportation and warehousing and agricultural sector dominate in the structure of subsidised projects.

As at 1 January 2013 the Bank received 418 applications for the total amount KZT 149 billion under "Business Road Map-2020" program starting from the launch of this program. The most part of application has been received from Almaty region, Aktobe region, Kyzylordaregiona and Eastern-Kazakhstan region. Out of this number 400 applications for the amount KZT 141 billion have been approved by the Bank's committee. Currently 245 borrowers receive subsidies under this program.

In 2012 the Bank accepted 211 applications under this program for the total amount KZT 34 billion and 149 borrowers received subsidies for the total amount KZT 2.5 billion.

Halyk bank is one of the leaders on number of projects accepted by the Bank for consideration and approved by the Regional coordinating council/Ministry of economic development and trade.

To develop new services and improve existing products and services which the Bank offers to its SME clients, during 2012 the Bank holds the following arrangements:

- The new lending program "Halyk predprinimateluskorenniy" was developed and implemented for clients of small business. The program stipulates light and accelerated order of consideration of lending applications. The program also stipulates 100% secured financing to clients with brief economic analysis of the project.

- The "Program of conditional placement of funds in the second tier banks and other organizations for further financing of private entrepreneurship subjects of Zhanaozen city" – governmental program of conditional placement of funds in the second tier banks for further financing of private entrepreneurship subjects of Zhanaozen city, Mangistau region.

To increase the volume of financing on small business 3 stages of campaign were organized during 2012. In addition to the campaigns starting from 14 October 2012 the clients have been offered the financing on reduced interest rates (from 7% to 10%) and arrangement fee of 3%-8% depending on the term of financing. The result of the campaigns – increase of volume in granting loans to small business clients by 42.5%.for 2012 compared to 2011.

In 2012 Sales to SME Department organized the following events on development of IT:

1. Improvement of software "SUBP-Small business":

- supervision system of processing applications in "SUBP-Small business" with further reporting on promptness of consideration of applications for financing by expert services involved in lending process have been implemented;

- the service of issuing a loan to card account and repayment of loans from card accounts has been implemented for SME clients;

- business-requirement on automation of front-business processes on consideration of credit applications in SUBP on Medium business clients have been developed and approved by appropriate divisions of the Bank

2. Development of CRM software:

- the system has been launched for small business in branches of the Bank. Employees involved in the process for small business have been trained across all branch network

- business process on attraction of customers of medium business has been launched in branches of the Bank. Across all branch network employees involved in medium business have been trained on process of client attraction. The process of primary attraction of clients have been optimized (group e-mails distribution, primary calls). Reporting on primary attraction has been implemented.

Corporate Banking

Our Corporate Banking division offers its clients with traditional financing, payroll services, cash management services, trade finance, and investment banking services (offered in conjunction with a subsidiary of the Bank). We help our corporate clients to achieve sustainable growth, create more jobs in the real economy sector, and undertake investment strategies.

The Bank continues to pay greater attention to the development of remote service technologies in cash management services, adding new features to Internet banking. For most corporate customers, the features of the system are tuned and customized to the individual organizational-specific needs of the client. Cash management services are enhanced by introduction of an overdraft facility to a group of companies. We made good progress in 2012 in improving our trade finance services through automation of trade finance instruments issuance, both in terms of transaction documentation and in terms of internal procedures.

The corporate client's portfolio of the Bank includes large National enterprises, as well as large and medium-sized companies, which hold leading positions in their industries or specific niches in the market. At present, we support and develop partnerships with corporate clients in various industries. Our customers working in trade industry continued to steadily increase sales volumes and market share, both in the wholesale and retail segments.

In 2012, our corporate business borrowers completed largest countrywide infrastructure projects in the transportation sector. Our positive experience in those projects contributes to further interest in supporting other strategic infrastructure projects in Kazakhstan. As a result of this, last year we entered into new agreements, with the clients that are leading in the industry.

The industrial sector continues to be one of the target sectors for further portfolio growth, and we constantly work to attract "first-tier players" of this sector as well.

To strengthen our partnership with the existing customers and to attract new first-tier companies, the Bank has set up a separate unit, the main objectives of which is to establish and maintain long-term relationship with key prospective clients. The work of a relationship manager is based on an individual approach in addressing client's needs. Another objective is providing the most complete information about the services of Halyk Group as well, promotion and sale of other products of the Bank. This individual approach to corporate customers helps maintaining the Bank's image, and its use is explained by increased revenue from the sale of the Bank's products and services in corporate sector and by comprehensiveness of clients' needs that require customized solutions.

In the reporting year, the Bank recommenced-financing of commercial and residential real estate. Despite some recovery in the real estate market over the past two years, the Bank participates with caution in new projects. Participation in all current construction developments is based on the concept of a competitive selection of projects, attracting reliable developers who have been present in the market for a long time, who have a good reputation and sufficient safety margin.

Mainly due to the good results of 2011, as well as usage of advanced technology by major borrowers, and despite the decline of harvest in 2012, the reporting year has passed without major difficulties for our clients in the agricultural sector. At the same time, the recovery of agricultural sector depends on further increase in productivity and government support. In this respect, introduction in 2012 of a new government program "Agribusiness 2020" had come timely, participation in which can provide required support both to our clients and to the sector as a whole.

Part of the Bank's customers that faced some difficulties during the crisis period continues to recover, in many cases due to participation in government programs such as "Business Road Map-2020" and "Post-crisis recovery program". In the reporting period, the number of corporate borrowers participating in various programs increased to 21, and the amount of subsidized debt rose to KZT92 billion. This year, a further increase is planned in quantity of projects involved in government programs.

Besides the implementation of support programs, we do individual work on recovery of all troubled loans. Recovery programs in the reporting period have produced good results: USD 500 million of the non-performing loans wererepaid. This year, we will continue working in this area, and expect further improvements in the quality of the portfolio.

Corporate Clients Portfolio Dynamics, KZT billion

Along with maintenance/improvement of portfolio quality, in 2012, we were able to keep all the major corporate clients, and increase the loan portfolio further by 13%. By the end of 2012, the client base of Corporate Business division of the Bank reached 1,629 corporate customers, including 267 borrowers. In the environment of severe competition, we have maintained our market share in the corporate clients sector by offering the most complete range of services to our clients, using an extensive regional network, and maintaining reliable relationship with our clients.

Subsidiaries

Pension market

Halyk Pension Fund

As at 31 December 2012 Halyk Pension Fund had 2.4 million customers and pension assets under management comprised 28.7% of total pension assets under management of pension system of Kazakhstan according to statistics published by the Committee for the control and supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan (KFN). Halyk Pension Fund had total equity of KZT 37,455 million and net income of KZT10,078 million for 2012.

Halyk Pension Fund actively develops its "Halyk Fly" discount club which provides an opportunity for clients/contributors to get discounts up to 75% for purchasing of goods/services in companies-partners of Pension Fund. As at 1 January 2013 discounts have been provided by more than 1,900 companies (the growth by 80% compared to 2011). Halyk Pension Fund was the first pension fund which placed e-services "Pension calculator" and "Call to manager" on the web-site of e-government of the Republic of Kazakhstan www.egov.kz. The event on SMS-informing has been launched which stipulates the possibility for contributors to get information on pension savings through SMS to mobile phone free of charge.

Insurance

Kazakhinstrakh and Halyk-Life

The Bank's insurance subsidiary, Kazakhinstrakh, is a non-life insurance company providing a full package of general insurance services to all types of legal entities and individuals across a broad range of industry sectors.

As at 31 December 2012Kazakhinstrakh was one the largest general insurance company in Kazakhstan with 8.7% market share in net premiums.

As at 31 December 2012, Kazakhinstrakh had total assets of KZT36,218 million, net income for 2012 was KZT 2,815 million. As at 31 December 2012 Kazakhinstrakh had 247 sales outlets.

Halyk Life offers various types of personal insurance products, including life, annuity and casualty insurance products. As at 31 December 2012, Halyk Life had total assets of KZT 10,827 million. For 2012 Halyk Life had net income of KZT 319 million. In 2012 Halyk Life opened 5 new branches in Kostanay, Uralsk, Taraz, Taldykorgan, Kyzylorda cities. As at 31 December 2012the market share of Halyk Life was 13.7%.

Leasing market

Halyk Leasing

As at 31 December 2012 Halyk Leasing concluded contracts for the total amount KZT 1,164 million including its activity in the Russian Federation. Clients of Halyk Leasing in Russia have been offered the new format of cooperation – the line of leasing financing. Besides active branch of Halyk Leasing in Chelyabinsk city (Russian Federation) during 2012 new offices have been opened in Moscow and Yekaterinburg cities of Russian Federation. Extension of representation of Halyk Leasing in Moscow region is planned in 2013. As at 31 December 2012 Halyk Leasing had total assets of KZT 7,172 million.

Investment banking

Halyk Finance

Halyk Finance provides a full range of investment banking and asset management services, including sales and trading (including market-making on the KASE), investment portfolio management, consulting and underwriting, M&A advisory, debt restructuring and research. As at 31 December 2012, Halyk Finance had total assets of KZT 23,517 million. Halyk Finance's net income in 2012 was KZT 2,248 million.

Halyk Finance was named "The Best Investment Bank" on underwriting of corporate bonds in Kazakhstan in 2012 by "Cbonds" information agency.

As at 31 December 2012 Halyk Finance had KZT 80,814 million in assets under management (assets held in brokerage portfolios) which increased due to significant increase of local assets as the result of placing bonds and shares in portfolios of clients-participants of People's IPO.

Based on results of 2012 Halyk Finance was number one by activity among members of KASE under "Debt securities" category. Halyk Finance is the market leader by number of quoted instruments (31) including twelve new instruments (bonds of KazMunayGaz, Zhaikmunai, Kaspi Limited, Development Bank of Kazakhstan, KazStroyService) and became market-maker on equity futures of KASE index (common shares of Eurasian Natural Resources Corporation Plc, Kazakhmys-Plc, KazMunatGaz Exploration and Production, Halyk Bank).

Halyk Finance is the market leader with the market share of 37% in total nominal volume of bonds placed by Kazakhstani brokerage companies-underwriters for their customers on the local primary market through KASE.

Telecommunication business

Kazteleport

Kazteleport provides a wide range of telecommunication services for automation of the activity of Halyk Bank and its subsidiaries, processing services and services on routing of authorizing requests between banks connected to Kazteleport through H2H channel. Kazteleport is the main operator of the Republic of Kazakhstan providing connection channels to Kazakhstan Interbank Settlement Centre, KASE and The First Credit Bureau.

As at 31 December 2012 total assets of Kazteleport amounted KZT 1,008 million.

Distressed assets

Halyk Project

According to the resolution #308 of the National Bank of Kazakhstan dated 31 September Halyk Bank has been given the permission #1 dated 4 October 2012 for establishment of subsidiary for management of distressed assets – Halyk Project.

Halyk Project was established within "The Concept on improvement of quality of assets of second tier banks: problems and ways of solution" developed by the National Bank of Kazakhstan in 2011 and the Law of the Republic of Kazakhstan "On amendments and addendums to several legislative acts of the Republic of Kazakhstan on regulating banking activity and financial organizations in terms of risks minimization".

On 12 October 2012 Halyk Project was registered with the authorized body of the Ministry of Justice of the Republic of Kazakhstan and constitutive documents have been received. Halyk Bank was the first among commercial banks of Kazakhstan to receive the regulator's permission for establishment of the subsidiary on management of doubtful and bad assets – Halyk Project.

Cash collection services

HalykInkassatsiya

Halyk Inkassatsiya provides collection services of cash notes, coins and valuables. The company is positioned in Halyk Group as the subsidiary providing services independently and from the other side its activity is closely related to the Bank's activity on providing cash to sales channels of the Bank – retail bank which is the financial and consolidating center of Halyk Group.

Halyk Inkassatsiya is the market leader in various aspects of cash collection activity of the Republic of Kazakhstan.

As at 31 December 2012 total assets of Halyk Inkassatsiya amounted KZT 2,126 million. Net income for 2012 was KZT 4,091 million. Halyk Inkasstasiya completed difficult task on providing cash collection to remote objects of Halyk bank. In 2012 two new outlets were opened (Kandygash outlet of Aktobe region, Alakol outlet of Taldykorgan branch) and Baikonyr branch was registered. As at 31 December 2012 branch network of Halyk Inkassatsiya included City cash collection division (Almaty city), 18 branches and 34 outlets.

Foreign banking subsidiaries

The Bank provides banking services in Russia, Kyrgyzstan and Georgia through its banking subsidiaries on the territories of these countries.

Halyk Bank Kyrgyzstan

Halyk Bank Kyrgyzstan is a commercial bank incorporated in Kyrgyzstan, which specialises in SME banking services. As at 31 December 2012 total assets of Halyk Bank Kyrgyzstan increased by SOM 119 million (KZT 318 million) to SOM 2,171 million (KZT 6,904 million), total equity was SOM 862 million (KZT 2,741 million). For 2012 Halyk Bank Kyrgyzstan had net income of SOM 55 million (KZT 177 million).

Halyk Bank Kyrgyzstan is number twelve by assets and number ten by loan portfolio among banks of Kyrgyz Republic.

NBK Bank

NBK Bank is a regional Russian bank with its head office located in Moscow and one regional office in the

Chelyabinsk industrial region. As at 31 December 2012, NBK Bank had total assets of RUR 2,800 million (KZT 13,960 million), and total equity of RUR1,181 million (KZT5,880 million). In 2012 loan portfolio of NBK Bank increased by 50% compared to 2011. The significant event in 2012 was acquisition of new building for head office in historical centre of Moscow city, the new office was opened in October 2012.

Halyk Bank Georgia

Halyk Bank Georgia is a commercial bank incorporated in Georgia with a focus on corporate and SME banking. As at 31 December 2012, Halyk Bank Georgia had total assets of GEL 71 million (KZT 6,401 million), the loan portfolio amounted GEL 44 million (KZT 3,996 million). The significant event in 2012 was opening of new branch of Halyk Bank Georgia in Batumi city and finalization of building the new headquarters premises in Tbilisi city, the new office was opened in September 2012.

1991-1995

Terminal of «Irtysh» payment system

Savings book dated 1991

Payment card «Irtysh»

1994 ONE-OFF COMPENSATION

In accordance with the Decree of the President of the Republic of Kazakhstan № 1515 dated January 20, 1994 «On Halyk Bank of the Republic of Kazakhstan and the protection of the interests of its depositors» one-off compensation for losses from devaluation of savings placed in all types of deposits was made...».

FIRST KAZAKHSTANI PAYMENT CARD "IRTYSH"

The first issuance of payment cards «Irtysh-card» in Kazakhstan was carried out jointly by ferro-alloy plant in city of Yermak (now city of Aksu) of Pavlodar region and Savings Bank of Kazakhstan (later - Halyk Bank).

1992 INDEPENDENCE

In 1992, the Savings Bank of the Republic of Kazakhstan was created, the official legal successor of which is Halyk Bank. In 1994, the Savings Bank was reorganized into an independent legal structure - Halyk Bank of the Republic of Kazakhstan, owned by the Government of Kazakhstan.

One of the first computers of the Bank

Banknotes of one, three and twenty tenge dated 1993

1995 CJSC «HALYK SAVINGS BANK OF KAZAKHSTAN”

In 1995, the Bank is reorganized to a Closed Joint Stock Company. The reorganisation process was accompanied by a drastic change in the bank’s management and work style.

THE LARGEST OPERATING BANK

By the end of 1995, Halyk Bank has become the largest operating bank in the Republic.

Risk Management

The Bank's policy in risk management is focused on creating an integrated risk management system corresponding to the scope and scale of the Bank's activity, risk profile accepted by the Bank, as well as meeting demands of further business development. The Bank continues to develop a risk management system, consistently implementing measures focused on improvement of risk identification methods, risk management, evaluation and control.

Credit risk management

The Group controls credit risk exposure by establishing limits of the maximum amount of risk for one borrower / group of borrowers, industrial (and geographical) segments, for lending programs (Small and Medium business and Retail Business).

For the integrated credit risk assessment of corporate borrowers the Bank applies internal rating model based on the quantitative indicators (financial indicators of the borrower), as well as on the qualitative indicators, including an assessment of the borrower's business, industry and quality of borrower's management.

As the instrument of effective control and monitoring of risks in retail business and SME the Bank applies the approach based on complex systematic monitoring of lending programs which includes analysis of loan portfolio quality and parameters of financing, correction of existing lending programs against changes in social-economic environment or the level of risk on specific groups of borrowers.

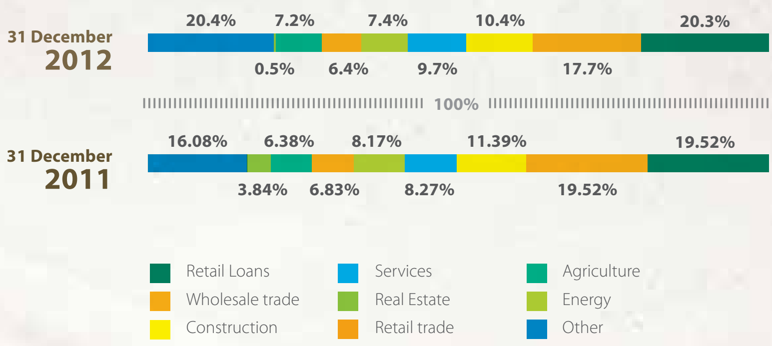
Further to development of risk management instruments in 2012 within retail lending the Bank centralized the process of consideration of credit applications by credit underwriters in the Centre for Decision-Making instead of eliminated retail lending committees in the branches which allowed standardising and speeding up the process of making lending decisions.

The system of making lending decisions in the Bank is based on delegating of some authorities and establishing for each body the limit of financing by the Board of Directors to appropriate collective body. On corporate borrowers the credit applications are considered by the Commercial Directorate. Credit applications exceeding the authorities of the Commercial Directorate as well as transactions with related parties require further approval by the Board of Directors. On SME borrowers the authorities are delegated to the Credit Committees of branches and Credit Committee of branch network and on the issues of retail banking issues authorities are delegated to the Centrefor Decision-Making and Retail Committee of the Head Bank. Standard loans on program of unsecured retail lending are approved automatically in process of checking by program module.

Credit committees of subsidiary banks are also authorised with specific power within which decisions are made. Applications exceeding authorities of subsidiary banks are presented for consideration by appropriate body of the Bank.

In 2012 the Bank continued attempts for improvement of loan portfolio quality which had worsened during crisis in 2007-2009. The Bank strengthened monitoring of credits of watch category on portfolio as well as individual debtors level, constant control of execution of the approved measures on the given category of credits is carried out. Active work on improvement of reporting system and methods of early warning,including presenting information on forecast level of non-performing loans in order to determine the plan of

Structure of a loan portfolio of the Bank by sectors of economy, %



further actions on retention and improvement of loan portfolio quality. Moreover, the Bank applies the methods on recovery of solvency of the borrowers stipulated in developed by the Government "Program of Post-Crisis Recovery" and "Business Road Map – 2020".

In 2012 the legislation was amended and as the result, now the banks can establish subsidiaries for managing problem banking assets. Using this opportunity provided by the Government the Bank established such a company – Halyk Project. Halyk Bank was the first bank in Kazakhstan which received permission of the National Bank of Kazakhstan on establishing this subsidiary. Using the functionality of the subsidiary company on stress assets management allows improving the quality of the Bank's loan portfolio in the future.

As the result of active actions of the Bank on improving quality of loan portfolio, 2012 has been marked by a balanced growth of a loan portfolio by sectors of economy and types of businesses as the result of continuous work on financing of new and existing creditworthy borrowers.

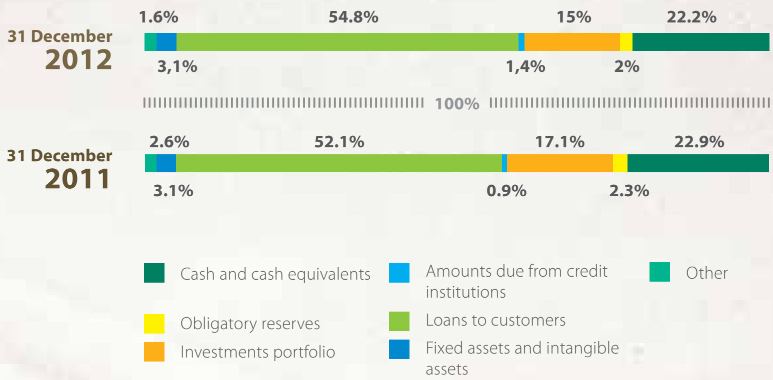
As at 31 December 2012 significant part of loan portfolio was represented by retail loans (20.3%) (including 13.6% of consumer loans and 6.8% of mortgage loans), loans to wholesale trade (17.7%), construction sector (10.4%), services (9.7%) and real estate (7.4%).

Asset/liability management

For effective coverage of liquidity gap, including unexpected gaps, the Bank invests in assets, diversified by types of currencies and maturity.

The structure of the Bank's assets during 2012 has changed insignificantly and is presented as follows:

Bank's asset structure, %



In 2012 total assets of the Bank increased by 5.9% mainly due to growth of loan portfolio and placement of funds with the National Bank of Kazakhstan and in interbank market. Temporarily free funds have been placed in the highly liquid assets, particularly, in short-term deposits with foreign banks, Eurobonds of high-quality corporate issuers.

The Bank's loan portfolio continues to remain the largest part of the Bank's assets, and as of 31 December 2012 its accounted for 54.8% compared to 52.1% in 2011, growth of a loan portfolio (net) in absolute terms was KZT134.97 billion.

During 2012 the Bank has reduced the share of investments in securities and increased the share of placement in the interbank market. At the same time the share of securities of high-quality corporate issuers increased and replaced less profitable Government securities. Maintenance of high quality and acceptable durations of securities portfolio allowed the Bank to sustain ability of fast receipt, if necessary, of liquid funds by selling securities and/or through REPO transactions. When placing funds in the interbank market the Bank adhered to the conservative policy, temporarily allocating free funds for shorter periods and within the limits approved by the authorized body of the Bank.

As at the end of 2012 the Bank maintained Nostro correspondent accounts in 23 banks and Loro correspondent accounts opened for 49 banks and financial institutions that allowed the Bank to make timely payments of customers and its own payments both in national and in foreign currencies.

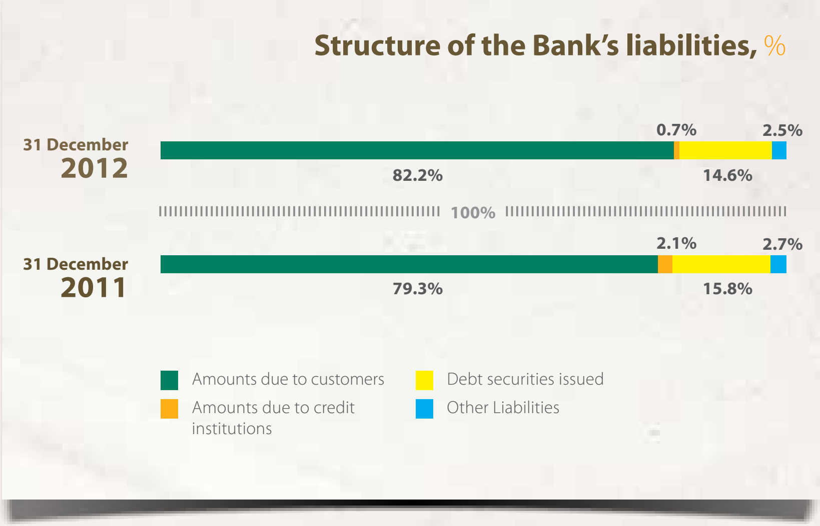
The Bank regularly monitors current position of existing limits on banks-counterparties for adherence to risk appetite of the Bank. Implemented in 2011 the early warning system allowed the Bank to react promptly and timely on deterioration of credit quality of banks-counterparties in Eurozone and USA during 2011 and 2012, as upon identification of negative factors the Bank efficiently conducted correcting actions on reduction of the size and terms of established limits.

For liquidity management the Bank also supports stable and diversified structure of liabilities including both funds attracted for a definite period and funds on demand.

Structure of the Bank's liabilities for 2011 and 2012 is as follows:

According to results of 2012 amounts due to customers increased by 9.1% and continue to compose the largest part (82.1%) in structure of liabilities. In 2012 the funding was provided primarily by deposits and current accounts of corporate clients and retail customers. Focusing on attraction of funding from a local market has allowed the Bank to keep one of the leading market positions on deposits and current accounts. The Bank is the market leader on volume of funds raised from private individuals, with a market share of 20.1%[3] as of 1 January 2013.

On the back of overall growth of amounts due to customers of the Bank in 2012 by 9.1% current accounts increased by 6.1%, deposits increased by 11.6%. Amounts due from individual customers increased by 22.6% and significantly increased the growth of amounts due to legal entities which comprised 1.4%. In whole this structure of client base allows the Bank



[3] Source: Calculation of the Bank based on data of Committee for the control and supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan

to support optimal level of diversification and cost of funding base

Diversification of funding base by the Bank allowed to strengthen already achieved positions of universal bank and provided a further stable competitive activity in all segments.

Market risk management

During 2012 the Bank continued to hold conservative policy on management of currency positions, maintaining neutral positions in all currencies, except for a position in US dollars.

In 2012 the asset structure by currency changed due to growth of lending in tenge. Share of assets in foreign currency decreased by 1.3% whereas the share of assets in tenge increased by 11.3%. Thus, the share of assets in foreign currency comprises 44.3% of total assets of the Bank and the share of loan portfolio in tenge increased significantly.

The bank identifies the following sources of interest rate risk: the interest rate risk on securities portfolios, change of fair value of which is reflected through the report of profits and losses, and the capital, as well as interest rate risk resulting from mismatching of maturities (interest rates re-pricing) of assets and liabilities that are sensitive to changes of interest rates (risk of change of interest rate). The Bank manages risks of changes in interest rate and market risk by managing the Bank's interest rate position, providing positive interest margin.

Internal limits that restrict the size of market risk (currency, interest rate, price) include Stop-loss limit, Expected Shortfall, DVBP, monitoring of compliance of which is carried out on a daily basis. The methodology of calculation and establishment of internal limits Stop-loss and Expected Shortfall which has been improved in 2012 allows to react promptly and timely on deterioration in business environment, Risk management of the Bank reviews the size of internal limits for treasury operationsregularly.

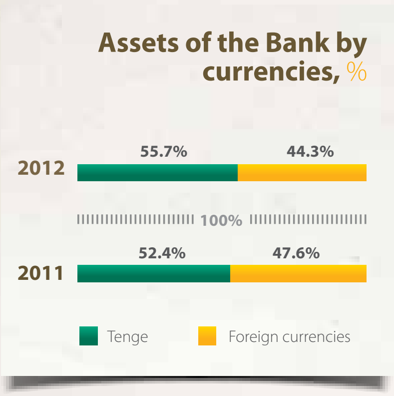
Operational risk management

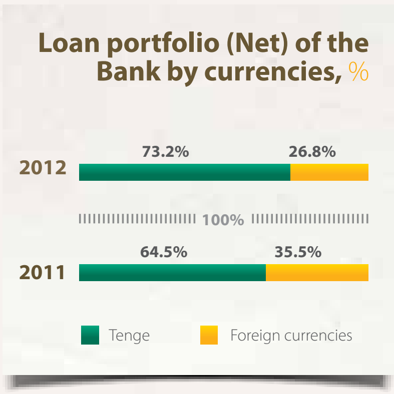
The Bank in its activities is exposed to operational risk. The operational risk is defined as risk of losses resulting from inadequate internal processes, systems, human factor or external events. Operational risk management is implemented at all levels of the Bank. Operational risk management unit within the risk management service of the Bank has developed and applies different operational risk management tools, such as:

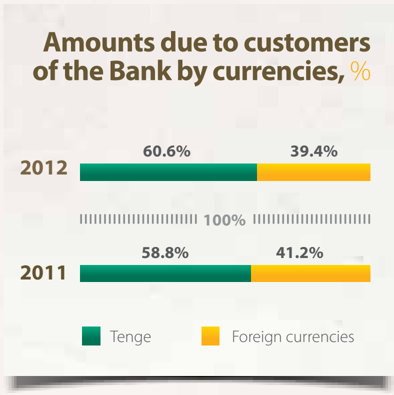
- Self-assessment of operational risks and the internal control by divisions of the Bank. In 2012 the map of risks on Head office of the Bank was developed and several separate projects on subsidiaries and retail banking of the Bank were conducted. As the result, appropriate risks reducing arrangements have been developed in order to improve the efficiency of control on the most significant risks.

- The Bank holds operational risk assessment upon launching of new products/services, systems and business-processes. In 2011 a new methodological base has been developed, and started from 2012 the instrument is fully operative and cover the most significant areas of the Bank's activity.

- The Bank collects and analyses operational risks events on a regular basis. These events are registered and classified in a special database which information later is used







for preparation of management statements on operational risks to analyse and accept correcting arrangements on minimization of operating losses in general.

- The Bank also continues to develop operational risk-management tool - Key risk indicators (KRI). In 2012 new KRI has been implemented which allowed to analyse the level of risk on IT systems and personnel of the Bank. These indicators and their levels are subject to periodic review/updating and are an integral part of the management report on operational risks.

Within the support of continuous activity the Bank periodically tests the plan on support of continuity and recovery of activity. In 2012 the Bank conducted the test on transition of critical systems to reserve server of the Bank with the participation of team members of recovery of activity on an alternative platform.

Compliance - risk management

The Bank determines compliance-risk as an existing and potential risk of occurrence of adverse consequences for the Bank, including costs (losses) and a negative impact on business reputation of the Bank, as a consequence of the Bank breach or failure to meet requirements of the legislation of the Republic of Kazakhstan, regulatory requirements, prescribed practices, internal procedures and policies of the Bank, as well as ethical standards, including, but not limited to, appropriate standards of behaviour on the market, conflicts of interests regulations, honest customer service, providing high quality consultation of clients.

In order to build an effective system of corporate governance and internal control, as well as to assess and control compliance risk the Bank established Compliance Division.

Compliance Division is an independent division and reports to Compliance - controller who is appointed by the Board of Directors of the Bank.

The main functions of Compliance Division are:

1) identification, assessment of compliance - risk and providing recommendations to the structural divisions of the Bank, to the management of the Bank, directed to minimization and management of compliance-risks;

2) to ensure that the Bank takes appropriate measures to prevent money laundering and terrorism financing (AML).

In order to minimize, prevent possible compliance-risk Compliance Division conducts the following activities:

1) Organises and coordinates self-assessment by divisions of the Bank for compliance of their activity with requirements of the legislation of the Republic of Kazakhstan and internal policies and procedures of the Bank. Report on compliance-risk self-assessment is presented to the Management Board of the Bank. According to the results of a self-assessment of the activity of divisions of the Bank, a plan of measures to reduce the risk level is worked out, execution of which is supervised by Compliance Division;

2) The Bank identifies and assesses the level of the Bank's compliance-risk, estimates an efficiency level of a monitoring system

existing in the Bank, determines the residual level of compliance-risks. Results of such assessment are presented to the Management Board and the Board of Directors. For improvement of control efficiency and reduction of residual compliance risks a plan of actions is worked out and its execution is controlled by Compliance Division.

One of the main goals of Compliance Division is maintenance of compliance of the Bank's activity with the requirements of the legislation of the Republic of Kazakhstan on AML and for this purpose the Bank conducts the following procedures:

1. Customer due diligence procedures ('know your customer' (KYC)) before establishing business relations with clients. In case of impossibility to take appropriate measures to verify the client, business relations with such client are not established, operations are not conducted.

2. The Bank, being the subject of financial monitoring, according to the requirements of the legislation of the Republic of Kazakhstan in relation to AML informs the authorized body about operation conducted by customers of the Bank which are subject to financial monitoring and about suspicious transactions. The Bank has necessary information systems to identify transactions subject to financial monitoring and suspicious transactions, based on typologies and scenarios, and to send data to the authorized body.

3. Compliance Division on a regular basis conducts training of employees of the Bank concerning AML. During 2011 training on AML issues and the international economic sanctions has been held. The above-mentioned arrangements were focused on improvement of level of awareness of employees responsible for AML procedures that also allows minimizing compliance risk associated with non-compliance by the Bank with the requirements on AML.

In addition, for the purpose of compliance by the Bank with the requirements of the legislation of the Republic of Kazakhstan regulating insider information and compliance by the Bank with the requirements of United Kingdom Listing Authority, Compliance Division revised the document on usage and disclosure of insider information, and regulating the procedure for maintaining a list of insiders. The document also imposes limitations on the Bank's insiders, controls the use of insider information, responsibility for disclosure of insider information. According to this document the Bank maintains the Bank's insiders list. Insiders signed the letter on nondisclosure of insider information.

In 2012 within the compliance risk management special attention was concentrated on changes in legislations of other jurisdictions with extraterritorial effect. In particular, on the US Foreign Accounts Tax Compliance Act (FATCA). In this connection the special designated working group analysed FATCA and prepared report with possible scenarios of the Bank's participation in FATCA. The Bank participated actively in meetings of the Financial Institutions' Association of Kazakhstan and in discussions of representatives of financial sector of the country with government authorities related to the requirements of FATCA and possible scenarios of participation of Kazakhstan.

Capital management

In 2012 the Bank continued to manage the capitalin order to ensure the business continuity of all organizations of the Group and optimization of the debt to equity ratio. During the reporting period the Bank operated to comply with the requirements on capital set by norms of regulator and the requirements of the Basel.

Significant changes in the Bank's equity in 2012 related to realization of option by the Bank on preferred shares,as the result the Bank bought-back 150,000,000 preferred shares of the Bank from Samruk-Kazyna for the amount KZT 27 billion and 40,000,000 preferred shares for total amount KZT 7,2 billion. However, Samruk-Kazyna holds 6,232,499 preferred shares of the Bank.

In 2012 the Bank also carried out arrangements in connection with realization of decision adopted by the extraordinary general shareholders' meeting of the Bank in relation to increase of total amount of authorized shares of the Bank by way of split of common shares in the proportion of one common share to ten common shares. As the result of split the total number of authorized shares is 24,000,000,000 shares, out of which 13,084,159,600 are issued shares.

From 2013 to 2019 a gradual reform is planned for the capital of banks under Basel III, driven by higher capital adequacy requirements for banks. Basel III capital adequacy regime implies a reform of the banks' capital. At the Bank's opinion transition to new standards will not result in additional capitalization of the Bank.

Note: Information is taken from the audited financial statements of the Bank, unless otherwise stated.

1996–2002

Sealer

Head office in 2002

«Business» payment card of CUP payment system

1996

RENAMING

In accordance with the Government Resolution № 013 dated 15 August 1996 Halyk Bank of the Republic of Kazakhstan was renamed into Joint-stock Halyk Savings Bank of Kazakhstan.

PAYMENT CARDS

The first card with the international payment system Master / Card was issued by Halyk Bank in the beginning of October 1996. Six years later, in June 2002, Halyk Bank issued a millionth payment card.

LISTING ON KASE

On September 16, 1998 common shares of Halyk Bank were included to category A of the official list of securities of Kazakhstan Stock Exchange (KASE).

1997

PLACEMENT OF COMMON SHARES AMONG INDIVIDUALS

The first issue of common shares, including those placed among individuals was registered in September 1997.

FIRST INTERNATIONAL RATINGS

Halyk Bank received them in fall 1997 from international agencies Moody's Investors Services and Standard and Poor's. In fall 2001 credit rating was received from the rating agency Fitch Ratings.

Coin of five and one hundred tenge nominal value

POS-terminal Ingenico Elite 510

1998 JSC «HALYK SAVINGS BANK OF KAZAKHSTAN»

In July 1998, by the approval of General Meeting of shareholders the Bank was reorganized from a closed joint stock company with 100% participation of the Government into the Open Joint Stock Company «Halyk Savings Bank of Kazakhstan». In the same year, in accordance with the Government Resolution of the Republic the process of gradual privatization of Halyk Bank began.

1999 OPENING OF REPRESENTATIVE OFFICE IN BEIJING AND LONDON

On November 24, 1999 Representative office of Halyk Bank was opened in Beijing (China) with the participation of the President of the Republic of Kazakhstan Nursultan Nazarbayev . On June 14, 2000 OJSC «Halyk Bank of Kazakhstan» registered its Representative office in London (United Kingdom).

2001 PRIVATIZATION

In November 2001, the Government of the Republic of Kazakhstan has sold at auction its controlling interest, for the time was 33.33% plus one share.

Social report

Halyk Bank is the leading financial group of the Republic of Kazakhstan. We understand that the Bank cannot develop in full being isolated from the society, and this is the reason why we connect our success directly with the development of society and the country. We are involved in sponsorship and charity assistance targeted to support the improvement of life and development of different groups of population and the country in a whole. Contribution to development of medicine, education and assistance in solving ecological problems and support to socially unprotected social classes – this is our contribution to the future of our country.

Halyk Bank pays special attention to sponsorship and charity and in this connection in April 2012 the Bank established the Social Responsibility Committee under the Board of Directors which controlled and assessedcorporate social responsibility policies. For more details about the Committee, please refer to "Corporate Governance" section of this report.

During the last ten years the Bank determined the main directions of social policy: support to socially unprotected social classes (orphaned children, disabled persons, veterans, children with disabilities) which we follow and we know that due to this support the main principles of social responsibilities of the largest financial institution which is working to strengthen the welfare and prosperity of Kazakh society are also supported.

Main projects:

1) "Narodnaya Liga"('Halyk League')

"NarodnayaLiga" is effective since 2005. This is a social sport project on support of healthy lifestyle and promotion of active basketball movement where children from orphanages actively participate. The project promotes love to sport activities, aspiration to victory and contributes to organization of pastime time of children. Currently, taking into account the growing level of team trainings and desire of children to participate in Basketball Championship of the Republic of Kazakhstan in 2011 under support of the Government Sport Agency of Kazakhstan, in 2012 the Championship was reorganized to the official Basketball Championship of the Republic of Kazakhstan among orphanages.

In May 2012 the Bank successfully organised the second tour 2011-2012 of the Championship and the games of the first tour 2012-2013 of Championship took place in October. The Championship is organized under support of the National Basketball Association of the Republic of Kazakhstan.

17 orphanages participated in the project; more than 500 children from orphanages participate in trainings annu-

ally. Over the 7 years of existence of the project the Bank spent on its realization more than KZT 169.7 million. Particularly in 2012, the Bank spent KZT 40.6 million.

2) "Narodniye studenty" ('Halyk students') project for graduates of sponsored orphanages.

Another large social project which Halyk Bank continued in 2012 was "Narodniye studenty" program which started in September 2007. This special charity program was designed for children of sponsored orphanages from different regions of Kazakhstan. Due to this program children of sponsored orphanages from different regions of Kazakhstan have the opportunity to get higher education and scholarship under the name of Mr. Kozhakhan Abenov, our late Deputy CEO.

On 7 July 2012 the second traditional meeting took place with students-graduates of higher educational institutions of Kazakhstan – participants of "Narodniye studenty" program. Some of them already joined the Bank's staff. They have an opportunity of career growth in Halyk Bank as well as in whole Halyk Group. As of today there are 25 participants of this program.

Due to "Narodniye studenty" project 20 children of sponsored orphanages got higher education, 8 graduates of the project were further employed by the Bank. For implementation of "Narodniye studenty" program the Bank spent KZT 37 million since 2007.

3) Projects on sponsorship of orphanages.

The Bank provides assistance to 35 orphanages and boarding schools across the republic. Regularly the assistance is provided for improvement of material and technical conditions: purchase of furniture, equipment, clothes, office supplies; organization of holiday, sport and educational events.

In September under the "Doroga v shkolu" ('Road to school') republican campaign, employees of the Bank's Kyzylordabranch visited children of the local orphanage. They congratulated girls and boys onthe beginning of the new school year and presented twenty school bags with school supplies, clothes, books. Such events are conducted in orphanages regularly. Employees of the branch office regularly provide sponsorship for organization of different cultural sport events.

In 2012 the column "Detskoye tvorchestvo" ('Children's arts') continued to be active on corporate web-site of the Bank to support creative initiative of children from sponsored orphanages. Halyk Bank provides assistance to sponsored orphanages in selling the handcrafted items of children and purchase of materials for lessons.

In spring 2012 the charity assistance was provided to state organization "Special (correctional) boarding school #2 for children with defects in locomotors system" in form of repair of rolled roofing material in the building of work therapy for the amount of KZT 1,007,000.

In December 2012 the Bank gratuitously passed Nissan Urvan microbus to state organization "Special (correctional) boarding school #2 for children with defects in locomotors system" to the best pleasure of the school.

When preparing for the New Year celebrations, employees of the Bank initiated congratulations to kids from sponsored orphanages in a special way. Halyk Bank jointly with the "Ayala" Social Fund organised a charity event "Letter to Santa Claus" in the hall of the Head Bank.

Within this project, a New Year tree was installed and decorated with envelopes containing letters of children. Employees read letters of children and provided necessary assistance by putting money to envelop or presented gifts. In total, employees of the Head Bank collected toys, clothes, books, and money for the amount KZT 336,600.

Thanks to the "Letter to Santa Claus" project, there is an opportunity to fulfil dreams of children from boarding school #1 (for deaf children) and #8 (for mentally retarded children), state organisation "Special (correctional) boarding school #2 for children with defects in locomotor system", children's organization "Kovcheg" (Talgar city), Children's psychoneurological orphanage (Almaty city).

4) Projects on providing assistance to disabled children.

The purpose of projects is to provide assistance to disabled children is creation of conditions for independent life, overcoming limited activity and establishing equal with other children opportunities for participation in life of society. The Bank provides efficient and effective support to the most unprotected social class – disabled children.

On 21 March 2012 children from the Alginskiy orphanage gifted good mood and smiles to disabled people on Nauryz holiday under the "Vesennyaia kapel" ('Spring dripping') event. The amount of KZT 600,000 was spent for purchase of musical instruments which were granted to the kids. During several years Halyk Bank realises the complex program on sponsorship to orphanages including the Alginskiy orphanage.

5) Projects on support of ecology.

Halyk Bank has the heart-warming tradition – before May holidays employees of the Bank visit special state organization "Special (correctional) boarding school #2 for children with defects in locomotor system" to organize ecologic event. On 20 April 2012 300 roses were planted jointly with the children.

Within the ecologic event "Podari stolitse derevo" ('Grant a tree to the capital city') the Bank spent KZT 1,575,000 for planting 100 trees in President's park of Astana city.

In May employees of Halyk Bank in yellow t-shirts and baseball caps with the Bank's symbol planted pine trees and broad-leaved trees in new school #88 of "Kaitpass-2" microdistrict of Shymkent city.

Besides, the Bank actively participated in large-scale charity event on recovery of Medeoarea which suffered as the result of windstorm in May and June 2012. For this purposes the Bank spent KZT 3 mln.

6) Support to projects of "Ayala" Charity fund.

Since 2008 Halyk Bank is the partner of "Ayala" Charity fund. The memorandum with the charity fund was signed in De-

cember 2012. The main subject of this memorandum is cooperation of the parties in realization of social projects of the Fund on support of children's medical and educational institutions of the Republic of Kazakhstan.

Over the period of cooperation the Bank participated in several large-scale projects of "Ayala" fund:

a) "Zdorov'e natsii nachinaetsya s rodilnogo doma" ('Health starts from birth') – project on equipment of maternity hospitals and central district hospitals of Almaty region with phototherapy devices for icterus treatment.

b) "Ya toje hochu zhit" ('I also want to live')–project on development of children's cardio-surgery in our country. Within this project the National scientific centre of surgery after Syzganov received medical equipment for surgical wing and emergency rooms.

c) "Dishi malysh" ('Breath, kid')–project on equipment of children's emergency rooms and perinatal centres of the republic of Kazakhstan.

d) "Vdohnem zhizn" ('Breathe the life')–project on providing "Aksai" children's clinical hospital of the Republic which provides medical and rehabilitation assistance to children of the country with hard orthopaedic and neurological pathology with the necessary medical equipment.

Since 2011 each client and employee of Halyk Bank has an opportunity to transfer to account of "Ayala" Charity fund his voluntary donation through internet-banking system for individuals. In total for realization of projects of "Ayala" fund the Bank spent KZT 196.7 mln.

As the time showed – our cooperation with "Ayala" Charity fund is favourable. The most important are real affairs which we can see in work of children's divisions of maternity hospitals, children's hospitals. And we are glad to recognize that this unique equipment already assisted and will assist in saving thousands of lives of newly appeared citizens of Kazakhstan – future of our country.

7) Support to projects of "Sabi" Charity fund.

The memorandum on cooperation in realization of social projects of the fund on support of children's medical and educational institutions of the Republic of Kazakhstan was signed in 2012 with the "Sabi" fund for the five years term.

It is assumed to provide funds to the project of "Sabi" fund on construction of children's village in one of the regions of Kazakhstan. The project can assist children to choose the correct pass of life due to education in orphanage. The experience of foreign countries which uses this system of education of children from orphanages in children's village demonstrates that graduates of family villages are more adaptive, socially orientated, psychologically stable and morally ready for adult life. They are goal-oriented and as the result achieve stable social position.

In 2012 the Bank spent KZT 148 million for realization of the fund's projects.

8) Marafon Pobedy ('Marathon of Victory').

"Marafon Pobedy" – is a traditional event organised by Halyk Bank. Over the last four years within the annual event "MarafonPobedy" on social support of veterans of the Great Patriotic War the Bank provided KZT 42.8 million to veterans and veterans' organisations. In 2012 veterans' organisations of Almaty and Astana cities were provided with the charity assistance for the amount KZT 8.7 million. Out of this funds, veterans of the Great Patriotic War (World War II) – clients of the Bank in regional branches – were provided with a set of food products for the total amount KZT 5.3 million.

Assistance to veterans within the "MarafonPobedy" is the tribute to heroism and holding power of soldiers and military officers who struggled for victory in the Great Patriotic War and who relieved the country from fascism.

The Bank provided KZT 2 million to the Council of veterans of internal affairs authorities of Kazakhstan to construct the Memorial of Glory in Astana city as a tribute to the memory of dead heroes of internal affairs authorities in discharge of their duties.

Within the social project "Marafon Pobedy" the Bank annually provides charity assistance to key veterans' organisations of Almaty city. Regional branches of the Bank organize events on assistance to veterans of the Great Patriotic War – clients of the Bank in form of set of food products.

Other projects:

Halyk Bank actively participates in realization of sport events. In 2012 the Bank provided support to Gymnastics Federation of Kazakhstan for the amount KZT 10 mln and provided with the necessary furniture. "Special Olympics Kazakhstan" organization was provided with the assistance for the amount KZT 500,000.

In 2012 due to employees of the Bank the following charity campaigns took place: campaign devoted to 1st June (International children's day), 1st September (Knowledge day), New Year and assistance was provided to different organizations including "Nur" orphanage (Talgar town), children's antiphthisic-center #1 (Almaty city), children's organization "Kovcheg" (Talgar town), "Oral" Charity fund (Almaty city), children's psychoneurological orphanage (Almaty city) and sponsored orphanages.

In August 2012 the charity assistance for the amount KZT 1 million was provided to people in Baikonur town who suffered from explosion of utility gas.

In October 2012 charity assistance was provided to private fund "Bobek" which realizes socially important projects of balanced individual development and socialization of children and teenagers. KZT12 million were provided for education of talented children from orphanage in universities and organizations of technical and professional education and for payment of scholarship in the period of education.

Other projects supported by the Bank in 2012 included assistance provided for organization of holiday events in connection with the Day of Temirtau town, assistance to the State Pedagogic Institute of Pavlodar for construction of memorial for the First teacher, sponsorship of Eurasian Media Forum and III Eurasian Women's Summit.

We are glad to recognize that all our efforts which we contribute to socially important projects have real result including improvement of health, intellectual development and sport achievement of the younger generation as well as support to veterans and veterans' organizations of our country.

Labour system of Halyk Bank

Labour system of the Bank is regulated according to the Labour Code of the Republic of Kazakhstan, the Code of the Republic of Kazakhstan "On taxes and other payments to budget", the Law of the Republic of Kazakhstan "On banks and banking activities in the Republic of Kazakhstan".

During 2007 and 2012 the system and consistent work was conducted on optimisation and automation of business processes of the Bank which allowed optimizing the staff number by 9% and resulted in improvement of labour productivity.

During 2012 processes of layoff, business trips, completing advance report were automated on Personal Portal which was launched in 2011. Personal Portal allowed employees to get reports on staff, make application on staff events, on access to network resources and it includes all previously created portals of initiatives, survey on satisfaction of internal clients, professional skills, labour discipline etc.

Staff recruitment is based on approved Regulations on search and recruitment of staff of the Bank. To increase efficiency and quality of staff recruitment, the Bank applies individual questionnaires, abilities tests, intellectual tests which were developed by professional physiologists and sociologists recognized internationally.

The Bank actively applies programs of development and motivation of key employees. Within this program the most experienced employees are enrolled to the Personnel Reserve in order to provide timely needs of the Bank in managing staff and in key divisional staff as well as for improvement of qualitative composition of staff for realisation of strategic goals of the Bank. Members of the Personnel Reserve-have a right for co-financing by the Bank of education under Masters programmes. 426 employees of the Bank were enrolled to the Personnel Reserve 2012, 73% of appointments in 2012 were made out of the Personnel Reserve. The average staff turn-over rate among middle management employees and directors for 2012 was 13%: in head office – 12%, in regional branches – 16%. Thus, the share of retired employees in 2012 which were enrolled to the Personnel Reserve was 8%, which is lower compared to the average turn-over indicator among head of divisions which indicated that employees with more loyalty and stability are enrolled to the Personnel Reserve.

Business-area	2007	2008	2009	2010	2011	2012	Deviation 2012/2007	
Branches	8 253	8 306	7 792	7 725	7 470	7 394	10%	-859
Head Office	1 554	1 602	1 522	1 463	1 491	1 496	4%	-58
Total	**9 806**	**9 907**	**9 314**	**9 188**	**8 962**	**8 890**	**9%**	**-916**
Deviation	687	101	-594	-126	-226	-72		
% Branches	5%	1%	-6%	-1%	-3%	-1%		
% Head Offices	23%	3%	-5%	-3,90%	2%	0,30%		
Total	**8%**	**1%**	**-6%**	**-1%**	**-2%**	**-1%**		

Motivation of staff and its involvement to the activity of the Bank

The Bank developed the system of motivation for employees in order to motivate employees for achievements in work which includes the following:

1. Periodical system review of employee salaries taking into account changes in salaries on labour market.

2. Bonus payments for employees based on results of performance for a year including assessment of results of employee activity.

3. Monthly bonuses for employees of Operational division.

4. Benefits and compensation for employees of the Bank:

- Group employees life insurance;

- Material assistance in connection with personal events of employees;

- Additionally paid vacation in connection personal events of employees;

- Monthly incentive for employment years (overall 377 employees);

- Compensations in connection with recruitment/transfer of employees to another region within the Bank and its subsidiaries (16 employees);

- Sport and recreation activities for the Bank's employees;

- Support for unemployed pensioners of the Bank's system, charity support in connection with holidays;

- Organization of 16 corporate activities, contests and 3 charity campaigns;

- Programme of initiative development;

- Contest of recognition of achievements and awards to the best employees of the Bank (230 persons).

5. "Admission day" is conducted regularly for newly recruited employees of head office.

6. Distribution of information to employees on the Bank's activity, its policy and

strategy by organization of virtual room/information sessions with the Chief Executive Officer of the Bank, information is also available on the Bank's intrasite Halyk Info and in e-newspaper Halyk-Zhanalyk (Halyk-News);

7. Questionnaires are distributed to employees regularly in order to analyse staff satisfaction:

- In March we conducted a survey among 5,033 employees of the Bank on their satisfaction with working conditions;

- Survey on satisfaction of internal clients – is conducted 4 times per year.

Personnel Development

In area of skill development and training of personnel the Bank emphasises on corporate trainings of employees of the Group for development of skills on realization of cross-selling system of full range of services of Halyk Group, client-oriented conduct of business and qualitative growth of professional level of employees and middle management staff.

In order to exercise a systematic approach in training and development of personnel, there are professional business-trainers available for the banking and financetopics in the Bank, and training classes in the Bank's head office and branches including specialised computer facilities.

Personnel Development Division is responsible for development of skills of personnel on the following directions: examination of level of professional skills, development of learning programs which are adapted to technologies and practice of the Bank; carrying out programs on development of business skills and improvement of level of knowledge in banking and financial disciplines in all branches of the Bank.

The system of remote training is available in corporate network of the Bank which allows employees of all regional and district branches of the Bank participate in trainings and development.

Each direction of corporate training is developed on stage-by-stage approach, learning material is structured based on a complexity and depth of specification of learning information. This approach provides continuous improvement of the level of professional skills of personnel and improvement of practical working skills.

Separate sets of learning materials and programs were worked out for professional development of employees across all business directions of the Bank as well as for key categories of personnel within each business directions.

According to acting statutory requirements, the Bank organises obligatory trainings and certification for employees of certain categories. Every year certain categories of employees are trained for obtaining qualification certificates and licenses for conclusion, execution, registration of transaction with securities; managing securities portfolio, valuation activities (valuation of movable property and real estate, valuation of intellectual property, valuation of enterprise). Personnel are trained on professional activity areas, on professional certification and Master's programmes, on programmes related to implementation of new technologies. Employees can participate in trainings upon necessity

in other divisions of the Bank/international banks and participate in local and international forums/conferences.

Corporate trainings of employees are conducted within the following areas:

- Development of basic skills for middle management personnel;

- Development of sales skills and skills of effective servicing of clients;

- Trainings on products of the Bank and its subsidiaries;

- Internal regulations of the Bank;

- Financial analysis.

Besides, each employee of the Bank with accumulated period of work more than 6 months may have training or professional certification in external organisations of Kazakhstan, CIS countries and foreign countries at the costs of the Bank.

312 employees of the Bank participated in trainings and professional certification in organizations of Kazakhstan during 2012, 11,927 employees participated in corporate trainings on development of professional knowledge and skills.

2003-2008

«Business» payment card of CUP payment system

Banknotes of two hundred and two thousand tenge nominal value dated 1993

2004

NEMO-Q
On February 16, 2004 new types of customer service of Halyk Bank were presented: the system of «queuing system» and institution of managers in settlement units.

DEBUT ISSUE OF EUROBONDS
was carried out by Halyk Bank on 7 October 2004.

RUSSIA. NBK-BANK
In 2004 JSC «Halyk Bank « became a shareholder of the OJSC ACB «Khlebnyi» with 100% participation which in December 2007 was renamed into «NBK Bank».

CARD TO CARD
Starting from 1 November 2004 the owners of Halyk Bank payment cards have an opportunity to transfer money to each other through the Halyk Bank's ATMs.

Pos-terminal
VeriFone OMNI 395

«Altyn»
payment card

2006

HALYK GROUP

In 2006, in the financial market of the country's the largest financial group appeared - Halyk Group, offering a wide range of services (banking, pensions, insurance services, leasing, brokerage and asset management) to its retail clients, small and medium-sized businesses and corporate clients.

CUP

On March 13, 2006 JSC «Halyk Bank» and the largest processing company in China in the field of business card China Union Pay - CUP signed the Acquiring agreement.

PLACEMENT OF GLOBAL DEPOSITARY RECEIPTS (GDR) ON THE LONDON STOCK EXCHANGE WITHIN IPO

On December 14, 2006, after a two-week road show, Halyk Bank has successfully placed its shares in the form of global depositary receipts (GDR) within IPO on the London Stock Exchange at the upper limit of the price range - USD 16 per GDR. At the placement price overall demand oversubscribed supply about 12 times, and the total demand exceeded supply by more than 23 times. The offering price index estimates the bank's presumed book value at the end of 2006 was approximately 6.17 to 4.78, after entering the capital of the Bank of the proceeds from the IPO, which is the highest result among banks across the region.

2007

ASSETS EXCEEDED 1 TRILLION TENGE

On May 1, 2007 Halyk Group's assets exceeded 1 trillion tenge.

Postage stamp issued in connection with 80th anniversary of the Bank

Corporate Governance Statement

UK Corporate Governance Code Compliance

As a foreign company with global depository receipts admitted to the Official List of the UK Listing Authority, the Bank is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council – the independent regulator of the United Kingdom – in May 2010.

The Bank considers the UK Corporate Governance Code as the guideline for further development of corporate governance.

The existing Corporate Governance Code of the Bank differs from the UK Corporate Governance Code, as disclosed below. These differences are often caused by the requirements of the Kazakhstan Code of Corporate Governance and the legal requirements, as well as the rules of the Kazakhstan Regulator – the Financial Market and Financial Organizations Oversight Committee under the National Bank of Kazakhstan, and partially – by the domestic environment of the Bank's activities.

The Bank's Code of Corporate Governance and the UK Corporate Governance Code

The Bank's Code of Corporate Governance includes several distinctions from the UK Corporate Governance Code. Below are the main differences:

- The Bank's Code of Corporate Governance does not require a regular re-election of the Board. Instead, the scope of the General Meeting covers determination of the Board's authorities term.

The General Meeting of 21 April 2011 set a three-year authorities term for the current Board. This approach does not contradict the Combined Code which stipulates the maximum three-year term for re-election of Directors.

- The UK Corporate Governance Code provides for appointment one of the independent non-executive directors to be the senior independent director.

The Bank's Board did not appoint the senior independent director. This issue shall be considered in the future.

- The UK Corporate Governance Code provides for meetings of non-executive directors at least annually, in particular, to appraise the chairman's performance.

In 2012 non-executive directors held informal meetings attended also by the corporate secretary for discussion of strategic issues.

- The Combined Code provides for that at least half of the Board expect for the chairman, should comprise non-executive directors determined as independent.

The Bank's Code of Corporate Governance does not directly require this due to the Kazakhstan law restrictions (which were abolished in the end of 2011). However, the Board's composition appointed by the General Meeting on 21 April 2011, includes 4 independent non-executive directors out of 6 (excluding the Chairman).

Kazakhstan Code of Corporate Governance and the Bank's Code of Corporate Governance

'The Kazakhstan Code of Corporate Governance' means the Code of Corporate Governance approved by the Issuers Board in February 2005 and by the Council of the Financiers Association in March 2005 (with amendments of July 2007). When developing the Kazakhstan Code of Corporate Governance, a vast international and Kazakhstan experience was used. This Code is a typical one for Kazakhstan companies.

The Bank's Code of Corporate Governance has been developed considering the Kazakhstan Code of Corporate Governance, along with the legal requirements, recommendations of the Kazakhstan Regulator, ethical norms and other factors and circumstances of the Bank. Respectively, the Bank's Code of Corporate Governance includes more extended provisions compared with the Kazakhstan Code of Corporate Governance, which promotes the corporate governance practice.

In addition, the Bank implements similar practices of corporate governance in other companies of the Halyk Group, and believes that this also facilitates improvement and common understanding of the corporate governance principles throughout the Group.

The major differences of the Bank's Code of Corporate Governance and the Kazakhstan Code of Corporate Governance are:

- Restriction criteria added for candidates to the Board of Directors and the Management in accordance with the recommendations of the Kazakhstan Regulator aimed at higher quality of the Bank's bodies and prevention of conflicts of interests

- The principles of responsibility added with respect to the Directors and the Management

- Described organization of the Board's and the Management's performance with a clear segregation of duties

- Principles for consideration of the Directors' and the Management's remunerations described

You can find the Bank's Code of Corporate Governance on our corporate website www.halykbank.kz.

Corporate governance events in 2012

- Buy-back of vast majority of preferred shares from Samruk-Kazyna

- Change in the Board's composition

- New Strategy for Development of Halyk Group for 2013-2015

- Approval of the Dividend Policy

- Increase of total quantity of the Bank's shares by way of splitting ordinary shares of the Bank by ratio 1:10

Corporate Governance Structure

Halyk Bank adheres to the following principles of corporate governance:

- ensuring the real possibility of shareholders for execution of their rights on managing the Bank;

- giving shareholders the real opportunities to take part in distributing net profits of the Bank (obtaining dividends);

- ensuring timely and full disclosure of authentic information to shareholders regarding the financial positions of the Bank, economic indicators, performance results, management structure, for the purpose of ensuring sound decisions of the shareholders and investors of the Bank;

- ensuring equal attitude to all categories of shareholders of the Bank;

- ensuring maximum transparency in performance of the Bank's officials;

- ensuring strategic management of the Bank by the Board, and its efficient control over activities of the executive body, as well as accountability of the Directors to the shareholders;

- ensuring the Management's ability to duly carry out the effective routine management of the Bank, as well as the Management's accountability to the Board and the shareholders;

- common ethical norms in the Bank;

- ensuring efficient system of internal control in the Bank, and its unprejudiced assessment.

The diagram shows the structure of accountability within the levels of corporate governance.

The Board of Directors has a number of Committees: Audit Committee, Nominations and Remunerations Committee, Social Responsibilities Committee. For a detailed report on these Committees' performance, please proceed to the respective sub-section below.

Also, in order to regularly assess the adequacy of the Bank's strategy to the current circumstances, the Board established the Strategic Planning Committee which meets semi-annually to discuss the most important changes in markets, consider initiatives of the Bank in one or another sector. A detailed report of the Strategic Planning Committee is provided in the respective sub-section below.

The Management has a number of working bodies – directorates, committees and working groups. This allows to consider large issues in detail by each individual segment. Where necessary and if required by the law, the decisions made by the working bodies on such issues are brought for approval to the Management or the Board of Directors.

In order to implement the best practice of corporate governance, the Board is assisted by internal and external auditors, compliance-controller (who is at the same time the chief risk officer), corporate secretary, etc.

For instance, the Bank exercises internal audit, risk-management, compliance control services (the Bank's activities in these areas are more detailed in the subsection "Risk Management and Internal Control" below), as well the institute of corporate secretary who regulates the issues of conflicts of interests, among others.

The Bank involves Big4 audit firms for assurance of the financial statements of Halyk Group. In 2012 this function was carried out by Deloitte.

Functions between the Board and the Management are allocated in accordance with the Kazakhstan laws. For instance, the Board is responsible for the following most important issues:

- determination of long-term priority areas of the Bank's activities, ensuring conditions for maintaining the adequate level and quality of financial and labour resources in the Bank;

- preliminary approval of the annual financial reports;

- establishment and maintaining of control procedures over the Management performance, assessment of the strategy implementation;

- establishment of a transparent and efficient system of criteria and procedures for nomination of the Management members, as well as employees reporting to the Board, determination of their remuneration;

- ensuring effective risk-management and internal control systems;

- establishment of the system for revealing and settlement of conflicts of interests;

- decisions on concluding large transactions and contracts with associated parties;

- decisions for acquiring ten and more percent of shares (participation) in other legal entities;

- ensuring a continuous dialogue with the shareholders of the Bank.

The Management manages the day-to-day operations of the Bank, including:

- implementation of the strategic decisions made by the Board;

- development of draft strategic documents for consideration by the Board;

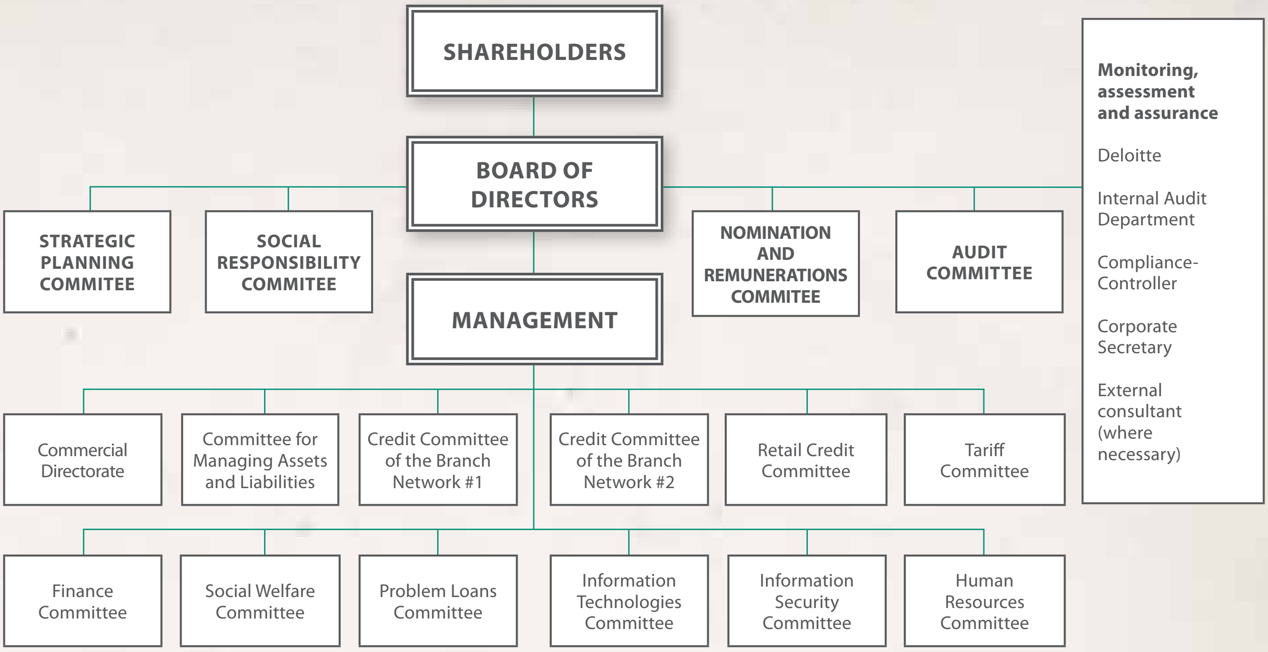
- determination of limits for loans, guarantees and bails which do not fall within the large transactions;

- appointment of directors to the Bank's branches;

- interaction with subsidiaries, branches and representative offices of the Bank;

- implementation of internal control and risk-management mechanisms in accordance with the strategy adopted by the Board;

- approval of the structure and the personnel of the Bank.



Structure of the Board of Directors

In 2011 the Annual General Meeting approved the composition of the Board of 7 persons.

In November 2012 Mr. Satylganov K.A. exited the Board of Directors upon his own initiative due to expiry of his authorities as the CEO of JSC Holding Group ALMEX (the principal shareholder of the Bank).

In December 2012 the Extraordinary General Meeting elected Mr.Nurabaev Z.D., the new CEO of JSC Holding Group ALMEX, to the Board as the representative of the principal shareholder in the governing body.

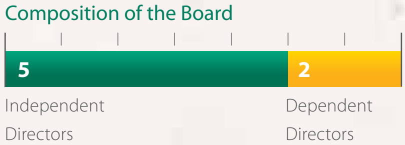
Respectively, as of yearend 2012 the Board composition was as follows:

Composition of the Board

Alexander Pavlov	Chairman, independent non-executive director
Umut Shayakhmetova	Chief Executive Officer
Ulf Wokurka	Strategic Planning Committee Chair, Independent non-executive director
Kadyrzhan Damitov	Independent non-executive director
Frank Kuijlaars	Nominations and Remunerations Committee Chair,
Zhomart Nurabayev	Director, representative of JSC Holding Group ALMEX
Christof Ruehl	Audit Committee Chair,
Umut Shayakhmetova	Chief Executive Officer
independent non-executive director	**7 Directors**

When determining independence of the Directors, the Board used the criteria set by the Kazakhstan law.

Composition of the Board



Skills and Experience of Directors

Halyk Bank seeks the best balance of experience, skills and vision of Directors. Availability of various views when discussing issues, allows the Board to most effectively exercise its duties and to represent interests of shareholders.

Independent Directors contribute the international experience, strategic vision, insights of the largest industries where the Bank operates, corporate governance, and risk-management.

At the same time, all Directors possess knowledge of banking activities, finance in general, human resources management including issues of remunerations.

Below is the summarized information on skills and experience of the Board:

Skill and Experience of Directors

Banking	6 Directors
Oil & gas and mining	4 Directors
Other industries	5 Directors
Finance	7 Directors
Leadership	7 Directors
Risk management	4 Directors
Global experience	4 Directors
Strategic vision	7 Directors
Corporate governance	7 Directors
Human resources management	7 Directors
Total	**7 Directors**

Structure of the Management

During 2012 the Management did not pass through any changes. The Management composition is as follows:

Composition of the Management	
Umut Shayakhmetova	CEO
Marat Almenov	Deputy CEO Retail banking
Dauren Karabayev	Deputy CEO International activities, Treasury and Subsidiaries
Aliya Karpykova	Deputy CEO (since 15.10.11) Finance, Accounting and Property
Saule Kishkimbayeva	Deputy CEO Corporate banking
Stanislav Kosobokov	Deputy CEO SME banking
Askar Smagulov	Deputy CEO Operations and information technologies
Kozhamurat Uskimbayev	Deputy CEO Security and problem loans
Total	**8 members of the Management**

The Board's Performance

In general the Board of Directors and the Committees thereunder perform in accordance with the work plans for the respective periods.

In 2012 the Board of Directors held five in-person meetings where 54 items were considered, and 135 absent votes where 642 items were considered.

During the in-person meetings, the Board discussed the most strategic issues, such as:
- Strategy for development of the Group for 2013-2015;
- Implementation of the Group's Strategy for 2010-2012;
- Largest projects of the Bank;
- 2011 financial statements (preliminary approval) and quarterly performance reports of the Management;
- Stress-testing loans portfolio;
- Approaches to tariffs policy;
- Quality analysis of credit portfolio;
- Issues of internal audit;
- Analysis of related-party transactions, etc.

Absent voting was in place for routine issues which are legally referred to the Board's duties, and the most urgent issues which should not be subject to leaving till the next ordinary in-person meeting.

The Board is assisted by a professional corporate secretary.

Detailed Reports of Committees

General provisions

The Committees under the Board of Directors are consulting-advisory bodies to the Board. All suggestions developed by the Committee are recommendations which are handed over to the Board for consideration.

The Committees members, under the Kazakh law, are Board members and expert. More detailed information on composition of the Committees is provided below in the sub-sections on performance of the respective Committees.

All Committees perform based on their Statutes.

Audit Committee

The Audit Committee was established in July 2005.

The Committee consists of three Directors who are assigned to the Committee by the majority of the Board votes. At least two members of the Committee should be independent non-executive directors. The members of the Committee are:

Christof Ruehl
Chair
independent non-executive director

Committee members
Alexander Pavlov – independent non-executive director

Kadyrzhan Damitov – independent non-executive director

All members of the Committee are independent non-executive directors, knowledgeable and experienced in accounting and tax accounting, internal and external audit, risk-management.

Functions of the Committee

The Committee assists the Board on issues of completeness and authenticity of financial reports, compliance of the Bank and subsidiaries with legal requirements (compliance-control), selection and independence of the external auditor, adequacy and efficiency of internal controls and risk-management, as well as coordination of the internal audit activities.

Performance of the Committee

In 2012 the Committee held 3 in-person meetings (11 items considered) and 50 absent votes (163 items considered).

To ensure completeness and authenticity of financial statements, the Committee considered interim (quarter) reports of the external auditor in this respect, management letters to the Bank and subsidiaries, as well as approved and brought for consideration of the Board the 2011 annual financial statements.

Within this function, the Committee discussed the major accounting principles, policies and procedures with the external auditor and the financial service of the Bank.

The Committee discussed the approaches and scope of the external auditor, upon which gave a recommendation to the Board to approve selection of Deloitte as the external auditor.

During 2012, the internal audit undertook a number of audits in divisions of the Bank and also subsidiaries, reports thereafter were considered by the Committee. Also, the Committee reviews regularly interim and final status reports on implementation of internal audit recommendations by the Management of the Bank and by subsidiaries.

When considering the work plan of the internal audit for the next year, the Committee assessed resources of the internal audit department. The Committee discussed a number of issues with the Internal Audit Director separately from the executive body. In particular, the Committee convinced that the internal audit functions received access to all necessary information.

During 2012, the Committee reviewed quarterly reports on quality of the loan portfolio prepared by the risk-management team.

The Committee also considered reviews of existing practices, systems of risk-management in three subsidiaries of the Bank conducted by the risk-management team in 2012. Upon results of these reviews, the risk-management service issued recommendations to the subsidiaries for strengthening the systems of risk-management and internal control.

Also, the Committee assented a number of methodological regulations for the internal audit and risk-management services for further approval by the Board.

Nominations and Remunerations Committee

The Nominations and Remunerations Committee was established in September 2007.

The Committee consists of three Directors who are assigned to the Committee by the majority of the Board votes. At least two members of the Committee should be independent non-executive directors. The members of the Committee are:

Frank Kuijlaars
Chair
independent non-executive director

Committee members
Alexander Pavlov – independent non-executive director

Umut Shayakhmetova – chief executive officer

Majority of the Committee are independent non-executive directors, all Committee members have an extensive experience in human resources management including issues of remunerations.

Functions of the Committee

The Committee gives recommendations to the Board on candidates to the Board, the Management and boards of subsidiaries, on the remunerations system with respect to the Board members, the Management, salaries of boards and executive bodies of subsidiaries.

Performance of the Committee

In 2012 the Committee had 14 absent votes (18 items considered) and one in-person meeting.

Recommendations were given to the Board on system of compensations for the Chairman, members of the Board and the Management, Internal Audit Department and the Corporate Secretary, as well as managers of the Bank's subsidiaries.

The Board was also recommended on changes in the Board's composition (exit of Mr. Satylganov K.A. and introduction of Mr. Nurabaev Z.D.).

Strategic Planning Committee
The Strategic Planning Committee was established in April 2012. The members of the Committee are:

Ulf Wokurka
Chair
independent non-executive director

Committee members
Alexander Pavlov – independent non-executive director

Kadyrzhan Damitov – independent non-executive director

Frank Kuijlaars – independent non-executive director

Zhomart Nurabayev – director

Christof Ruehl – independent non-executive director

Umut Shayakhmetova – chief executive officer

Dauren Karabayev – Management member, expert (silent member)

Functions of the Committee
The Committee provides assistance to the Board in the sense of the Halyk Group's Strategy, analysis of strategy implementation reports, monitoring of external environment and its impact to strategic plans of the Group.

Performance of the Committee
In 2012 the Committee had two in-person meetings (five items considered).

The Committee considered the draft Halyk Group Strategy for 2013-2015. The main target of the Group for this period shall be strengthening Bank No. 1 positions, and for subsidiaries – to retain leading positions in the respective industries and respective markets.

Also, the Committee considered status reports on implementation of the previous Strategy for 2010-2012 after 10 months 2012. The analysis showed satisfactory results of achieving the set goals. Consideration of the results of the Strategy implementation after 2012 is planned for spring 2013.

As per instructions of the Board, the Committee shall consider interim status reports on implementation of the new Strategy once in semester.

Also, the Committee shall analyze changes in the external environment (regulatory, economic, financial, etc.), and assess their impact onto the Group's Strategy.

Social Responsibility Committee
The Social Responsibility Committee was established in April 2012.

The Committee consists of three Directors who are assigned to the Committee by the majority of the Board votes, and one expert – Management member supervising issues of sponsorship and charity.

All Committee members apart from the expert, are independent non-executive directors. The members of the Committee are:

Frank Kuijlaars
Chair
independent non-executive director

Committee members

Ulf Wokurka – independent non-executive director

Christof Ruehl – independent non-executive director

Stanislav Kosobokov – Management member, expert (silent member)

Functions of the Committee
The Committee assists the Board on issues of the Bank's policy in corporate social responsibility and sustainable development, the Bank's compliance with legislative requirements in corporate social responsibility, potential risks in the area of corporate social responsibility and minimization thereof, preparation and publication of the report on corporate social responsibility, and preliminary consideration of the social expenses budget for the respective period.

Performance of the Committee
In 2012 the Committee had two in-person meetings (four items considered).

In order to optimize the corporate social responsibility performance, the Committee approved work plans for the second semester of 2012 and for 2013. Also, the draft Bank's budget for sponsorship and charity for 2013 was adopted.

The Committee resolved to suggest the following recommendation to the Management:

- Within the action plan for celebration of 90th anniversary of the Bank, to choose installation of sports playgrounds as a gift to major Kazakhstan cities with attraction of celebrity Kazakh sportsmen to the opening ceremony;

- To develop a program for increasing public awareness about the social projects of the Bank within the PR actions plan;

- To consider a possibility for annual actions for fundraising.

The Committee also considered and took notice of the 2012 Corporate Social Report of the Bank.

Investor Relations

The Bank pays much attention to improvement of relationships with shareholders, investors and independent analysts (IR).

In 2012 the Bank held a road-show in the USA and the UK. During these events we undertook group and individual meetings with investors from the USA and Europe. The management of the Bank took an active part in the meetings: CEO UmutShayakhmetova, Deputy CEO DaurenKarabayev, and CRO Murat Koshenov.

In September we held the Analyst Days event in Moscow, for the analysts who regularly review the Bank's performance. The analysts might meet on tet-a-tet basis with the Bank's management and ask their questions.

In addition to the official events, the Bank maintained contacts with investors and independent analysts within the reporting period via individual meetings in Almaty and via conference-calls. Investors and independent analysts could also obtain information about the Bank's performance via the IR-team of the Bank.

The important information about the Bank's activities which is of interest for the investors, is regularly posted at the Bank's web-site, as well as sites of the Kazakhstan Stock Exchange and the London Stock Exchange. Also, during 2012 CEO UmutShayakhmetova gave interviews about the Bank's activities to international financial periodicals Business Year and emeafinance.

In order to highlight the results of operational and financial performance, the Bank held four conference-calls: upon results of 2011 and for the first, second and third quarters of 2012. The average quantity of participants was about 50 people with predominant participation of investors and analysts.

For improvement of investor relations, the Board of Directors is informed quarterly about the IR-events, undertaken during the reporting period. For this purpose, we also deliver the Board of Directors with publications of independent analysts who regularly observe the Bank's operations.

The Bank plans to further improve the investors relations using all available modern technologies and orienting to the leading international practice.

Minority Shareholders Relations

The Bank continuously improves the system of minority shareholders relationships which allows a shareholder to ask a question and receive the needful consultation by a convenient way (a written appeal and/or email).

The structures of appeals from the minority shareholders and their wishes are regularly analysed, followed by improvement of the existing channels where necessary, or introduction of new ones. The Bank informs shareholders on all material news and planned events via the Bank's website and the sites of stock exchanges.

Results of 2012:

- The Bank undertook arrangement and holding the Annual General Meeting on 19 April 2012, where 12 resolutions were passed on considered issues, including information about shareholders' appeals to actions of the Bank and its officials;

- We also arranged and held the Extraordinary General Meeting on 6 December 2012, where 6 resolutions were passed on considered issues;

- Where necessary, employees of the Head Bank provide consultations to employees of branches on shareholders relations, and to the Bank's shareholders upon their queries – on accrued dividends, change of banking and other details, etc.;

- We continued buy-back of ordinary shares at the price of KZT 160 per one ordinary share in accordance with the resolution of the Board of Directors dated 13 May 2011 #18 (on item one).

As a results, we bought-back 21,340 shares from 60 shareholders for the total amount of approximately KZT 3.4 million;

- We continuously carry out payment of dividends for 1998-2007 – during 2012 we paid earlier accrued dividends on ordinary shares to 180 shareholders, including 22 heirs, for total amount of 138,000tenge;

- The Bank paid dividends on preferred shares and convertible preferred shares to the shareholders – as of yearend 2011 in the amount of KZT 13.44 per one preferred share and convertible preferred share. The total amount of dividends on such shares, including income tax, was KZT 5.2 billion, the payment was made to 53 shareholders;

- Upon the Board's resolution, we continued to pay the earlier accrued social welfare to certain types of individuals shareholders – due to celebration of 65th anniversary of the World War II Victory which was accrued in 2010, upon submission of respective documents by shareholders. As such, in 2012 the social welfare was paid to 69 shareholders for the total amount of over KZT 1 million;

- In accordance with the Board's resolution dated 11 May 2012 #119, we accepted and processed documents for payment of social welfare to individuals holders of ordinary shares (in the amount of KZT 10 per one ordinary share). Currently, the payments made (including tax) for the amount of KZT 26.7 million – to 1 915 shareholders.

- In August 2012 the Bank held a seminar for the individuals shareholders on general issues of holding shares of Halyk Bank. The seminar was arranged for the purpose of increasing awareness of minority shareholders about the basics of stock market operations, the order of securities circulation and interaction of the Bank with shareholders.

- During 2012 we considered 18 inquiries of shareholders regarding payment of dividends, social welfare, results of 1998 auction on public offering of the Bank's shares, procedure for buy-back of shares, and other issues of the Bank's performance, as well as explanations on securities law provisions.

Dividend Policy

Rights of shareholders for dividends and the procedure of payment thereof are stipulated by the Bank's Charter and the Code of Corporate Governance, approved by the general meetings.

In September 2012 the Board of Directors approved the Dividend Policy of Halyk Bank. This resolution was passed considering the strategic plans of the Bank for 2013-2015 regarding payment of dividends on ordinary shares for a long-term period, as well as for setting a clear and transparent mechanism for dividends payment, and in order to have a separate flexible internal regulation.

The main purpose of the Dividend Policy of the Bank is to set a transparent mechanism for dividends payment considering the following limitations:

- maintaining (retaining) international credit ratings of the Bank;

- maximal size of dividends on preferred shares;

- growth of RWA of the Bank in midterm perspective and respectively need for capital;

- average sector indicators for capitalization of Kazakh and regional banks; and

- compliance with covenants.

Under the existing limitations to payment of dividends on ordinary shares (covenants), we can point on the following as per the Eurobond Prospectus:

- not over 50% of net profits (as determined by the audited IFRS statements) for the period for which the payment is made;

- not often than once per a calendar year;

- payment of dividends is restricted if the Bank committed default, or such payment may lead to a default against the Bank's liabilities.

The documents are posted in the corporate website of the Bank at www.halykbank.kz.

The dividends are entitled to the shareholders – owners of common, preferred shares and convertible preferred shares. Periodicity of the dividends payment and the size of the dividends per one preferred share are set by the Charter and the Prospectus of the Bank.

In accordance with the Bank's Charter, dividends on common shares may be paid to shareholders annually from the net profits. The decision on dividends payment and the size thereof is made by the General Meeting by a suggestion of the Board.

Dividends expenses were:

bln. tenge

		For information	
	2012 (for FY 2011)	2011 (for FY 2010)	2010 (for FY 2009)
On preferred shares	5,24	5,49	4,49
On common shares	-	-	-
Total	**5,24**	**5,49**	**4,49**

Directors Awareness and Training

New members of the Board are provided with the induction package, which lists out the basic information about the history and current positions of the Bank and Halyk Group, organizational chart of the Bank, responsibilities of a Director, as well as the main reports within the consolidated financial statements as per the recent reporting date.

Members of the Board are also delivered information about the main changes in the banking laws.

The Bank is intending to further develop and improve awareness of the Board members.

Risk Management and Internal Control

Roles and responsibilities

For risk management and internal controls, the functions within the Bank are delegated as follows:

- The Board of Directors carries out the strategic governance on internal control and risk management, approves and periodically revises the risk management policies, considers large transactions and associated party deals. The Audit Committee is the working body of the Board for risk management and internal controls.

- The Board also considers the large transactions of Bank, transactions where the Bank has an interest, related party transactions, including with respect to absence of preferential conditions.

- The Management is a body responsible for implementation of the risk management policies. The Bank has the following key committees reporting to the Management which carry out various functions for risks management and control: credit committees (Commercial Directorate (Credit Committee of the Head Bank), Credit Committee of the Branch Network, Retail Credit Committee, Bad Loans Committee), Committee for Managing Assets and Liabilities.

- Structural divisions of the Bank are directly responsible for identification and assessment of adherent risks, adequacy of controls, and business continuity.

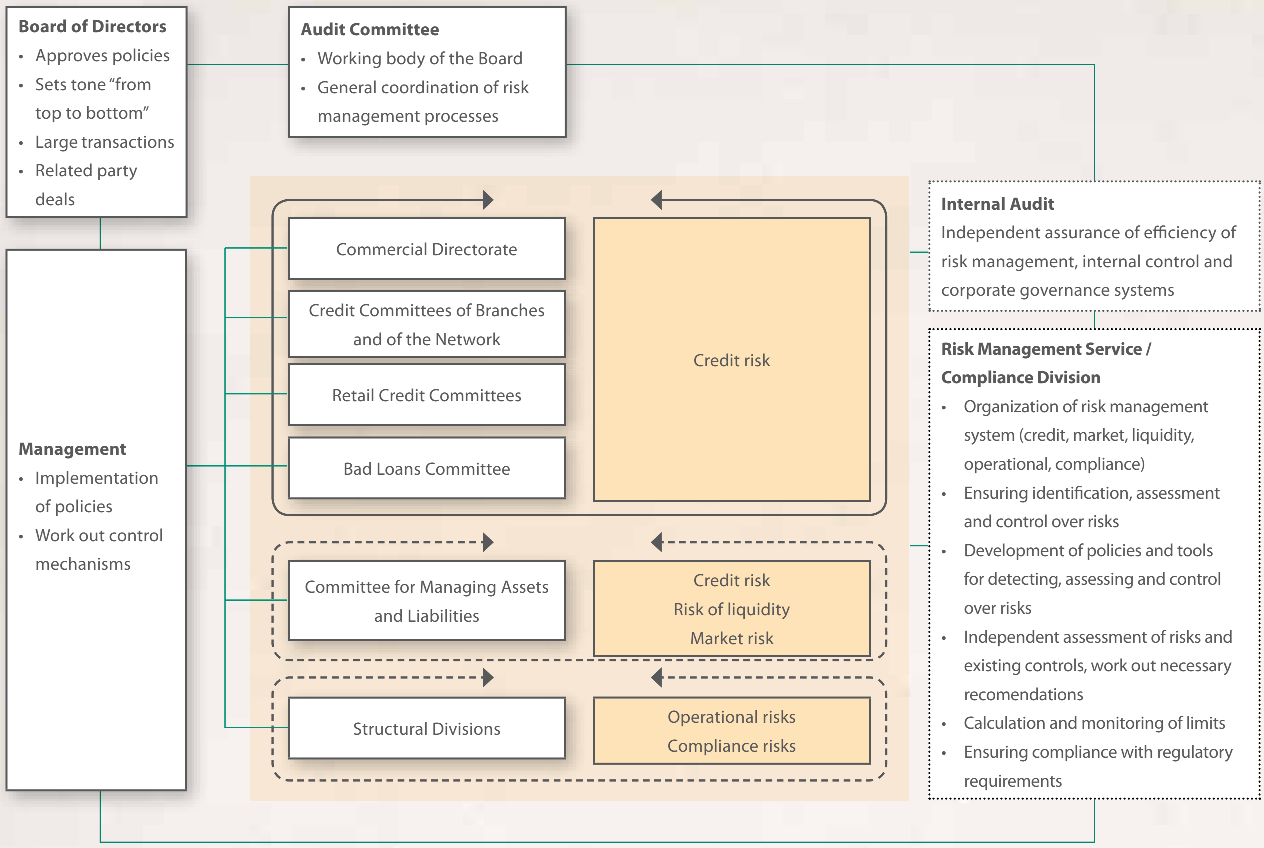
- Independent functions of risk management and compliance are responsible for organization of the risk management system which ensures identification, assessment, control and monitoring of credit, operational, market and compliance risks, and the risks of liquidity. The functions of risk management and compliance are headed by the Chief Risk Officer – Compliance-Controller who is reporting to the Chief Executive Officer, and is entitled to report directly to the Board of Directors.

- The internal audit provides independent and objective guarantees and consultations aimed at improvement of Halyk Group's performance. The internal audit function helps to achieve the goals set before the Group using a systematized and consistent approach to assessment and efficiency improvement of processes for risk-management, controls and corporate governance.

- The below diagram shows the most active bodies and committees of the Bank which participate in the processes of risk-management and internal control.

'Three lines of defence' risk management

Risk management in the Bank is based on the 'three lines of defence' system. The first line includes the top-management and structural divisions, the second – commit-



tee/risk management team and Compliance, the third line – internal audit.

- The first line of defence represents the controls developed for ensuring the correct day-to-day operations by various business-divisions of the Bank. The controls are being developed by the business-divisions and are an integral part of the business-processes. A distinct design of the controls presumes their adequate level for risks minimization and compliance with the internal regulations, as well as compliance with the external, regulatory requirements. Management and monitoring of the controls is carried out by the divisions themselves which implies ability of the business-divisions to detect risks, weaknesses of business-processes, possible non-forecasted events, and to timely react thereto.

- The second line of defence is represented by committees for risks management, and the risk management team and compliance. The committees and the risk management team are responsible for managing risks within the set risk appetite. The main chain loop of the second line of defence is the risk management team. In order to ensure adequate level of controls, the risk management team determines procedures for assessment of risks (credit, financial, operational), and risks monitoring. The risk management team carries out regular independent monitoring of risks, develops control tools for efficient risk management on the level of the first line of defence, assists the business-divisions with respect to compliance with regulatory requirements in the respective areas along with the Compliance Division.

- The third line of defence represents the function of independent assurance of the internal control efficiency. The third line of defence is represented by the internal audit function. The internal audit carries our checks of the internal control system based on the audit plan which in turn, is based on the risks level inherent to operations of one or another division. The audit plan covers both the first and the second lines of defence ensuring assessment of efficiency of the overall internal control system in the Bank.

The Bank acknowledges that it is impossible to totally exclude risks inherent to the banking operations. However the Bank is assured that the implemented system of risk management allows to significantly minimize them.

Code of Conduct

Understanding that reputation plays an important role in the banking business, the Bank pays high attention to the ethical behaviour of employees.

The Code of Conduct exists in the Bank since 2004. It sets out the general principles for all employees of the Bank, including:

- Compliance with law;
- Professionalism and competence;
- Honesty and initiative;
- Responsibility;
- Independence, impartiality;
- Confidentiality;
- Loyalty;
- Ethical norms.

The Code was implemented "from top to bottom". The Bank carries out a constant control over compliance of all employees of the Bank with these principles.

In addition, during 2012 the Bank operated a working group for considering initiatives of employees which was established late 2011. This allowed not only to discuss and implement the innovative suggestions aimed at the Bank's efficiency, but also to create a systematic mechanism for encouraging employees to comply with the Code.

Internal Audit

In order to ensure independence and objectivity of the internal audit, the Internal Audit Department is functionally reporting to the Board of Directors. A working interaction with the Directors is carried out via the Audit Committee.

Selection of objects to be included into the audit plan is carried out in accordance with the International Standards and the requirements of the Kazakhstan Regulator based on the risks assessment. The work plan of the Internal Audit Department is annually approved by the Board of the Bank. Where necessary, unscheduled (out-of-plan) audits may be undertaken.

Assessment of the internal control, risk-management, and corporate governance systems efficiency is done during audits.

Upon results of an audit, there are also suggested recommendations aimed at taking actions for decrease of level of the found risks and fixing weaknesses of internal controls which are approved as an Action Plan by the Management. The Audit Committee and the Board of Directors, in turn, may amend the Action Plan where necessary.

Besides, upon results of the undertaken audits, the Internal Audit Department presents quarterly combined reports to the Audit Committee and the Board on found material weaknesses/risks and respective recommendations.

Upon monitoring of action plans implementation, the Internal Audit Department reports to the Audit Committee and the Board about implementation of the action plans approved upon results of the undertaken audits.

The Department reports on efficiency of internal controls in the Group based on the audit reports in the respective period, as well as reports on the state of internal controls in subsidiaries which have internal audit teams. This report is presented to the Audit Committee and the Board.

The Department periodically passes an external evaluation on compliance with the International Internal Audit Standards developed by the Institute of Internal Auditors.

Directors Nomination and Contracting (general information on procedures)

Directors, when nominated, are subject to approval with the Kazakhstan Regulator in accordance with the Rules for Granting Assent to Appointment (Election) of Managing Persons of Financial Institutions.

Contracting the Directors is done in accordance with the Regulations for Remunerations and Reimbursements of the Board Members.

Decision on payments and setting individual amounts of remunerations to Directors (apart from the Chairman and the Chief Executive Officer) is made by the Chairman based on recommendation of the Nominations and Remunerations Committee under the Board.

Contracts with Directors which set individual amounts, periodicity, conditions for payment of remunerations and withholding of respective taxes in accordance with the Kazakh law (apart from the Chief Executive Officer) are concluded by the Chief Executive Officer on behalf of the Bank.

Insurance of fiduciary liability

The Board of Directors and the Management understand risks arising from incorrect or mistaking management decisions or actions.

To safeguard shareholders from potential damage due to such events, the Bank insures liability of Directors and officials.

Responsibility statement

We herewith confirm that, to the best of our knowledge:

– the consolidated financial statements in this annual report are prepared in accordance with International Financial Reporting Standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of JSC Halyk Bank and its subsidiaries included in the consolidation taken as a whole; and

– the annual report includes a fair review of the development and performance of the business and the position of JSC Halyk Bank and its subsidiaries included in the consolidation taken as a whole and the principal risks and uncertainties JSC Halyk Bank faces.

Umut Shayakmetova
Chief Executive Officer

Development prospects

The Main Priorities of Strategic Development of Halyk Group for 2013-2015

JSC Halyk Bank and its subsidiaries ("Halyk Group") are the leading universal financial services group of Kazakhstan with a significant potential for development in majority of financial market segments in both banking and associated services. Stable financial performance, significant and stable client base, wide range of financial products including cross selling, extensive infrastructure along with business reputation associated mainly with the perfect confidence from all types of clients are the key parameters offering competitive advantage of Halyk Group (the "Group").

The core of the Group is JSC Halyk Bank which successfully overcame the recent crisis, refreshed and updated processes and significantly strengthened its positions as the best bank inKazakhstanwith the highest international ratings among domestic banks.

The Bank has efficiently used the governmental support provided within the anti-crisis program and due to high performance results was the first among financial institutions of the country to make early repayment of the governmental funds invested into capital with return for the government.

This benchmark event was the evidence of successful execution of strategic goals determined by the Bank and the Group for 2010-2012 and, on the back of improvement of macroeconomic situation in Kazakhstan and expansion of possibilities for conducting of business, is a starting point for transition to a new stage of development of the Bank and the Group.

The strategic task of the Group for three years will be retention and strengthening of leading positions in all segments of financial services market and, as the result, higher growth rates in priority business directions compared to the main peers.

Key priorities of the Group for three years shall be the goals in the following main directions:

Banking activities – "#1 Bank in Kazakhstan"

- Financial performance – maximization of the Bank's profit, maintenance of return-on-equity (ROE) and cost efficiency (cost / income ratio) at the optimal level, stabilization of net interest margin (NIM), ensuring the maximum growth of interest income, growth of fee and commission income and gain on foreign exchange operations by not less than 10% p.a.

- Growth of shareholder value – the Bank is aimed at increase of shareholder capital value through maximization of profit which shall ensure targeted growth rates of business and strengthening of key positions on the main financial markets. Herewith, the Bank intends to comply with capital requirements set by the regulator (Committee for the Control and Supervision of the Financial Market and Financial Organizations of the National Bank of theRepublic ofKazakhstan) andBasel guidelines, to ensure business continuity; to be aimed at capital optimization in order to increase return on equity.

- Growth of loans to customers – ensuring growth of loan portfolio by not less than 10% p.a. and increasing the share of gross loan portfolio up to 70% of the Bank's total assets.

- Improvement of asset quality – decreasing the share of non-performing loans through restructuring, sale of pledged collateral, and debt write-offs, ensuring efficient operations of the Company on management of distressed assets and cooperation with the Problem Loans Fund.

• **Development of new products** – promotion of banking and financial non-credit products, which extend the opportunities for clients and are risk-acceptable, primarily cash management, card business and foreign exchange operations with quick reaction on setting individual conversion rates and tariffs tailored for clients' needs.Expansion of sales channels – focus on development and expansion of remote sales channels as high-tech, efficient and easily scaled processes which allow better satisfaction of the growing clients' needs in banking services.

• **Dividend policy** – ensuring dividend payments on common shares in the range of 15% to 50% of net income for the reporting year as determined by the audited consolidated financial statements subject to the absence of legislative limitations on payment of dividends and maintenance of international credit ratings and capital adequacy ratios not below the market levels.

• **High ratings** – maintenance of the best international ratings among domestic Kazakhstan banks which shall promote the corporate image and business reputation of the Bank as the most stable, reliable for clients and creditors financial institution of the Republic of Kazakhstan which operates in accordance with the international standards and which proved the success of chosen business strategy.

Subsidiaries – «Leading players on their markets»

• Retention and strengthening the market positions - achievement of leading positions in all main indicators in the pension and insurance sectors, broker-dealer and investment banking services, leasing and cash transportation services, regardless of the market growth dynamics and increase of competition.

• Expansion of the range of services - maximal use of ability to provide the widest range of financial products / services through the wide branch network; development of services which fully satisfy the needs of major client segments and ensure growth of profitability.

Implementation of the Strategy will require further improvement of existing business model and successful fulfilment of strategic plans of each business direction of the Group. The following tasks were determined for 2013-2015 which if completed shall provide the basis for achievement of goals set by the Strategy:

• Increase of sales volumes and profits generated in both corporate clients and small and medium enterprises segments by way of providing competitive terms of financing and services; promotion of new products; provision of full range of the Group's existing services to customers; attraction of potential customers with stable financial position.

• Retention of leading positions in retail sector across the main retail products regardless of the market growth dynamics and increase of competition through aggressive policy and concentration on salary-backed projects, credit cards; gaining the leading positions in mortgage lending, improvement of product line; improvement of service quality and increase of branch network efficiency with focus on alternative (remote) sales channels.

• Retention of market share in deposits of legal entities with simultaneous decrease of concentration of large deposits in the portfolio, strengthening the Bank's #1 position in deposits of individuals. Maintenance of an optimal level of free liquidity at not less than 20% of amounts due to customers and other liabilities of the Bank, retention of focus on term deposits and current accounts of corporate clients and individuals due to volatility on international capital markets.

• Retention of leading positions on the payment cards market and increase of market share on the number of active cards in circulation, retention of market share on foreign exchange operations and gaining the leading position on the volume of documentary operations.

• Active participation in the governmental programs aimed at expansion of entrepreneurial business and improvement of their financial positions in order to support existing customers and their interests, as well as to attract new borrowers.

• Geographical expansion of product sales by providing financial products/services through the wide branch network of the Bank and its international subsidiaries; expansion through investments in establishment or acquisition of new subsidiaries outsideKazakhstan in case of perspective projects.

The main tasks of the Group in the area of business development are further improvement of management systems, continuation of complex technological modernization allowing to increase processes efficiency and profitability of main directions of operational activities, to ensure growth of labor productivity and optimization of costs:

• Further development of common corporate governance principles throughout the Group including issues of transparency, timely and full information awareness by shareholders, the Board of Directors; risk management, internal control and internal audit; ensuring effective interaction with shareholders including minorities; ensuring uniformity in approaches and procedures across the Group.

• Establishment of control over total risks of the Group by way of development of integrated risk management system; improvement of monitoring of existing risks and forecasting the new risks; development of system of formalized assessment of risks; implementation of Basel III standards (in line with regulatory requirements and timeline).

• Improvement of unified operating model by way of establishment of large-scale industrial processes, their unification, standardization and automation; location of these processes in processing centres in rural areas to ensure the required level of business continuity in case of force-majeure disaster, as well as decrease of operating expenses.

• Realization of measures for establishment of process-oriented management system aimed at decrease of production costs, reduction of duration of client servicing cycle and elimination of excess structural parts, detection and elimination of zones of irresponsibility or overlapping of responsibilities, elimination of excess operations and breaks in information and technological chains.

• Implementation and development of modern information technologies, modernization and fine tuning of the main banking transactional systems to meet requirements of the Group's clients, development of CRM, internet-banking, card system, internal data base; automation of key business processes to reduce the time for document processing, reduction of number of errors, ensuring transparency of procedures and creation on this basis of single information environment of the Group which ensures reliability, feasibility and continuous operation of all systems and applications.

• Development of the Group's personnel, including improvement of motivation and remuneration system, development of corporate values, decrease of staff turnover, work with personnel reserve to fill the Bank's key positions with high-class professionals, management of headcount (optimization and reallocation of staff), further specialization of employees aimed at growth of labour efficiency, training of personnel focused on the Group's strategic tasks.

Mission and values

Mission of the Group

Mission of the Group shall still be to provide services in all segments of financial market (banking, insurance, pension, securities, leasing) in Kazakhstan and a number of other countries at the international standards, thus ensuring retention, efficient allocation and growth of funds of clients and shareholders.

Values of the Group

Client-orientation: The Group understands the needs of its clients and commits to use all its resources for offering clients the most efficient solutions to help them achieve and even exceed their goals.

Reliability: The Group shall rigorously comply with the general principles and norms of international law, legislation of Kazakhstan, and legislation of other countries where the Group operates, internal provisions and regulations of the Group. The Group shall tend to international standards of corporate governance and shall follow the policy of maximum openness and transparency for its shareholders, clients, business partners, government authorities, employees. Reliability is the key factor for saving the most valuable asset – business reputation of the Group.

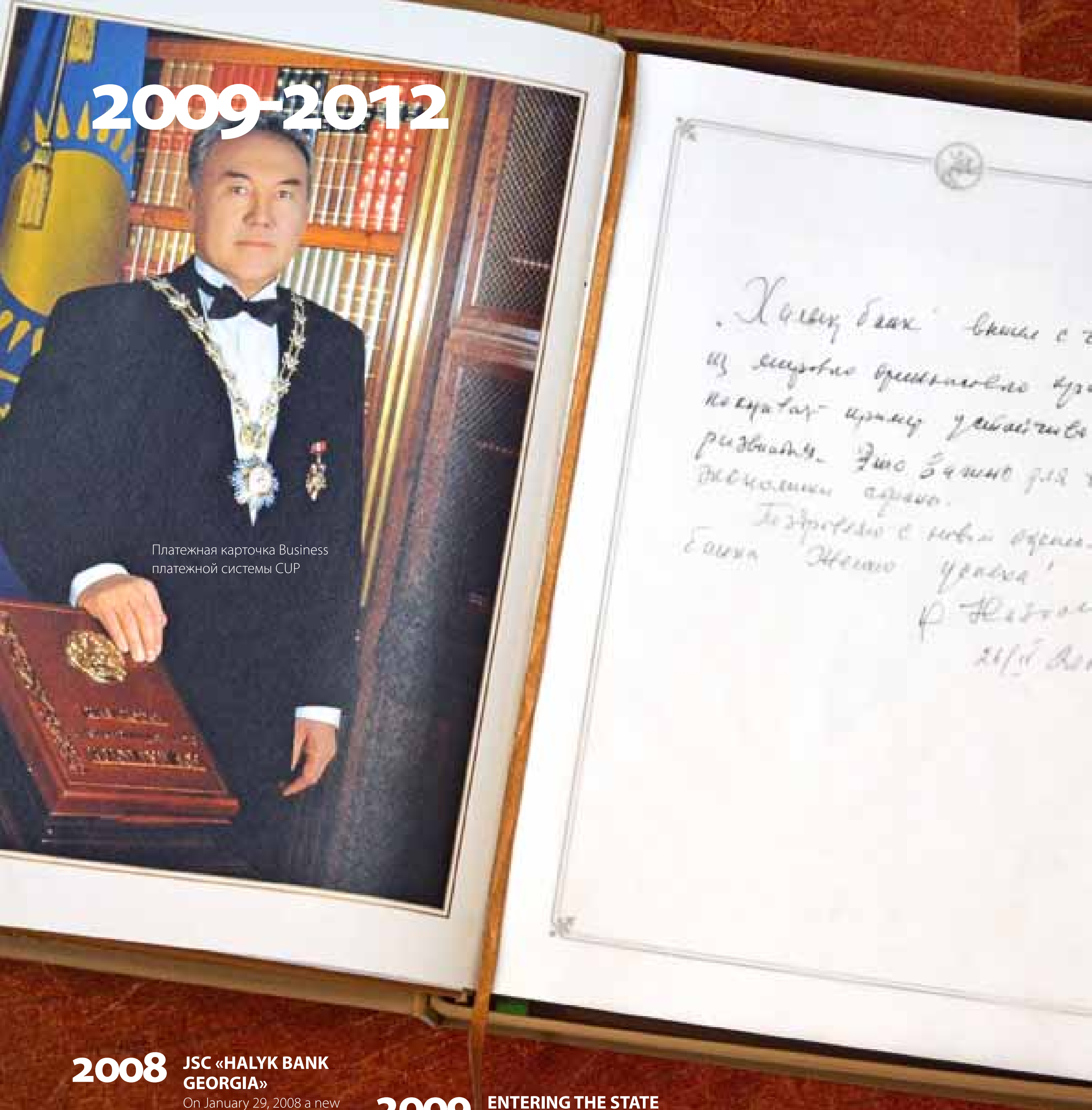
Leadership: The Group shall strive to leading positions in serving all groups of clients in all market segments. Managers at all organizational levels shall be the example in demonstrating sincere attitude towards business, enthusiasm and energy. Managers shall set directions, encourage innovation, inspire the organization for fulfilling theMission of the Group.

Social responsibility: Orientation for needs and interests of all strata of population shall be one of the major principles in the Group's activities. The Group shall strive to actively contribute into the development of society and resolution of social issues, and be the responsible corporate citizen.

Integrity: The Group shall strive to impeccably honest business operations in all areas, always and everywhere. The Group shall adhere to principles of transparency in internal processes, building mutually respectful and trustworthy relationships with clients, maintaining honest attitude towards business from employees, compliance with the corporate ethics.

Professionalism: The Group shall strive to the highest professional standards, shall be open to innovation and new ideas. The main goal is to honestly, timely and professionally carry out client service, which shall ensure strong and long-lasting relationships with clients.

2009-2012



Платежная карточка Business платежной системы CUP

2008 JSC «HALYK BANK GEORGIA»

On January 29, 2008 a new subsidiary of JSC «Halyk Bank» JSC «Halyk Bank Georgia» received a license from the National Bank of Georgia to conduct banking activities (№ 0110246). The subsidiary bank began operating activities on November 1, 2008.

2009 ENTERING THE STATE INTO BANK'S CAPITAL

On January 15, 2009 an agreement was reached between JSC «National Welfare Fund» Samruk-Kazyna and JSC «Halyk Bank» on entering the equity of the Bank by the Government. In June 2009, the bank capitalization program was completed within the time frame set by the Action Plan of the Government to support the banking sector.

2011 THE FIRST TRANCHE RETURN OF GOVERNMENT FUNDS

On March 30, 2011 the Bank, together with Almex, bought-back 259,064,909 ordinary shares from JSC «National Welfare Fund Samruk-Kazyna», injected earlier to the capital of the Bank.

The book of Nursultan Nazarbayev – «Founder of Independent country»

Medal of «Cup of hope» basketball tournament of the Republic of Kazakhstan

Capsule for storage of Asiada fire

2011 FLAME KEEPER OF THE ASIAN GAMES – 2011

In January 2011, the Bank became a partner and the keeper of the fire of the Seventh Asian Winter Games.

FIRST ISSUE OF EUROBONDS AFTER CRISIS

In January 2011, for the first time since the beginning of the global financial crisis, Halyk Bank opened the international capital markets for Kazakh financial institutions by issuing 10-years Eurobonds for the amount of USD 500 million. Thus, Halyk Bank was the first among Kazakhstani commercial banks which has successfully entered the international capital markets, setting a new benchmark of such issues for the whole of Kazakhstan's banking sector.

JSC «HALYK BANK KYRGYZSTAN»

Open Joint Stock Company «Halyk Bank Kyrgyzstan» was formed after the acquisition of 100 percent of the shares of JSC»Kairat Bank» by one of the leading banks of the Republic of Kazakhstan JSC «Halyk Bank» (Certificate of state re-registration of legal entity for the GPR series № 076929 of 23 December 2004).

2012 THE SECOND TRANCHE RETURN OF GOVERNMENT FUNDS

On June 29 and July 5, 2012 JSC «Halyk Bank» announced the early repayment of 190 million shares of its preferred shares to JSC «National Welfare Fund» Samruk-Kazyna».

BEST BRAND

In winter 2012, according to research of the International consulting company «Brand Finance», held jointly with THE BANKER magazine Halyk Bank brand («Halyk Bank») has been recognized the leading among Kazakh banks.

Website of the www.halykbank.kz

STRATEGY AND DIVIDEND POLICY

In autumn 2012, the Board of Directors of Halyk Bank approved the Strategic Business Plan of JSC «Halyk Bank» for 2013-2015 and Dividend Policy.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010 AND INDEPENDENT AUDITORS' REPORT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2012, 2011 and 2010, and the results of its operations, cash flows and changes in equity of the Group for the years then ended, in compliance 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 IFRS 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 the Republic of Kazakhstan legislation;

• 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 of the Group for the years ended 31 December 2012, 2011 and 2010 were approved by the Management Board on 15 March 2013.

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
15 March 2013	15 March 2013
Almaty, Kazakhstan	Almaty, Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Halyk Bank:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and its subsidiaries (collectively – "the Group"), which comprise the consolidated statements of financial position as at 31 December 2012, 2011 and 2010, the consolidated income statements, the consolidated statements of comprehensive income, statements of changes in equity and cash flow statements for the years 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 audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 2011 and 2010, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Andrew Weekes

Engagement Partner
Chartered Accountant
Certificate of Public Practice
No. 78586, Australia

Deloitte, LLP

State license on auditing
in the Republic of Kazakhstan
Number 0000015, type MFU-2, given by
the Ministry of Finance of Kazakhstan
dated 13 September 2006

Nurlan Bekenov

Auditor-perfromer
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate No. 0082
dated 13 June 1994
General Director
Deloitte, LLP

15 March 2013
Almaty, Kazakhstan

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

	Notes	31 December 2012	31 December 2011	31 December 2010
ASSETS				
Cash and cash equivalents	5	534,069	519,991	392,898
Obligatory reserves	6	48,467	52,533	27,284
Financial assets at fair value through profit or loss	7, 35	1,271	3,752	6,051
Amounts due from credit institutions	8	32,799	21,096	20,123
Available-for-sale investment securities	9, 35	334,362	305,890	281,294
Investments held to maturity	10, 35	25,766	78,854	174,419
Precious metals		1,646	1,710	1,665
Loans to customers	11, 35	1,319,208	1,184,240	1,089,273
Property and equipment	12	65,005	63,515	63,988
Assets held for sale	13	7,434	9,500	9,770
Goodwill		3,085	3,085	3,085
Intangible assets		5,594	5,914	5,834
Insurance assets	14	14,923	13,550	9,274
Other assets	15	14,369	10,300	12,977
Total assets		2,407,998	2,273,930	2,097,935
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	16, 35	1,699,182	1,557,476	1,415,755
Amounts due to credit institutions	17, 35	15,202	41,634	71,403
Financial liabilities at fair value through profit or loss	7	439	2,547	2,910
Debt securities issued	18	301,919	311,068	252,167
Provisions	19	4,385	3,388	3,861
Deferred tax liability	20	7,907	8,593	8,242
Insurance liabilities	14	25,201	23,028	15,664
Other liabilities	21	14,124	15,869	10,049
Total liabilities		2,068,359	1,963,603	1,780,051
EQUITY				
Share capital	22	143,695	143,695	143,695
Share premium reserve		1,496	1,156	1,352
Treasury shares		(81,028)	(39,960)	(93)
Retained earnings and other reserves	22	273,835	204,240	171,744
		337,998	309,131	316,698
Non-controlling interest		1,641	1,196	1,186
Total equity		339,639	310,327	317,884
Total Liabilities and Equity		2,407,998	2,273,930	2,097,935

On behalf of the Management Board:

Umut B. Shayakhmetova

Chairperson of the Board

15 March 2013

Almaty, Kazakhstan

Pavel A. Cheussov

Chief Accountant

15 March 2013

Almaty, Kazakhstan

The notes on pages 94 to 167 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	24, 35	160,994	166,166	178,415
Interest expense	24, 35	(69,934)	(78,894)	(86,379)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	24	91,060	87,272	92,036
Impairment charge	19	(15,362)	(39,155)	(48,428)
NET INTEREST INCOME		75,698	48,117	43,608
Fee and commission income	25	51,082	40,822	35,193
Fee and commission expense	25	(5,991)	(5,568)	(5,221)
Fees and commissions, net		45,091	35,254	29,972
Net gain from financial assets and liabilities at fair value through profit or loss	26, 35	169	428	1,741
Net realized gain from available-for-sale investment securities		1,626	84	591
Net (loss)/gain from repurchase of debt securities issued		—	—	(236)
Net gain on foreign exchange operations	27	9,053	9,185	7,385
Insurance underwriting income	28	17,764	14,971	11,994
Share in net loss of associate		(1)	(4)	(15)
Other income		2,935	1,393	1,912
OTHER NON-INTEREST INCOME		31,546	26,057	23,372
Operating expenses	29	(51,811)	(46,331)	(45,206)
Impairment loss of assets held for sale	13	(2,100)	—	—
(Provisions)/recoveries of provisions	19	(962)	479	628
Losses incurred from management of pension assets	21	—	(5,163)	—
Insurance claims incurred, net of reinsurance	14, 28	(12,733)	(10,394)	(7,470)
NON-INTEREST EXPENSES		(67,606)	(61,409)	(52,048)
INCOME BEFORE INCOME TAX EXPENSE		84,729	48,019	44,904
Income tax expense	20	(14,768)	(8,511)	(8,688)
NET INCOME		69,961	39,508	36,216
Attributable to:				
Non-controlling interest		444	117	273
Preferred shareholders		1,680	9,566	7,907
Common shareholders		67,837	29,825	28,036
		69,961	39,508	36,216
Basic earnings per share (in Kazakhstani Tenge)	30	5.93	3.12*	2.83*
Diluted earnings per share (in Kazakhstani Tenge)	30	4.99	2.21*	1.89*

* As restated for share split – see Note 22

On behalf of the Management Board:

Umut B. Shayakhmetova

Chairperson of the Board

15 March 2013

Almaty, Kazakhstan

Pavel A. Cheussov

Chief Accountant

15 March 2013

Almaty, Kazakhstan

The notes on pages 94 to 167 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Net income	69,961	39,508	36,216
Other comprehensive income/(loss)			
(Loss)/gain on revaluation of property and equipment, net of tax	(240)	(1,318)	51
Exchange differences on translation of foreign operations (2012, 2011, 2010 – net of tax – Nil tenge)	(101)	(137)	(307)
Gain/(loss) on revaluation of available-for-sale investment securities (2012, 2011, 2010 – net of tax – Nil tenge)	6,861	(336)	5,922
Gain on sale of available-for-sale investment securities (2012, 2011, 2010 – net of tax – Nil tenge)	(1,626)	(84)	(591)
Reclassified to profit and loss as a result of impairment of available-for-sale investment securities (2012, 2011, 2010 – net of tax – Nil tenge)	99	114	(481)
Other comprehensive income/(loss) for the year	4,993	(1,761)	4,594
Total comprehensive income for the year	74,954	37,747	40,810
Attributable to:			
Non-controlling interest	445	100	265
Preferred shareholders	1,801	9,142	8,898
Common shareholders	72,708	28,505	31,647
	74,954	37,747	40,810

On behalf of the Management Board:

Umut B. Shayakhmetova

Chairperson of the Board

15 March 2013

Almaty, Kazakhstan

Pavel A. Cheussov

Chief Accountant

15 March 2013

Almaty, Kazakhstan

The notes on pages 94 to 167 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares	
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Common shares	Preferred shares
31 December 2011	83,571	46,891	13,233	1,156	(39,960)	—
Net income	—	—	—	—	—	—
Other comprehensive loss/income	—	—	—	—	—	—
Total comprehensive (loss)/income	—	—	—	—	—	—
Treasury shares purchased	—	—	—	(227)	(45)	(41,054)
Treasury shares sold	—	—	—	567	31	—
Dividends – preferred shares	—	—	—	—	—	—
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	—	—	—	—	—	—
31 December 2012	83,571	46,891	13,233	1,496	(39,974)	(41,054)

Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
1,223	3,593	15,487	183,937	309,131	1,196	310,327
—	—	—	69,517	69,517	444	69,961
(101)	5,333	(240)	—	4,992	1	4,993
(101)	5,333	(240)	69,517	74,509	445	74,954
—	—	—	—	(41,326)	—	(41,326)
—	—	—	—	598	—	598
—	—	—	(4,914)	(4,914)	—	(4,914)
—	—	(493)	493	—	—	—
1,122	8,926	14,754	249,033	337,998	1,641	339,639

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

	Share capital					
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Treasury shares (Common shares)	Cumulative translation reserve*
31 December 2010	83,571	46,891	13,233	1,352	(93)	1,360
Net income	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(137)
Total comprehensive (loss)/income	—	—	—	—	—	(137)
Treasury shares purchased	—	—	—	(215)	(39,901)	—
Treasury shares sold	—	—	—	19	34	—
Dividends – preferred shares	—	—	—	—	—	—
Dividends of subsidiaries	—	—	—	—	—	—
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	—	—	—	—	—	—
31 December 2011	83,571	46,891	13,233	1,156	(39,960)	1,223

Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
3,882	16,975	149,527	316,698	1,186	317,884
—	—	39,391	39,391	117	39,508
(289)	(1,318)	—	(1,744)	(17)	(1,761)
(289)	(1,318)	39,391	37,647	100	37,747
—	—	—	(40,116)	—	(40,116)
—	—	—	53	—	53
—	—	(5,151)	(5,151)	—	(5,151)
—	—	—	—	(90)	(90)
—	(170)	170	—	—	—
3,593	15,487	183,937	309,131	1,196	310,327

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

	Share capital					
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Treasury shares (Common shares)	Cumulative translation reserve*
31 December 2009	83,571	46,891	13,233	1,317	(103)	1,667
Net income	—	—	—	—	—	—
Other comprehensive (loss)/income	—	—	—	—	—	(307)
Total comprehensive (loss)/income	—	—	—	—	—	(307)
Treasury shares purchased	—	—	—	(16)	(8)	—
Treasury shares sold	—	—	—	51	18	—
Dividends – preferred shares	—	—	—	—	—	—
Dividends of subsidiaries	—	—	—	—	—	—
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	—	—	—	—	—	—
Changes in non-controlling interest share of net assets	—	—	—	—	—	—
31 December 2010	83,571	46,891	13,233	1,352	(93)	1,360

* These amounts are included within Retained earnings and other reserves in the consolidated statement of financial position.

On behalf of the Management Board:

Umut B. Shayakhmetova

Chairperson of the Board

15 March 2013

Almaty, Kazakhstan

Pavel A. Cheussov

Chief Accountant

15 March 2013

Almaty, Kazakhstan

The notes on pages 94 to 167 form an integral part of these consolidated financial statements.

Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
(976)	18,121	116,881	280,602	350	280,952
—	—	35,943	35,943	273	36,216
4,858	51	—	4,602	(8)	4,594
4,858	51	35,943	40,545	265	40,810
—	—	—	(24)	—	(24)
—	—	—	69	—	69
—	—	(4,494)	(4,494)	—	(4,494)
—	—	—	—	(69)	(69)
—	(1,197)	1,197	—	—	—
—	—	—	—	—	—
3,882	16,975	149,527	316,698	1,186	317,884

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received from financial assets at fair value through profit or loss	26	20	43
Interest received from cash equivalents and amounts due from credit institutions	2,799	2,006	2,319
Interest received on available-for-sale investment securities	14,342	12,969	9,126
Interest received on investments held to maturity	1,518	1,352	916
Interest received from loans to customers	135,305	137,658	134,909
Interest paid on amounts due to customers	(46,146)	(50,158)	(65,034)
Interest paid on amounts due to credit institutions	(633)	(920)	(4,350)
Interest paid on debt securities issued	(24,743)	(23,494)	(21,846)
Fee and commission received	49,203	42,127	33,744
Fee and commission paid	(5,991)	(5,568)	(5,221)
Insurance underwriting income received	27,711	27,955	17,462
Ceded insurance share paid	(9,525)	(13,067)	(4,733)
Other income received	10,202	9,135	15,692
Operating expenses paid	(45,643)	(38,923)	(34,642)
Insurance claims received	(10,867)	(7,804)	(5,855)
Reimbursement of losses due to reinsurance risks received	942	146	522
Cash flows from operating activities before changes in net operating assets	98,500	93,434	73,052
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Obligatory reserves	4,066	(25,250)	(1,335)
Financial assets at fair value through profit or loss	2,011	2,084	2,405
Amounts due from credit institutions	(12,097)	(185)	36,503
Precious metals	281	216	183
Loans to customers	(139,588)	(124,675)	10,514
Insurance assets	(2,240)	(3,084)	(4,290)
Other assets	(3,330)	10,279	626
Increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit or loss	(2,109)	(361)	(291)
Amounts due to customers	138,303	138,085	154,796
Amounts due to credit institutions	(26,715)	(29,809)	(99,509)
Insurance liabilities	(219)	3,537	3,176
Other liabilities	(2,725)	587	(1,268)
Cash inflow from operating activities before income tax	54,138	64,858	174,562
Income tax paid	(11,836)	(8,021)	(2,326)
Net cash inflow from operating activities	42,302	56,837	172,236
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase and prepayments for property and equipment and intangible assets	(8,453)	(9,392)	(10,245)
Proceeds on sale of property and equipment	85	37	96
Proceeds on sale of available-for-sale investment securities	129,146	333,533	692,402
Purchase of available-for-sale investment securities	(149,171)	(363,272)	(892,443)
Proceeds from redemption of investments held to maturity	114,429	603,662	169,528
Purchase of investments held to maturity	(59,531)	(506,970)	(199,379)
Net cash inflow/(outflow) from investing activities	26,505	57,598	(240,041)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds on sale of treasury shares		598	53	69
Purchase of treasury shares		(41,326)	(40,116)	(24)
Dividends paid		(4,914)	(5,241)	(4,563)
Proceeds on debt securities issued		—	71,585	—
Redemption and repurchase of debt securities issued		(13,111)	(17,179)	(10,000)
Net cash inflow/(outflow) from financing activities		(58,753)	9,102	(14,518)
Effect of changes in foreign exchange rate on cash and cash equivalents		4,024	3,556	(5,401)
Net change in cash and cash equivalents		14,078	127,093	(87,724)
CASH AND CASH EQUIVALENTS, beginning of the year	5	519,991	392,898	480,622
CASH AND CASH EQUIVALENTS, end of the year	5	534,069	519,991	392,898

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
13 March 2013	13 March 2013
Almaty, Kazakhstan	Almaty, Kazakhstan

The notes on pages 94 to 167 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

(Millions of Kazakhstani Tenge)

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank ("the Bank") and its subsidiaries (collectively, "the Group") provide retail and corporate banking services principally in Kazakhstan, Russia, Kyrgyzstan and Georgia, and pension asset management and insurance services in Kazakhstan. The primary state registration of the Bank with the authorities of justice of Kazakhstan was made on 20 January 1994. The Bank operates under the license No. 10 for carrying out of banking and other operations and activities on the securities market, renewed by the Committee for Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan ("FMSC" – previously known as Agency for Regulation and Supervision of Financial Market and Financial Organizations of the Republic of Kazakhstan) on 6 August 2008. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Fund for Deposits Guarantee.

The Bank's primary business includes originating loans and guarantees, attracting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations and rendering other banking services to its customers. In addition, the Bank acts as the Republic of Kazakhstan government's agent in channelling various budgetary payments and pensions through its nationwide network.

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank has also sold Global Depository Receipts ("GDRs") through a listing on the London Stock Exchange.

In March 2009, JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna"), an entity controlled by the Republic of Kazakhstan Government, acquired 259,064,909 common shares of the Bank for KZT 26,951 million. In May 2009, Samruk-Kazyna acquired 196,232,499 non-convertible preferred shares of the Bank for KZT 33,049 million. In March 2011, Samruk-Kazyna partially disposed of its interest in the Bank.

In March 2011, the Bank paid KZT 12,867 million to acquire from JSC Almex Holding Group (hereafter – "the parent") a call option to purchase 213,000,000 of the Bank's common shares from Samruk-Kazyna at a fixed strike price of KZT 126.8 per share. The Bank has immediately exercised the option and repurchased 213,000,000 of its own common shares from Samruk-Kazyna for KZT 27,008 million. As at the date of the transactions, the Bank's common shares were traded at KZT 360.0 per share. As a result, the Group has recorded KZT 39,875 million as cost of acquired treasury shares (see Note 22).

In May 2012, the Bank paid KZT 7,114 million to acquire from the parent a call option to purchase 196,232,499 of the Bank's preferred shares from Samruk-Kazyna at a fixed strike price of KZT 179.94 per share. In June 2012, the Bank partially exercised the option and repurchased 150,000,000 of its own preferred shares from Samruk-Kazyna for KZT 26,991 million.

On 5 July 2012, the Bank repurchased 40,000,000 of its own preferred shares from Samruk-Kazyna at a price of KZT 180.21 per share for KZT 7,208 million. As a result, the Group has recorded KZT 41,054 million as a cost of acquired treasury shares (see Note 22). After the repurchase, Samruk-Kazyna continues owning 6,232,499 preferred shares of the Bank.

The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2012, 2011 and 2010, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 December 2012	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	7,559,973,820	68.2%	7,559,973,820	69.3%	—	—
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan *	758,082,743	6.8%	661,367,710	6.1%	96,715,033	55.1%
GDR	2,510,925,720	22.7%	2,510,925,720	23.0%	—	—
Other	254,416,525	2.3%	175,694,405	1.6%	78,722,120	44.9%
Total shares in circulation (on consolidated basis)	11,083,398,808	100.0%	10,907,961,655	100.0%	175,437,153	100.0%

* Common and preferred shares owned by JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan are not eliminated as those shares were purchased on clients' funds and are owned by the clients.

31 December 2011	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	755,997,382	52.0%	755,997,382	69.4%	—	—
JSC SWF "Samruk-Kazyna"	196,232,499	13.5%	—	—	196,232,499	53.7%
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan *	162,851,804	11.2%	66,136,771	6.1%	96,715,033	26.5%
GDR	250,242,684	17.2%	250,242,684	23.0%	—	—
Other	89,664,870	6.2%	16,961,961	1.6%	72,702,909	19.9%
Total shares in circulation (on consolidated basis)	1,454,989,239	100.0%	1,089,338,798	100.0%	365,650,441	100.0%

31 December 2010	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	709,932,473	42.6%	709,932,473	54.5%	—	—
JSC SWF "Samruk-Kazyna"	455,297,408	27.3%	259,064,909	19.9%	196,232,499	53.6%
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan *	162,851,804	9.8%	66,136,771	5.1%	96,715,033	26.4%
GDR	252,948,024	15.2%	252,948,024	19.4%	—	—
Other	86,298,895	5.2%	13,428,830	1.0%	72,870,065	19.9%
Total shares in circulation (on consolidated basis)	1,667,328,604	100.0%	1,301,511,007	100.0%	365,817,597	100.0%

On 14 December 2012 the Bank performed share split of its common shares in proportion of one common share to ten common shares as described in Note 22.

As at 31 December 2012, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices and 410 cash settlement units (31 December 2011 – 22, 122, 445, respectively; 31 December 2010 - 22, 122 and 488, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 109 V Abai Avenue, Almaty, 050008, Republic of Kazakhstan.

Number of employees of the Group as at 31 December 2012 was 12,149 full-time equivalent employees (31 December 2011 - 11,481, 31 December 2010 - 11,632).

The consolidated financial statements of the Group for the years ended 31 December 2012, 2011 and 2010 were authorised for issue by the Management Board on 15 March 2013.

2. BASIS OF PRESENTATION

Accounting basis

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

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" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

* Common and preferred shares owned by JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan are not eliminated as those shares were purchased on clients' funds and are owned by the clients.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as described in the accounting policies below.

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 date of consolidated statement of financial position (current) and more than 12 months after the date of consolidated statement of financial position (non-current) is presented in Note 31.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Bank is KZT. The presentation currency of the consolidated financial statements is KZT.

Consolidated subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiaries	Holding, %			Country	Industry
	31 December 2012	31 December 2011	31 December 2010		
JSC Halyk Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	100	Netherlands	Issue and placement of Eurobonds, attracting of syndicated loans
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	attracting of syndicated loans
JSC Halyk Finance	100	100	100	Kazakhstan	Banking
LLP Halyk Inkassatsiya	100	100	100	Kazakhstan	Broker and dealer activities
JSC Halyk Life	100	100	100	Kazakhstan	Cash collection services
JSC Halyk Capital	N/a*	100	100	Kazakhstan	Life insurance
LLP NBK-Finance	100	100	100	Russia	Broker and dealer activities
JSC Kazakhinstrakh	100	100	100	Kazakhstan	Insurance
JSC Accumulation Pension fund of Halyk Bank of Kazakhstan	96	96	96	Kazakhstan	Pension assets accumulation and management
JSC NBK Bank	100	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking
LLC Halyk Project	100	N/a	N/a	Kazakhstan	Management of doubtful and loss assets

* In accordance with Decision of the Board of Directors of the Bank dated 26 December 2011, JSC "Halyk Capital" was reorganised by merging with JSC "Halyk Finance". The actual transfer of assets was performed on 18 January 2012.

JSC Halyk Bank established new subsidiary – LLC "Halyk Project" – Subsidiary of Halyk Bank of Kazakhstan for doubtful and loss asset management" with share capital of KZT 15 million. The main activity of LLC "Halyk Project" is management of property, which was recognized after the default of certain counterparties on loans to customers of the Bank. Registration date is 12 October 2012.

Associates

JSC Processing Center, the associate, provides data processing services in Kazakhstan. It is classified within other assets and accounted for under the equity method:

Holding, %	Share in net loss	Total assets	Total liabilities	Equity	Total revenue
As at 31 December 2012 and for the year then ended					
25.14	(1)	9	—	9	1
As at 31 December 2011 and for the year then ended					
25.14	(4)	11	—	11	1
As at 31 December 2009 and for the year then ended					
25.14	(15)	78	—	78	1

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These 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 investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

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

Non-controlling interest

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

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 amounts by which the non-controlling interests are adjusted is recognised directly in equity.

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 Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by the 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.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The non-controlling interest is initially measured at the non-controlling proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity and net income attributable to equity holders of the parent and attributable to non-controlling shareholders' interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a Group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months. For purposes of determining cash flows, the obligatory reserve required by the National Bank of Kazakhstan ("NBK") is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the NBK and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of 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. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

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. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

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

A financial asset or financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of 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 or financial liability other than a financial asset or 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 asset or 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" ("IAS 39") permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain from financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established

Reclassification of financial assets

The Group has reclassified certain non-derivative financial assets out of financial assets at fair through profit or loss category into the available-for-sale investment securities. Effective from 1 July 2009, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held for trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held to maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers 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. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the consolidated income statement. Dividends declared are included in "Other income" in the consolidated income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts and premiums 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 available-for-sale investment securities. Furthermore, the Group would be prohibited from classifying any financial asset as investments held to maturity during the following two years.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention 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 derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Repurchase and reverse repurchase agreements and securities lending

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

Repos are treated as secured financing transactions. Securities sold under repos are retained in the consolidated statement of financial position and, in case the transferee has the right, by contract or custom, to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, loans to customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within "Net gain from financial assets and liabilities at fair value through profit and loss" in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. 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 and as liabilities when it is negative. 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 from financial assets and liabilities at fair value through profit or loss" in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Group to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future and are customized contracts transacted in the over–the–counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

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.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating interest rate in return for paying or receiving, respectively, a fixed interest rate. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. The Group's currency swaps are mostly gross–settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over–the–counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed–upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed–upon value either on or before the expiration of the option.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (see also Note 31).

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. 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. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Debt securities issued

Debt securities issued represent bonds issued by the Group, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

The factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

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. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is disclosed in more detail in Notes 11, 19 and 31.

Available-for-sale investment securities

If an available-for-sale investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. In respect of equity instruments classified as available-for-sale, impairment losses previously recognized in the consolidated income statement are not reversed through the consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

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, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing 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 and advances

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. 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 assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred 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.

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and constructions which are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

	Years
Buildings and constructions	20—100
Vehicles	5—7
Computers and banking equipment	5—10
Other	7—10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and constructions is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Assets held for sale

A non-current asset and the liability directly associated with non-current assets are classified as held for sale ("disposal group") if it is highly probable that the net 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.

Assets held for sale are measured at the lower of their 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 loss from 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.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Recorded amounts as at the consolidated statement of financial position date represent the Group's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the consolidated income statement net of any recoveries.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in the consolidated income statement. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

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.

Trust activities

Assets accepted and liabilities incurred under the trust activities are not included in the Group's consolidated 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.

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated 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.

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

Loan origination fees for loans issued to customers are (together with related direct costs) recognized as an adjustment to the effective yield of the loans. 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 profit or loss 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 profit or loss on expiry.

Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognized in the consolidated income statement as net gain or loss on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The market exchange rate at 31 December 2012 was KZT 150.74 to USD 1 (31 December 2011 – KZT 148.40; 31 December 2010 – KZT 147.50).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilizes accounting policies determined by FMSC for insurance companies of Kazakhstan.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the consolidated statement of financial position.

Losses and loss adjustments are charged to income statement as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred in the consolidated income statement.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalized and recorded in the accompanying consolidated statements of financial position within insurance assets. The asset related to deferred acquisition costs is subsequently amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

The incurred but not reported reserve ("IBNR") for motor, hull and liability insurance is actuarially determined and is based upon statistical claim data for the period typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by FMSC. Under this guidance, the IBNR reserve is calculated as using the expected loss ratio for each line of business, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated income statement in the period in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Application of new and revised International Financial Reporting Standards (IFRS)

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended 31 December 2012:

- IFRS 7 "Financial Instruments: Disclosures" – amendments enhancing disclosures about transfers of financial assets effective from annual periods beginning on or after 1 January 2013. 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. An application of the amendments to IFRS 7 did not have an effect on the Group's consolidated financial statements as the information required was disclosed by the Group before the adoption of the amendments;
- IAS 12 "Income Taxes" – limited scope amendment (recovery of underlying assets); effective for annual periods beginning on or after 1 January 2012. The Group has applied the amendments to IAS 12 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 did not have an effect on the Group's consolidated financial statements;

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Group.

New and revised IFRSs in issue but not yet effective

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not yet effective, and which the Group has not early adopted:

- 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" – amendments enhancing disclosures about 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"[3];

- IAS 19 "Employee Benefits" — improvements to the accounting for post-employment benefits[1];
- IAS 27 - reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011)[2];
- IAS 28 - reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011)[2];
- Amendments to IAS 32 "Financial Instruments: Presentation" – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements[4].
- Amendments to IFRSs – Annual Improvements to IFRSs 2009-2011 cycle.

IFRS 9 Financial Instruments
Was 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.

- IFRS 9 requires 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.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 recognised 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, 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.

The Group management anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 Consolidated Financial Statements
Replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (ie whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements
Replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a 'joint venture' recognises an investment.

[1] Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
[2] Each of the five standards becomes effective for annual periods beginning on or after 1 January 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 1 January 2015, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2014. The new offsetting disclosure requirements are effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities
Requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

IFRS 13 Fair Value Measurement
Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

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 IAS 19 Employee Benefits
Introduce significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. The amended standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income.

The amendments to IAS 19 Employee Benefits require retrospective application. The Group management does not anticipate that the revision of IAS 19 Employee Benefits will have a significant effect on the Group's consolidated financial statements as the Group has no defined benefit plans.

IAS 27 (2011) Separate Financial Statements
Includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures
Now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Amendments to IAS 32 Financial Instruments: Presentation
Provide clarifications on the application of the offsetting rules, and focus on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The respective amendments to the disclosure requirements in IFRS 7 "Financial Instruments: Disclosure" require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Group's financial position.

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

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. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on income statement, other comprehensive income and total comprehensive income.

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. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

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 allowance for impairment of loans and receivables as 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 will require the Group to make provisions which, if significantly different, could have a material impact on its future consolidated income statement and its consolidated statement of financial position.

The Group uses management's judgement 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 behaviour, 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 and receivables.

Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

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 Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment losses of loans to customers as at 31 December 2012 is KZT 302,926 million (31 December 2011 is KZT 291,303 million; 31 December 2010: KZT 253,237 million).

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar periods preceding the year of review.

As at 31 December 2012, Management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of incurred but not reported reserves ("IBNR") claims at the reporting date. For certain lines of business, IBNR claims form the majority of the statement of financial position claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Group actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by FMSC, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management's judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable and willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2012	31 December 2011	31 December 2010
Cash on hand	64,256	61,072	35,468
Recorded as loans and receivables in accordance with IAS 39:			
Short-term deposits with Organization for Economic Co-operation and Development countries (the "OECD") based banks	257,783	217,348	144,820
Correspondent accounts with NBK	114,175	77,952	—
Correspondent accounts with OECD based banks	70,088	40,680	8,281
Short-term deposit with NBK	15,001	10,000	72,003
Correspondent accounts with non-OECD based banks	5,764	2,469	5,978
Short-term deposits with Kazakhstan banks (loans under reverse repurchase agreements)	3,510	5,528	910
Short-term deposits with non-OECD based banks	3,437	1,982	2,853
Overnight deposits with non-OECD based banks	55	—	46
Overnight deposits with OECD based banks	—	102,960	122,539
	534,069	519,991	392,898

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are presented as follows:

	31 December 2012		31 December 2011		31 December 2010	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Short-term deposits with OECD based banks	—	0.2%-0.6%	1.0%	0.3%	0.6%	0.2%-3.3%
Short-term deposits with NBK	0.5%	—	0.5%	—	0.5%	—
Short-term deposits with Kazakhstan banks	—	—	0.7%-2.0%	—	0.7%	—
Short-term deposits with non-OECD based bank	—	3.0%-8.5%	—	4.4%-8.0%	—	3.5%
Overnight deposits with non-OECD based banks	—	3.8%	—	—	—	6.0%
Overnight deposits with OECD based banks	—	—	—	0.1%-1.0%	—	0.1%-0.7%

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2012, 2011 and 2010, are presented as follows:

	31 December 2012		31 December 2011		31 December 2010	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	3,459	3,721	5,528	5,596	910	1,003
Equity securities of Kazakhstan banks	51	51	—	—	—	—
	3,510	3,772	5,528	5,596	910	1,003

As at 31 December 2012, 2011 and 2010, maturities of loans under reverse repurchase agreements are less than 1 month.

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2012	31 December 2011	31 December 2010
Recorded as loans and receivables in accordance with IAS 39:			
Due from the NBK allocated to obligatory reserves	48,467	52,533	14,752
Cash on hand allocated to obligatory reserves	—	—	12,532
	48,467	52,533	27,284

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBK and used for calculation of the minimum reserve requirement. During 2011 the NBK has increased the level of minimum reserve requirements, which resulted in a significant increase of obligatory reserves. During 2012 the NBK has again amended the Regulation on minimum reserve requirements. In accordance to the amendment certain long-term liabilities with maturities greater than 1 year are now not included into the calculation of the minimum reserve level thus resulting in decrease of obligatory reserves.

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

Financial assets at fair value through profit or loss comprise:

	31 December 2012	31 December 2011	31 December 2010
Financial assets held for trading:			
Derivative financial instruments	733	3,304	4,640
Corporate bonds	277	103	102
Securities of foreign organizations	144	125	168
Equity securities of Kazakhstan corporations	85	—	—
Bonds of JSC Development Bank of Kazakhstan	32	—	—
Equity securities of Kazakhstan banks	—	220	921
Mutual investment funds shares	—	—	220
	1,271	3,752	6,051

Financial liabilities at fair value through profit or loss comprise:

	31 December 2012	31 December 2011	31 December 2010
Financial liabilities held for trading:			
Derivative financial instruments	439	2,547	2,910

Interest rates of financial assets at fair value through profit or loss are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective financial assets:

	31 December 2012	31 December 2011	31 December 2010
Corporate bonds	7.6%	9.0%	9.7%
Securities of foreign organizations	13.8%	13.4%	11.3%
Bonds of JSC Development Bank of Kazakhstan	5.5%	—	—

Derivative financial instruments comprise:

	31 December 2012			31 December 2011			31 December 2010		
	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability
Foreign currency contracts									
Swaps	40,321	395	388	35,185	158	105	21,757	83	76
Forwards	32,159	83	51	76,958	3,085	2,442	87,403	4,051	2,834
Options	7,231	255	—	4,627	61	—	7,620	506	—
		733	439		3,304	2,547		4,640	2,910

As at 31 December 2012, 2011 and 2010, the Group used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on observable market data.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2012	31 December 2011	31 December 2010
Recorded as loans and receivables in accordance with IAS 39:			
Loans to credit institutions	15,931	2,286	2,241
Term deposits	15,765	11,499	10,062
Deposit pledged as collateral for derivative financial instruments	1,105	7,313	7,822
	32,801	21,098	20,125
Less - Allowance for loan impairment (Note 19)	(2)	(2)	(2)
	32,799	21,096	20,123

Interest rates and maturity of amounts due from credit institutions are presented as follows:

	31 December 2012		31 December 2011		31 December 2010	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Loans to credit institutions	8.2%-17.0%	2017	14.5%-17.0%	2015	12.0%-17.0%	2015
Term deposits	0.5%-9.0%	2013-2014	0.5%-12.5%	2012-2014	4.5%-12.5%	2013
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2013	0.2%-1.8%	2012	0.2%-1.8%	2012

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2012	31 December 2011	31 December 2010
Treasury bills of the Ministry of Finance of Kazakhstan	110,878	137,733	173,314
Corporate bonds	88,657	72,099	56,811
Securities of foreign organizations	84,719	52,764	6,148
Bonds of JSC Development Bank of Kazakhstan	20,839	9,318	6,522
Treasury bills of the Russian Federation	11,254	8,156	—
Bonds of Kazakhstan banks	8,349	6,000	3,347
Local municipal bonds	3,997	4,035	4,274
Equity securities of Kazakhstan corporations	2,529	1,394	1,569
Mutual investment funds shares	1,927	2,950	944
NBK notes	889	11,146	27,838
Equity securities of Kazakhstan banks	188	295	230
Equity securities of foreign corporations	136	—	111
Treasury bills of Kyrgyz Republic	—	—	186
	334,362	305,890	281,294
Subject to repurchase agreements			
NBK notes and Treasury bills of the Ministry of Finance of Kazakhstan	3,369	9,474	4,211

Interest rates and maturities of available-for-sale investment securities are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 December 2012		31 December 2011		31 December 2010	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	4.5%	2013-2027	4.1%	2012-2027	4.5%	2011-2025
Corporate bonds	7.2%	2013-2021	7.1%	2012-2021	8.2%	2011-2021
Securities of foreign organizations	3.8%	2013-2020	6.6%	2012-2020	12.6%	2012-2016
Bonds of JSC Development Bank of Kazakhstan	5.6%	2015-2026	7.2%	2015-2026	6.9%	2015-2026
Treasury bills of the Russian Federation	3.4%	2015-2021	5.5%	2015-2021	—	—
Bonds of Kazakhstan banks	8.3%	2013-2022	8.9%	2012-2030	11.4%	2011-2022
Local municipal bonds	4.9%	2015	4.9%	2015	4.9%	2015
NBK notes	1.0%	2013	1.2%	2012	1.5%	2011
Treasury bills of Kyrgyz Republic	—	—	—	—	9.0%	2011

As at 31 December 2012, 2011 and 2010, the Group used quoted market prices from independent information sources to determine the fair value for all of its available-for-sale investment securities.

On 31 December 2008, the Group reclassified certain debt and equity securities with total fair value of KZT 4,925 million out of financial assets at fair value through profit or loss category into the available-for-sale investment securities. The reclassification was made only for those securities which had a significant decline in volume of transactions in the financial markets as a result of the financial crisis. The Group revised its investment policy in relation to these securities and has the intention and ability to hold these securities for the foreseeable future.

Debt and equity securities which were reclassified are presented in the tables below.

Debt securities	Effective interest rate, %	As at reporting date 31 December 2012 Fair value and carrying amount	As at reclassification date 31 December 2011 Fair value and carrying amount	As at reclassification date 31 December 2008 Fair value and carrying amount
Bonds of JSC Development Bank of Kazakhstan	7.0%	3,265	2,713	2,213
Securities of foreign countries and organizations	9.8%-14.5%	—	—	1,987
		3,265	2,713	4,200

Equity securities	As at reporting date 31 December 2012 Fair value and carrying amount	As at reclassification date 31 December 2011 Fair value and carrying amount	As at reclassification date 31 December 2008 Fair value and carrying amount
Equity securities of Kazakhstan corporations	59	59	74
Mutual investment funds shares	—	—	651
	59	59	725

The Group sold mutual investment funds shares during the year ended 31 December 2011.

Estimated future cash flows the Group expects to recover from debt securities which were reclassified are presented in the table below.

Debt securities	As at reclassification date 31 December 2008
Bonds of JSC Development Bank of Kazakhstan	4,711
	4,711

The net gain/(loss) that would have been recognized in the consolidated income statement if the securities had not been reclassified, is presented in the table below for the years ended 31 December 2012, 2011 and 2010.

Debt securities	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Bonds of JSC Development Bank of Kazakhstan	712	199	167
Securities of foreign countries and organizations	—	—	15
	712	199	182

Equity securities	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Equity securities of Kazakhstan corporations	—	(139)	(117)
Mutual investment funds shares	37	3	1
	37	(136)	(118)

10. INVESTMENTS HELD TO MATURITY

Investments held to maturity comprise:

	31 December 2012	31 December 2011	31 December 2010
Treasury bills of the Ministry of Finance of Kazakhstan	12,437	9,841	7,716
Corporate bonds	8,237	7,571	5,545
Bonds of Kazakhstan banks	3,065	515	—
Securities of foreign organizations	996	—	—
Notes of National Bank of Georgia	579	877	1,172
Treasury bills of Kyrgyz Republic	225	190	601
Notes of National Bank of Kyrgyz Republic	222	—	—
NBK notes	5	59,860	159,385
	25,766	78,854	174,419
Subject to repurchase agreements			
NBK notes	—	18,003	—

Interest rates and maturities of investments held to maturity are presented in the table below. Interest rates in the table below are calculated as the weighted average of the effective interest rates for the respective securities.

	31 December 2012		31 December 2011		31 December 2010	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	5.1%	2013-2030	7.2%	2012-2015	4.6%	2013-2015
Securities of foreign organizations	14.6%	2014-2016	—	—	—	—
Corporate bonds	12.6%	2015-2020	14.6%	2012-2017	8.8%	2011-2017
Bonds of Kazakhstan banks	9.7%	2013-2016	5.6%	2015	—	—
Notes of National Bank of Georgia	13.2%	2016-2017	14.7%	2012-2016	6.4%	2011-2012
Treasury bills of Kyrgyz Republic	14.1%	2013	14.9%	2012	4.3%	2011
Notes of National bank of Kyrgyz Republic	2.3%	2013	—	—	—	—
NBK notes	1.5%	2013	1.2%	2012	1.1%	2011

11. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2012	31 December 2011	31 December 2010
Recorded as loans and receivables in accordance with IAS 39:			
Originated loans to customers	1,619,850	1,471,436	1,341,140
Overdrafts	2,284	4,107	1,370
	1,622,134	1,475,543	1,342,510
Less – Allowance for loan impairment losses (Note 19)	(302,926)	(291,303)	(253,237)
Loans to customers	1,319,208	1,184,240	1,089,273

Average interest rate on loans to customers is calculated as interest income divided by average balances of loans to customers. For the year ended 31 December 2012 average interest rate on loans was 12.1% (for the year ended 31 December 2011 – 13.2%, for the year ended 31 December 2010 – 14.5%).

As at 31 December 2012, the Group had a concentration of loans of KZT 331,012 million to the ten largest borrowers that comprised 20% of the Group's total gross loan portfolio (31 December 2011 – KZT 284,771 million, 19%; 31 December 2010 – KZT 267,072 million, 20%) and 97% of the Group's total equity (31 December 2011 – 92%, 31 December 2010 – 84%).

As at 31 December 2012, an allowance for impairment amounting to KZT 45,966 million was made against these loans (31 December 2011 – KZT 52,712 million, 31 December 2010 – KZT 49,403 million).

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

	31 December 2012	31 December 2011	31 December 2010
Loans collateralized by pledge of real estate or rights thereon	787,676	674,613	688,518
Loans collateralized by guarantees	296,346	293,406	283,278
Loans collateralized by pledge of corporate shares	96,595	58,755	18,606
Loans collateralized by pledge of agricultural products	72,000	49,490	31,158
Loans collateralized by cash	47,333	38,001	48,758
Loans collateralized by pledge of vehicles	20,755	19,467	18,906
Loans collateralized by pledge of inventories	17,320	22,757	11,100
Loans collateralized by pledge of equipment	16,303	26,213	25,997
Loans collateralized by mixed types of collateral	244,360	276,105	202,592
Unsecured loans	23,446	16,736	13,597
	1,622,134	1,475,543	1,342,510
Less—Allowance for loan impairment losses (Note 19)	(302,926)	(291,303)	(253,237)
Total loans to customers	1,319,208	1,184,240	1,089,273

Loans are granted to the following sectors:

	31 December 2012	%	31 December 2011	%	31 December 2010	%
Retail loans:						
—consumer loans	219,809	14%	168,766	11%	136,271	10%
—mortgage loans	110,141	7%	119,199	8%	133,958	10%
	329,950		287,965		270,229	
Wholesale trade	287,126	18%	287,987	19%	277,222	21%
Construction	168,244	10%	168,065	11%	180,353	13%
Services	157,560	9%	122,038	8%	104,270	8%
Real estate	120,038	7%	120,617	8%	96,724	7%
Agriculture	116,467	7%	94,155	6%	86,460	6%
Retail trade	104,408	6%	100,847	7%	92,185	7%
Financial services	66,250	4%	—	—	—	—
Chemical industry	41,127	3%	9,244	1%	9,805	1%
Transportation	39,885	3%	44,223	3%	29,688	2%
Food industry	37,414	2%	44,787	3%	37,086	3%
Metallurgy	36,851	2%	37,023	3%	44,689	3%
Mining	36,143	2%	4,617	0%	5,507	0%
Hotel industry	32,668	2%	39,008	3%	54,416	4%
Oil and gas	10,836	1%	37,376	3%	10,218	1%
Machinery	9,416	1%	7,393	1%	7,689	1%
Energy	7,906	1%	56,665	4%	22,143	2%
Light industry	4,553	0%	5,813	0%	7,472	1%
Communication	1,642	0%	94	0%	232	0%
Other	13,650	1%	7,626	1%	6,122	0%
	1,622,134	100%	1,475,543	100%	1,342,510	100%

As at 31 December 2012, the amount of accrued interest on loans comprised KZT 103,278 million (31 December 2011 – KZT 112,313 million, 31 December 2010 – KZT 121,752 million).

12. PROPERTY AND EQUIPMENT

The movements in property and equipment are presented as follows:

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2011	47,866	1,882	19,433	15,807	84,988
Additions	4,083	661	1,996	2,274	9,014
Disposals	(334)	(181)	(442)	(2,005)	(2,962)
Transfers	1,976	—	315	(2,291)	—
Revaluation	(1,352)	—	—	—	(1,352)
Impairment	(457)	—	—	—	(457)
Translation differences	31	1	5	8	45
31 December 2012	51,813	2,363	21,307	13,793	89,276
Accumulated depreciation:					
31 December 2011	1,175	1,164	13,012	6,122	21,473
Charge	1,645	245	3,233	922	6,045
Disposals	(8)	(180)	(532)	(377)	(1,097)
Write-off at revaluation	(2,170)	—	—	—	(2,170)
Translation differences	10	7	2	1	20
31 December 2012	652	1,236	15,715	6,668	24,271
Net book value:					
31 December 2012	51,161	1,127	5,592	7,125	65,005

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2010	47,036	1,596	17,769	14,333	80,734
Additions	2,421	326	2,164	4,220	9,131
Disposals	(16)	(84)	(503)	(2,754)	(3,357)
Revaluation	(1,610)	—	—	—	(1,610)
Impairment	(1)	—	—	—	(1)
Translation differences	36	44	3	8	91
31 December 2011	47,866	1,882	19,433	15,807	84,988
Accumulated depreciation:					
31 December 2010	649	1,010	10,434	4,653	16,746
Charge	579	188	3,066	1,888	5,721
Disposals	—	(79)	(489)	(420)	(988)
Write-off at revaluation	(58)	—	—	—	(58)
Translation differences	5	45	1	1	52
31 December 2011	1,175	1,164	13,012	6,122	21,473
Net book value:					
31 December 2011	46,691	718	6,421	9,685	63,515

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2009	42,437	1,591	16,566	15,894	76,488
Additions	1,628	279	1,145	5,681	8,733
Disposals	(1,393)	(287)	(627)	(2,128)	(4,435)
Transfers	4,388	16	698	(5,102)	—
Revaluation	82	—	—	—	82
Impairment	(27)	—	—	—	(27)
Translation differences	(79)	(3)	(13)	(12)	(107)
31 December 2010	47,036	1,596	17,769	14,333	80,734
Accumulated depreciation:					
31 December 2009	215	961	7,864	4,290	13,330
Charge	494	274	2,911	1,696	5,375
Disposals	—	(225)	(574)	(1,103)	(1,902)
Transfers	—	1	224	(225)	—
Write-off at revaluation	(67)	—	—	—	(67)
Translation differences	7	(1)	9	(5)	10
31 December 2010	649	1,010	10,434	4,653	16,746
Net book value:					
31 December 2010	46,387	586	7,335	9,680	63,988

The Group's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of specific market or property indicators the Group may opt to perform revaluations more regularly.

During the year ended 31 December 2011, the Group identified deteriorated market conditions on a single property, due to its location, and as such opted to perform a revaluation on this property out of the normal revaluation cycle, using three approaches; including the income approach, the comparative approach and the cost approach. This specific property was previously carried at a revalued amount of KZT 2,259 million and was revalued to KZT 819 million as a result of the revaluation.

The Group revalued its buildings and construction as at 29 November 2012. The revaluation was conducted by an independent appraiser, LLP "Business Partner". The independent appraiser used three approaches to identify fair value of the property and equipment: the income approach with the method of realization as income capitalization, the comparative approach with application of market information, and the cost approach.

The income approach with the method of realization as income capitalization and the comparative approach with application of market information were used to identify the fair value of buildings and constructions in terms of active market for items that were subjects for revaluation. The cost approach was used when there was no active market for items that were subjects for revaluation. The total amount of fair value of buildings and constructions is KZT 51,161 million. The carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 52,223 million..

13. ASSETS HELD FOR SALE

During 2010 and 2009, after the default of certain counterparties on loans to customers, the Group has recognized the property pledged as collateral for the loans as assets held for sale at fair value. The assets have been 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 programme to locate a buyer and complete the plan has been initiated. The type of assets recognized was land, buildings and constructions. The proceeds from disposal were expected to exceed the carrying value of the assets and accordingly no impairment losses have been recognized on these assets during the years 2011 and 2010. In June 2012 the Group performed an independent valuation of its assets held for sale. Based on the result of the valuation the Group recognized an impairment loss of KZT 2,100 million.

Despite the assets being actively marketed for sale, the majority have not been sold within a short timeframe. However, management remains committed to the sale of these assets. As the assets are carried at a price not in excess of the current fair value less costs to sell, they continue to be classified as held for sale at the end of 2012.

14. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2012	31 December 2011	31 December 2010
Reinsurance premium unearned	7,065	8,582	2,561
Reinsurance amounts recoverable	5,003	1,744	5,154
	12,068	10,326	7,715
Premiums receivable	2,855	3,224	1,559
Insurance assets	14,923	13,550	9,274

Insurance liabilities comprised the following:

	31 December 2011	31 December 2010	31 December 2009
Reserves for insurance claims	13,108	8,146	8,982
Gross unearned insurance premium reserve	9,908	12,129	5,550
	23,016	20,275	14,532
Payables to reinsurers and agents	2,185	2,753	1,132
Insurance liabilities	25,201	23,028	15,664

Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations of the Group at the time of underwriting. The insurance risk is concentrated in the Republic of Kazakhstan.

Underwriting and pricing risk

The Group manages underwriting and pricing risk through the use of underwriting guidelines which detail the class, nature and type of business that may be accepted; pricing policies by product line and by brand; and centralized control of policy wordings and any subsequent changes.

Claims management risk

The risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experienced staff. These, together with a range of detailed policies and procedures ensure that all claims are handled in a timely, appropriate and accurate manner.

Reinsurance risk

Reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure. Acceptable reinsurers are rated A- or better unless specifically authorized.

Reserving risk

Reserving risk relates to both premiums and claims. It is the risk that reserves are assessed incorrectly such that insufficient funds have been remained to pay or handle claims as the amounts fall due. Claims development data provides information on the historical pattern of reserving risk.

Reserves for insurance claims have been established on the basis of information currently available, including potential outstanding loss notifications, and experience with similar claims.

The movements on claims reserves for the years ended 31 December 2012, 2011 and 2010, were as follows:

	2012	2011	2010
Reserves for claims, beginning of the year	8,146	8,982	3,008
Reserves for claims, reinsurance share, beginning of the year	(1,744)	(5,154)	(1,147)
Net reserves for claims, beginning of the year	6,402	3,828	1,861
Plus claims incurred	12,733	10,394	7,470
Less claims paid	(11,030)	(7,820)	(5,503)
Net reserves for claims, end of year	8,105	6,402	3,828
Reserves for claims, reinsurance share, end of the year	5,003	1,744	5,154
Reserves for claims, end of the year	13,108	8,146	8,982

The movements on unearned insurance premium reserve for the years ended 31 December 2012, 2011 and 2010, were as follows:

	2012	2011	2010
Gross unearned insurance premium reserve, beginning of the year	12,129	5,550	5,394
Unearned insurance premium reserve, reinsurance share, beginning of the year	(8,582)	(2,561)	(2,163)
Net unearned insurance premium reserve, beginning of the year	3,547	2,989	3,231
Change in unearned insurance premium reserve	(2,221)	6,579	156
Change in unearned insurance premium reserve, reinsurance share	1,517	(6,021)	(398)
Change in unearned insurance premium reserve, net	(704)	558	(242)
Net unearned insurance premium reserve, end of the year	2,843	3,547	2,989
Unearned insurance premium reserve, reinsurance share, end of the year	7,065	8,582	2,561
Gross unearned insurance premium reserve, end of the year	9,908	12,129	5,550

15. OTHER ASSETS

Other assets comprise:

	31 December 2012	31 December 2011	31 December 2010
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Debtors on banking activities	5,429	2,873	2,197
Accrued commission for managing pension assets	2,239	382	1,744
Debtors on non-banking activities	1,076	1,217	1,226
Accrued other commission income	647	625	569
Other	3	9	167
	9,394	5,106	5,903
Less – Allowance for impairment (Note 19)	(1,576)	(1,125)	(772)
	7,818	3,981	5,131
Other non financial assets:			
Corporate income tax prepaid	1,835	3,133	3,175
Inventory	1,442	1,552	1,486
Advances for taxes other than income tax	1,222	664	773
Prepayments for property and equipment	1,153	1,260	2,345
Deferred tax asset (Note 20)	1,091	314	350
Investments in associates	53	67	224
Other	568	429	710
	7,364	7,419	9,063
Less—Allowance for impairment (Note 20)	(813)	(1,100)	(1,217)
	6,551	6,319	7,846
	14,369	10,300	12,977

16. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2012	31 December 2011	31 December 2010
Recorded at amortized cost:			
Term deposits:			
Individuals	543,592	426,219	387,510
Legal entities	401,704	420,648	531,182
	945,296	846,867	918,692
Current accounts:			
Legal entities	603,249	570,595	393,696
Individuals	150,637	140,014	103,367
	753,886	710,609	497,063
	1,699,182	1,557,476	1,415,755

As at 31 December 2012, the Group's ten largest groups of related customers accounted for approximately 42% of the total amounts due to customers (31 December 2011 – 51%; 31 December 2010 – 50%), where each group of related customers represents customers related to each other within that group.

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2011	%	31 December 2010	%	31 December 2009	%
Individuals and entrepreneurs	694,228	41%	566,233	36%	490,877	35%
Oil and gas	312,023	18%	326,157	21%	329,416	23%
Financial sector	123,951	7%	25,064	2%	24,568	2%
Wholesale trade	107,014	6%	137,855	9%	88,061	6%
Government	78,316	5%	50,531	3%	26,854	2%
Other consumer services	77,579	5%	53,124	3%	55,775	4%
Construction	68,627	4%	72,824	5%	34,209	2%
Transportation	58,308	3%	126,104	8%	179,584	13%
Metallurgy	29,862	2%	27,207	2%	43,853	3%
Communication	28,675	2%	4,184	0%	15,180	1%
Education	13,862	1%	13,110	1%	10,934	1%
Energy	12,577	1%	57,679	4%	22,803	2%
Insurance and pension funds activity	11,187	1%	17,058	1%	49,243	3%
Healthcare and social services	8,858	0%	10,511	1%	6,143	0%
Other	74,115	4%	69,835	4%	38,255	3%
	1,699,182	100%	1,557,476	100%	1,415,755	100%

17. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2012	31 December 2011	31 December 2010
Recorded at amortized cost:			
Loans and deposits from OECD based banks	5,403	8,717	16,422
Loans and deposits from Kazakhstan banks	4,784	29,340	52,159
Correspondent accounts	2,529	1,752	1,185
Loans from other financial institutions	1,542	1,006	1,412
Loans and deposits from non-OECD based banks	944	819	225
	15,202	41,634	71,403

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2012		31 December 2011		31 December 2010	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, Year	Interest rate, %	Maturity, year
Loans and deposits from OECD based banks	0.8%-6.5%	2013-2023	1.1%-7.7%	2012-2023	1.1%-7.7%	2011-2023
Loans and deposits from Kazakhstan banks	3.0%	2013	0.1%-0.5%	2012	4.5%	2011
Loans from other financial institutions	2.8%-5.2%	2014-2016	3.0%-3.9%	2012-2014	2.3%-3.1%	2012-2014
Loans and deposits from non-OECD based banks	5.5%	2013	2.5%-3.4%	2012-2013	2.7%-3.9%	2013

Fair value of assets pledged and carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2012, 2011 and 2010, are presented as follows:

	31 December 2012		31 December 2011		31 December 2010	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Treasury bills of the Ministry of Finance of Kazakhstan	2,943	2,791	—	—	—	—
Equity securities of Kazakhstan banks	426	300	—	—	—	—
NBK notes	—	—	28,429	27,001	4,211	4,000
	3,369	3,091	28,429	27,001	4,211	4,000

As at 31 December 2012, 2011 and 2010, the maturities of loans and deposits under repurchase agreements are less than 1 month.

In accordance with the contractual terms of the loans from certain OECD based banks, the Group is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

The Group's management believes that as at 31 December 2012, 2011 and 2010, the Group was in compliance with the covenants of the agreements the Group has with the notes' trustees and holders.

18. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2012	31 December 2011	31 December 2010
Recorded at amortized cost:			
Subordinated debt securities issued:			
Fixed rate KZT denominated bonds	11,725	11,754	11,725
Reverse inflation indexed KZT denominated bonds	8,455	8,406	8,120
Inflation indexed KZT denominated bonds	3,926	3,951	14,132
Total subordinated debt securities outstanding	24,106	24,111	33,977
Unsubordinated debt securities issued:			
USD denominated bonds	277,813	276,566	207,701
KZT denominated bonds	—	10,391	10,489
Total unsubordinated debt securities outstanding	277,813	286,957	218,190
Total debt securities outstanding	301,919	311,068	252,167

The coupon rates and maturities of these debt securities issued follow:

	31 December 2012		31 December 2011		31 December 2010	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Subordinated debt securities issued:						
Fixed rate KZT denominated bonds	7.5%-13.0%	2014-2018	7.5%-13.0%	2014-2018	7.5%-13.0%	2014-2018
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016
Inflation indexed KZT denominated bonds	inflation rate plus 1%	2015	inflation rate plus 1%	2015	inflation rate plus 1%	2015
Unsubordinated debt securities issued:						
USD denominated bonds	7.3%-9.3%	2013-2021	7.3%-9.3%	2013-2021	7.3%-9.3%	2013-2017
KZT denominated bonds	—	—	12.7%	2012	12.7%	2012

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Interest on debt securities issued is payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 December 2012, 2011 and 2010, the Group was in compliance with the covenants of the agreements the Group has with the notes' trustees and holders.

19. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

The movements in accumulated impairment of available-for-sale investment securities, the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers	Amounts due from credit institutions	Available-for-sale investment securities	Other assets	Total
31 December 2009	(207,101)	(9)	(730)	(1,472)	(209,312)
(Additional provisions recognized)/recoveries	(47,104)	9	(481)	(852)	(48,428)
Write-offs	87	—	—	296	383
Foreign exchange differences	881	(2)	(1)	39	917
31 December 2010	(253,237)	(2)	(1,212)	(1,989)	(256,440)
(Additional provisions recognized)/recoveries	(38,603)	—	114	(666)	(39,155)
Write-offs	1,427	—	—	407	1,834
Foreign exchange differences	(890)	—	—	23	(867)
31 December 2011	(291,303)	(2)	(1,098)	(2,225)	(294,628)
(Additional provisions recognized)/recoveries	(15,023)	(1)	99	(437)	(15,362)
Write-offs	5,500	—	—	271	5,771
Foreign exchange differences	(2,100)	1	—	2	(2,097)
31 December 2012	(302,926)	(2)	(999)	(2,389)	(306,316)

Provision represents provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	2012	2011	2010
At the beginning of the year	(3,388)	(3,861)	(4,433)
Provisions	(8,778)	(9,983)	(9,474)
Recoveries of provisions	7,816	10,462	10,102
Foreign exchange differences	(35)	(6)	(56)
At the end of the year	(4,385)	(3,388)	(3,861)

20. TAXATION

The Bank and its subsidiaries, other than HSBK (Europe) B.V., JSC NBK Bank, OJSC Halyk Bank Kyrgyzstan, LLP NBK-Finance and JSC Halyk Bank Georgia are subject to taxation in Kazakhstan. HSBK (Europe) B.V. is subject to income tax in the Netherlands. JSC NBK Bank and LLP NBK-Finance are subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia.

The income tax expense comprises:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Current tax charge	16,231	7,889	6,743
Deferred tax expense resulting from changes in tax rates	—	—	1,751
Deferred tax (benefit)/expense relating to origination and reversal of temporary differences	(1,463)	622	194
Income tax expense	14,768	8,511	8,688

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2012, 2011 and 2010. Income on state and other qualifying securities is tax exempt.

The tax rates in the Netherlands, the Russian Federation, the Republic of Kyrgyzstan and Georgia are 20%, 20%, 10% and 15%, respectively.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Income before income tax expense	84,729	48,019	44,904
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	16,946	9,604	8,981
Deferred tax expense resulting from changes in tax rates	—	—	1,751
Adjustments recognised in the period for current tax of prior periods	—	—	564
Tax-exempt interest income and other related income on state and other qualifying securities	(3,047)	(1,150)	(1,952)
Tax-exempt income on dividends	(446)	(925)	(1,247)
Income of subsidiaries taxed at different rates	(43)	(537)	(473)
Tax-exempt interest income on financial lease	(485)	(162)	(198)
Non-deductible expenditures:			
— bonuses	799	546	480
— general and administrative expenses	186	113	161
— other provisions	75	157	137
Other	783	865	484
Income tax expense	14,768	8,511	8,688

Deferred tax assets and liabilities comprise:

	31 December 2012	31 December 2011	31 December 2010
Tax effect of deductible temporary differences:			
Bonuses accrued	1,069	710	674
Insurance premium reserves	917	239	152
Provisions, different rates	557	334	11
Vacation pay accrual	151	198	231
Fair value of derivatives	51	494	585
Deferred tax asset	2,745	1,975	1,653
Tax effect of taxable temporary differences:			
Loans to customers, allowance for impairment losses	(5,056)	(5,410)	(4,514)
Property and equipment, accrued depreciation	(4,400)	(4,198)	(4,103)
Fair value of derivatives	(105)	(646)	(928)
Deferred tax liability	(9,561)	(10,254)	(9,545)
Net deferred tax liability	(6,816)	(8,279)	(7,892)

The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2012	31 December 2011	31 December 2010
Deferred tax asset (Note 15)	1,091	314	350
Deferred tax liability	(7,907)	(8,593)	(8,242)
Net deferred tax liability	(6,816)	(8,279)	(7,892)

Kazakhstan and other countries where the Group operates currently have a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

Movements in net deferred tax liability:

	2012	2011	2010
Net deferred tax liability at the beginning of the year	8,279	7,892	5,947
Deferred tax expense resulting from change in tax rates	—	—	1,751
Deferred tax (benefit)/expense	(1,463)	622	194
Credited to other comprehensive income at the date of property and equipment revaluation	—	(235)	—
Net deferred tax liability at the end of the year	6,816	8,279	7,892

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2012	31 December 2011	31 December 2010
Other financial liabilities:			
Creditors on bank activities	1,720	312	201
Creditors on non-banking activities	644	351	359
Payable for general and administrative expenses	243	242	301
Other	44	111	148
Amounts due to customers of pension funds	—	5,163	—
	2,651	6,179	1,009
Other non financial liabilities:			
Salary payable	6,033	5,106	4,628
Current income tax payable	3,329	232	173
Taxes payable other than income tax	1,351	3,171	2,681
Other prepayments received	760	1,181	1,558
	11,473	9,690	9,040
	14,124	15,869	10,049

JSC Accumulated Pension fund of Halyk Bank (the "Pension Fund Management Company") receives two types of fees (Note 25) – 15% for management of pension assets based on the investment income earned or loss incurred on the pension assets during the month and 0.05% earned monthly based on total net assets under administration.

During the third quarter of 2011 due to a significant fall in the market quotations of securities the pension assets portfolio incurred significant unrealized losses, which resulted in recognition of losses incurred from management of pension assets. The Group would have to repay those amounts in instances where the customers leave the fund or otherwise they could be offset against future income.

22. EQUITY

Authorized, issued and fully paid number of shares as at 31 December 2012, 2011 and 2010, were as follows:

31 December 2012	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(220,556,796)	10,907,961,655
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(214,146,931)	95,712,499
Convertible preferred	80,225,222	—	80,225,222	(500,568)	79,724,654

31 December 2011	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	2,400,000,000	(1,091,584,040)	1,308,415,960	(219,077,162)	1,089,338,798
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(24,055,613)	285,803,817
Convertible preferred	80,225,222	—	80,225,222	(378,598)	79,846,624

31 December 2010	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	2,400,000,000	(1,091,584,040)	1,308,415,960	(6,904,953)	1,301,511,007
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(23,972,034)	285,887,396
Convertible preferred	80,225,222	—	80,225,222	(295,021)	79,930,201

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2009	1,300,516,169	285,889,251	79,930,401	83,468	46,891	13,233
Purchase of treasury shares	(769,463)	(32,964)	(200)	(8)	—	—
Sale of treasury shares	1,764,301	31,109	—	18	—	—
31 December 2010	1,301,511,007	285,887,396	79,930,201	83,478	46,891	13,233
Purchase of treasury shares from Samruk-Kazyna (including the cost of the call option – see Note 1)	(213,000,000)	—	—	(39,875)	—	—
Purchase of treasury shares	(2,606,739)	(84,111)	(83,577)	(26)	—	—
Sale of treasury shares	3,434,530	532	—	34	—	—
31 December 2011	1,089,338,798	285,803,817	79,846,624	43,611	46,891	13,233
Increase in shares (split)	9,820,102,490	—	—			
Purchase of treasury shares from Samruk Kazyna (including the cost of the call option – see Note 1)	—	(190,000,000)	—	—	(41,054)	—
Other purchases of treasury shares	(4,482,640)	(91,364)	(146,970)	(45)	—	—
Sale of treasury shares	3,003,007	46	25,000	31	—	—
31 December 2012	10,907,961,655	95,712,499	79,724,654	43,597	5,837	13,233

In accordance with the Decision made on extraordinary shareholders meeting held 6 December 2012, the Bank increased total amount of shares by performing a split of the common shares in proportion of one common share to ten common shares. The split was performed on 14 December 2012.

At 31 December 2012, the Group held 220,556,796 of the Group's common shares as treasury shares at KZT 39,974 million (31 December 2011 – 219,077,162 at KZT 39,960 million; 31 December 2010 – 6,904,953 at KZT 93 million).

Common shares

Each common share is entitled to one vote and dividends. No dividends for common shares were declared and paid for the years ended 31 December 2012, 2011 and 2010.

Preferred shares

In accordance with IAS 32 "Financial Instruments: Presentation", both the non-convertible and convertible preferred shares (together, the "Preferred Shares") are classified as compound instruments. On a return of capital on liquidation, the assets of the Group available for distribution are applied in priority to any payment to the holders of common shares in paying to the holders of the Preferred Shares an amount equal to the nominal capital paid up or credited as paid up.

The terms of the Preferred Shares require that the Group pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on Preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the Preferred shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on Preferred shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the share prospectus and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation as published by the NBK plus one per cent, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation as published by the NBK plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders. The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Dividends paid for the previous financial years were as follows:

	Paid in 2012 for the year ended 31 December 2011	Paid in 2011 for the year ended 31 December 2010	Paid in 2010 for the year ended 31 December 2009
Dividend paid per one preferred share, (convertible and non-convertible), tenge	13.44	14.08	11.52

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the share prospectus. This payment is calculated such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

Retained earnings

As at 31 December 2012, 2011 and 2010, the Statutory reserve which reflects the difference between provisions for impairment losses accrued under IFRS and provisions for impairment losses reported to the regulator in accordance with statutory requirements amounted to KZT 34,594 million, KZT 36,369 million and KZT 34,362 million, respectively. The difference results mostly from fundamental methodological differences in the calculation of the provision on loans to customers including the impact of 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 an appropriation of retained earnings.

23. COMMITMENTS AND CONTINGENCIES

Financial Commitments and Contingencies

The Group's financial commitments and contingencies comprised the following:

	31 December 2012	31 December 2011	31 December 2010
Guarantees issued	117,730	86,707	108,346
Commercial letters of credit	20,970	13,479	27,876
Commitments to extend credit	16,146	10,716	14,925
Financial commitments and contingencies	154,846	110,902	151,147
Less: cash collateral against letters of credit	(12,177)	(4,266)	(313)
Less: provisions (Note 19)	(4,385)	(3,388)	(3,861)
Financial commitments and contingencies, net	138,284	103,248	146,973

Guarantees issued included above represent financial guarantees where payment is not probable as at the respective reporting date, and therefore have not been recorded in the consolidated statement of financial position. As at 31 December 2012, the ten largest guarantees accounted for 78% of the Group's total financial guarantees (31 December 2011 – 75%; 31 December 2010 – 82%) and represented 27% of the Group's total equity (31 December 2011 – 21%; 31 December 2010 – 28%).

As at 31 December 2012, the ten largest letters of credit accounted for 41% of the Group's total commercial letters of credit (31 December 2011 – 68%; 31 December 2010 – 97%) and represented 3% of the Group's total equity (31 December 2011 – 3%; 31 December 2010 – 9%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Trust Activities

In the normal course of its business, the Group enters into agreements with customers to manage the customers' assets with limited decision making rights and in accordance with specific criteria established by the customers. The Group may only be liable for losses or actions aimed at appropriation of the customers' funds if such funds or securities are not returned to the customer. The maximum potential financial risk of the Group on any date is equal to the volume of the customers' funds, net of any unrealized income/loss on the customer's position. The balance of the customers' funds under the management of the Group, as at 31 December 2012 is KZT 1,060 billion (31 December 2011 – KZT 878 billion; 31 December 2010 – KZT 712 billion).

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 unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation

Commercial legislation of the 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 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.

In Kazakhstan tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

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.

The pension system of the Republic of Kazakhstan is currently under reform and systematic changes are possible. On 23 January 2013, the 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 time of issuing these financial statements, the legislative changes in this regard were incomplete.

24. NET INTEREST INCOME

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
— interest income on impaired assets	89,986	109,567	130,947
— interest income on unimpaired assets	56,418	42,306	33,467
Interest income on available-for-sale investment securities	14,562	14,274	13,965
Interest income on financial assets recorded at fair value through profit or loss	28	19	36
Total interest income	160,994	166,166	178,415
Interest income on loans to customers	141,036	145,434	159,597
Interest income on amounts due from credit institutions and cash and cash equivalents	2,153	2,644	2,845
Interest income on investments held to maturity	3,215	3,795	1,972
Total interest income on financial assets recorded at amortized cost	146,404	151,873	164,414
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held for trading	28	19	36
Total interest income on financial assets at fair value through profit or loss	28	19	36
Interest income on available-for-sale investment securities	14,562	14,274	13,965
Total interest income	160,994	166,166	178,415
Interest expense comprises:			
Interest expense on financial liabilities recorded at amortized cost	(69,934)	(78,894)	(86,379)
Total interest expense	(69,934)	(78,894)	(86,379)
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest expense on amounts due to customers	(44,945)	(51,962)	(60,584)
Interest expense on debt securities issued	(24,370)	(26,044)	(22,055)
Interest expense on amounts due to credit institutions	(619)	(888)	(3,740)
Total interest expense on financial liabilities recorded at amortized cost	(69,934)	(78,894)	(86,379)
Net interest income before impairment charge	91,060	87,272	92,036

25. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Pension fund and asset management	15,915	10,756	10,067
Bank transfers - settlements	9,387	8,145	6,694
Bank transfers - salary projects	5,456	4,710	3,874
Payment cards maintenance	5,434	4,399	3,863
Cash operations	5,112	3,785	3,221
Servicing customers' pension payments	3,705	3,266	2,522
Letters of credit and guarantees issued	2,380	2,752	2,252
Maintenance of customer accounts	1,175	797	1,363
Other	2,518	2,212	1,337
	51,082	40,822	35,193

Fee and commission income from Pension fund and asset management was derived from the following:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Investment income from management of pension assets	10,581	6,472	6,646
Income from administration of pension assets	5,334	4,284	3,421
	15,915	10,756	10,067

Fee and commission expense comprised the following:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Deposit insurance	(2,801)	(2,767)	(2,975)
Payment cards	(1,090)	(841)	(705)
Commission paid to collectors	(685)	(605)	(823)
Foreign currency operations	(243)	(217)	(171)
Bank transfers	(230)	(245)	(209)
Other	(942)	(893)	(338)
	(5,991)	(5,568)	(5,221)

26. NET GAIN FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Net gain on operations with financial assets and liabilities classified as held for trading:			
Net gain on derivative operations	1,452	37	970
Realized (loss)/gain on trading operations	(802)	613	803
Unrealized net loss on trading operations	(481)	(222)	(32)
Total net gain on operations with financial assets and liabilities classified as held for trading	169	428	1,741

27. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Dealing, net	6,993	4,652	7,211
Translation differences, net	2,060	4,533	174
Total net gain on foreign exchange operations	9,053	9,185	7,385

28. INSURANCE UNDERWRITING INCOME

Insurance underwriting income/expense comprised:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Insurance premiums written, gross	27,952	30,401	18,149
Change in unearned insurance premiums, net	323	(558)	242
Ceded reinsurance share	(10,511)	(14,872)	(6,397)
	17,764	14,971	11,994
Insurance payments	10,419	7,513	5,436
Insurance reserves	1,940	2,659	1,909
Commissions to agents	374	222	125
	12,733	10,394	7,470
Total insurance income	5,031	4,577	4,524

29. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Salaries and other employee benefits	29,228	24,297	22,647
Depreciation and amortization expenses	7,036	6,920	6,648
Taxes other than income tax	1,960	2,166	1,972
Repair and maintenance	1,601	1,342	1,440
Security	1,430	1,404	1,407
Communication	1,268	1,201	1,165
Rent	1,244	1,146	1,022
Advertisement	1,028	812	662
Insurance agents fees	862	665	785
Information services	742	719	593
Stationery and office supplies	633	716	765
Business trip expenses	627	574	533
Transportation	531	433	399
Write-off of property and equipment and intangible assets	457	—	1,177
Charity	423	144	100
Professional services	240	242	431
Social events	103	96	74
Hospitality expenses	69	65	64
Impairment of property and equipment	—	1	105
Other	2,329	3,388	3,217
	51,811	46,331	45,206

30. EARNINGS 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.

According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 22, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Basic earnings per share			
Net income for the year attributable to equity holders of the parent	69,517	39,391	35,943
Less: Dividends paid on preferred shares	(4,914)	(5,151)	(4,494)
Earnings attributable to common shareholders	64,603	34,240	31,449
Weighted average number of common shares for the purposes of basic earnings per share	10,897,316,521	10,960,582,702	11,121,172,163
Basic earnings per share (in Kazakhstani Tenge)*	5.93	3.12	2.83
Diluted earnings per share			
Earnings used in the calculation of basic earnings per share	64,603	34,240	31,449
Add: Dividends paid on convertible preferred shares	1,073	1,130	924
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders*	N/A	N/A	N/A
Less: Amounts payable to convertible preferred shareholders upon conversion	(10,950)	(10,976)	(11,209)
Earnings used in the calculation of total diluted earnings per share	54,726	24,394	21,164
Weighted average number of common shares for the purposes of basic earnings per share	10,897,316,521	10,960,582,702	11,121,172,163
Shares deemed to be issued:			
Weighted average number of common shares that would be issued for the convertible preferred shares	79,775,610	79,913,151	79,930,227
Weighted average number of common shares for the purposes of diluted earnings per share	10,977,092,131	11,040,495,853	11,201,102,390
Diluted earnings per share (in Kazakhstani Tenge)*	4.99	2.21	1.89

* The calculation of basic and diluted earnings per share includes only earnings attributable to holders of common shares because dividends already paid on preference shares are greater than that would be paid on full distribution of current period earnings.

Basic and diluted earnings per share for the years ended 31 December 2011 and 2010 were presented based on the new number of shares resulting from the share split on 14 December 2012 (see Note 22).

On 8 November 2010, KASE has enacted new rules for listed companies that require presentation of book value of one share in the financial statements of the listed companies.

The book value of one share per each class of shares as at 31 December 2012, 2011 and 2010, is as follows.

	31 December 2012		
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	10,907,961,655	313,738	28.76
Non-convertible preferred	95,712,499	7,074	73.91
Convertible preferred	79,724,654	13,233	165.98
		334,045	

	31 December 2011		
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	1,089,338,798	243,052	223.12
Non-convertible preferred	285,803,817	48,128	168.40
Convertible preferred	79,846,624	13,233	165.73
		304,413	

	31 December 2010		
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	1,301,511,007	250,689	192.61
Non-convertible preferred	285,887,396	48,128	168.35
Convertible preferred	79,930,201	13,233	165.56
		312,050	

The amount of equity attributable to non-convertible preferred shares is calculated as the sum of non-convertible shares carrying amount and the share premium reserve attributable to non-convertible preferred shares. The amount of equity attributable to convertible preferred shares is calculated as carrying amount of convertible shares. The amount of equity attributable to common shares is calculated as the difference between the total equity, total net book value of intangible assets, and the amounts attributable to preferred shares.

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

31. FINANCIAL RISK MANAGEMENT

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
- 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

Credit risk is the risk of loss arising for the Group when a counterparty is unable to meet its contractual obligations on time or in full.

Risk Management division plays important role in managing and controlling the credit risk. This division is responsible for the credit risks identification and evaluation, implementation of the control and monitoring measures. Risk Management division directly participates in a credit decision-making processes and consideration of internal rules, regulations and loan programs. Along with that, the division provides independent recommendations concerning credit exposure minimization measures, controls limits and monitors credit risks, provides relevant reporting to the management and ensures compliance of the credit process with external laws/ regulations as well as internal requirements and procedures.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/ counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

The risk, that the counterparty will not meet its obligations, is restricted by the limits covering on and off-balance sheet exposure.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of 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 counterparties maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the consolidated statement of financial position, 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.

Structure and authorities of credit committees

Credit committees, ALMC, the Management Board and the Board of Directors are credit authorities responsible for implementation of the Bank's Credit Policy and credit decision-making process.

Head Office Credit Committee (CC)

Is the committee, the primary goal of which is implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee (BCC, BNCC)

Are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to the small and medium enterprises customers.

Delegated credit authority limits for BCC and BNCC are established by the Management Board. BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision-making by the BNCC involves consideration of the package of documents, including complex analysis, assessments of the potential borrowers conducted by the Bank's experts.

Retail credit committee of the Head Office and Decision Making Center

Are credit decision authorities, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

Decision Making Center comprised of credit underwriters with delegated credit authorities based on four eyes principle. Decision Making Center makes credit decisions within their authorities and limits established by the Management Board and Retail credit committee of the Head Office. Retail credit committee of the Head Office is authorized to consider loan applications that exceed relevant credit limits or the authorities of the Retail Branch credit committee, as well as other matters within the authorities established by the Management Board.

Along with the process of decision-making via credit decision authorities mentioned above, there is an automated approach of decision procedures for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account risk-profile of the potential borrower and allows minimizing the credit risk exposure in the decision-making procedures.

Problem loans committee of the Head Office, branches

Are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorized credit authorities of the Bank subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the Authorized credit authorities in accordance with the internal rules and regulations of the subsidiary. The loan applications exceeded the limits and the authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant Credit committee according to the Bank's internal rules and regulations.

ALMC

Is the committee, the primary goal of which is the profit maximization and limit the risks of banking activities related to raising and allocation of funds. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risks management.

ALMC is also responsible for establishing country and counterparty limits. ALMC is reporting to the Board of Directors.

The Management Board

The loan applications exceeding the authorities of the Head Office Credit Committee, Branch Network Credit Committee, Retail Credit Committee of the Head Office, or exceeding the relevant limits of Branch Network Credit Committee, Retail Credit Committee of the Head Office have to be considered by the Management Board.

The Board of Directors

If the loan applications exceed 5 % of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities 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 (Note 23). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

	31 December 2012			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	469,813	—	469,813	3,510
Obligatory reserves	48,467	—	48,467	—
Financial assets at fair value through profit or loss	1,271	—	1,271	—
Amounts due from credit institutions	32,799	—	32,799	—
Available-for-sale investment securities	334,362	—	334,362	—
Investments held to maturity	25,766	—	25,766	—
Loans to customers	1,319,208	—	1,319,208	1,295,762
Other financial assets	7,818	—	7,818	—
	2,239,504		2,239,504	1,299,272
Commitments and contingencies	150,461	—	150,461	12,177

	31 December 2011			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	458,919	—	458,919	5,528
Obligatory reserves	52,533	—	52,533	—
Financial assets at fair value through profit or loss	3,752	—	3,752	2,932
Amounts due from credit institutions	21,096	—	21,096	—
Available-for-sale investment securities	305,890	—	305,890	—
Investments held to maturity	78,854	—	78,854	—
Loans to customers	1,184,240	—	1,184,240	1,167,504
Other financial assets	3,981	—	3,981	—
	2,109,265		2,109,265	1,175,964
Commitments and contingencies	107,514	—	107,514	4,266

	31 December 2010			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	357,430	—	357,430	910
Obligatory reserves	27,284	—	27,284	—
Financial assets at fair value through profit or loss	6,051	—	6,051	3,611
Amounts due from credit institutions	20,123	—	20,123	—
Available-for-sale investment securities	281,294	—	281,294	—
Investments held to maturity	174,419	—	174,419	—
Loans to customers	1,089,273	—	1,089,273	1,075,676
Other financial assets	5,131	—	5,131	—
	1,961,005		1,961,005	1,080,197
Commitments and contingencies	147,286	—	147,286	313

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. 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, before any impairment losses:

							31 December 2012
	AA	AA–	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	41,852	180,235	78,188	228,852	1,722	3,220	534,069
Obligatory reserves	—	—	—	48,467	—	—	48,467
Financial assets at fair value through profit or loss	—	—	297	492	222	260	1,271
Amounts due from credit institutions	—	—	309	15,809	16,376	305	32,799
Available-for-sale investment securities	—	20	42,427	249,218	37,041	6,655	335,361
Investments held to maturity	—	5	—	16,346	8,968	447	25,766
Other financial assets	—	—	—	—	—	7,818	7,818
Commitments and contingencies	—	—	—	—	—	154,846	154,846

							31 December 2011
	AA	AA–	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	109,353	105	246,950	94,638	62,732	6,213	519,991
Obligatory reserves	—	—	—	52,533	—	—	52,533
Financial assets at fair value through profit or loss	21	—	236	3,065	269	161	3,752
Amounts due from credit institutions	—	—	7,145	950	12,852	151	21,098
Available-for-sale investment securities	1,909	—	35,997	218,125	44,038	6,919	306,988
Investments held to maturity	—		—	75,017	667	3,170	78,854
Other financial assets	—	—	—	—	—	5,106	5,106
Commitments and contingencies	—	—	—	—	—	110,902	110,902

							31 December 2010
	AA	AA–	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	247,803	63	26,499	79,538	36,424	2,571	392,898
Obligatory reserves	—	—	—	27,284	—	—	27,284
Financial assets at fair value through profit or loss	20	—	78	622	948	4,383	6,051
Amounts due from credit institutions	—	—	7,679	8,466	3,831	149	20,125
Available-for-sale investment securities	—	20	—	262,683	12,516	7,287	282,506
Investments held to maturity	—	—	—	171,815	1,620	984	174,419
Other financial assets	—	—	—	—	—	5,903	5,903
Commitments and contingencies	—	—	—	—	—	151,147	151,147

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group 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.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Group, and this classification is verified by the Risk Management function.

The Group is using an internal rating model to classify loans in different risk categories.

After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the Risk management department.

The following classifications are used by the rating model:

- Rating score 1—superior loan rating, minimal credit risk;
- Rating score 2—very high quality of loan, very low credit risk;
- Rating score 3—high quality of loan, low credit risk;
- Rating score 4—satisfactory quality of loan, insignificant risk;
- Rating score 5—credit risk can increase at economic variation;
- Rating score 6—high risk at economic variation;
- Rating score 7—high risk of default, paying capacity of the borrower depends on favourable economic circumstances;
- Rating score 8—very high risk of default;
- Rating score 9—procedure of bankruptcy is initiated but repayments are still made by the borrower;
- Rating score 10 – default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that had been assessed collectively.

Rating score	31 December 2012	31 December 2011	31 December 2010
1	—	—	—
2	—	—	—
3	33,943	26,950	193
4	82,088	71,191	52,926
5	233,258	152,319	149,185
6	334,553	298,812	238,790
7	184,845	223,738	232,282
8	95,017	107,407	93,107
9	30,081	50,077	26,283
10	218,944	182,138	192,914
Loans to customers that individually assessed for impairment	1,212,729	1,112,632	985,680
Loans to customers that collectively assessed for impairment	409,405	362,911	356,830
	1,622,134	1,475,543	1,342,510
Less – Allowance for loan impairment (Note 19)	(302,926)	(291,303)	(253,237)
Loans to customers	1,319,208	1,184,240	1,089,273

The following table details the carrying value of assets that are impaired and the aging of those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment			
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment	
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses
Amounts due from credit institutions	32,801	(2)	—	—
Available-for-sale investment securities	334,362	—	999	(999)
Investments held to maturity	25,766	—	—	—
Loans to customers	654,809	(29,509)	557,920	(217,437)
Other financial assets	6,580	—	2,814	(1,576)

	Financial assets that have been individually assessed for impairment			
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment	
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses
Amounts due from credit institutions	21,084	—	—	—
Available-for-sale investment securities	305,890	—	1,098	(1,098)
Investments held to maturity	78,854	—	—	—
Loans to customers	510,241	(27,905)	602,391	(214,503)
Other financial assets	3,774	—	1,332	(1,125)

	Financial assets that have been individually assessed for impairment			
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment	
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses
Amounts due from credit institutions	20,106	—	—	—
Available-for-sale investment securities	281,262	—	1,244	(1,212)
Investments held to maturity	174,419	—	—	—
Loans to customers	380,493	(22,576)	605,187	(191,910)
Other financial assets	3,759	—	2,143	(771)

Financial assets that have been collectively assessed for impairment: Carrying amount of assets	Financial assets that have been collectively assessed for impairment: Amount of allowance for impairment losses	31 December 2012 Total
—	—	32,799
—	—	334,362
—	—	25,766
409,405	(55,980)	1,319,208
—	—	7,818

Financial assets that have been collectively assessed for impairment: Carrying amount of assets	Financial assets that have been collectively assessed for impairment: Amount of allowance for impairment losses	31 December 2011 Total
14	(2)	21,096
—	—	305,890
—	—	78,854
362,911	(48,895)	1,184,240
—	—	3,981

Financial assets that have been collectively assessed for impairment: Carrying amount of assets	Financial assets that have been collectively assessed for impairment: Amount of allowance for impairment losses	31 December 2010 Total
19	(2)	20,123
—	—	281,294
—	—	174,419
356,830	(38,751)	1,089,273
—	—	5,131

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations in a due time. The Group's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

The purpose of the Group's liquidity risk management is timely and complete fulfillment of its obligations with minimal expense. For these purposes the Group:

- Holds certain level of liquid assets, diversified according to the currency type and maturity dates for the fastest and effective cover of any unexpected liquidity gap;
- Holds stable and diversified liabilities structure consisting of the term funds and funds on demand;
- Obtains access to the financial markets in order to attract short-term funds.

The Group uses the following methods for the assessment and liquidity risk mitigation as well as for the liquidity risk management:

- Analysis of contractual maturity dates and cash flow forecast (GAP analysis), analysis of deposit base concentration;
- Establishment of internal limits aimed to constrain mismatches in maturity dates (limits on the gaps);
- Allocation and usage of security portfolio for short-term liquidity management;
- Development and maintenance of contingency funding plan (CFP).

ALMC controls liquidity risk through the maturity buckets analysis and determines the group's strategy for the next financial period. Short-term liquidity management is made by Treasury which carries out operations on money markets for short-term liquidity support and optimization of cash flows.

Short-term liquidity needs are managed by the Group's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means. In order to manage liquidity risk, the Group analyzes the financial assets, obligatory reserves and liabilities, taking into account payment schedules for loans issued to customers. 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, except for financial assets at fair value through profit or loss which are included in the column "Less than 1 month" as they are available to meet the Group's short-term liquidity needs.

	31 December 2012					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	291,363	242,706	—	—	—	534,069
Obligatory reserves	28,017	3,298	12,270	2,633	2,249	48,467
Financial assets at fair value through profit or loss	1,271	—	—	—	—	1,271
Amounts due from credit institutions	48	6,557	8,094	17,799	301	32,799
Available-for-sale investment securities	3,125	17,403	57,373	189,484	66,977	334,362
Investments held to maturity	260	157	2,203	18,231	4,915	25,766
Loans to customers	185,647	159,602	627,777	287,899	58,283	1,319,208
Other financial assets	7,011	228	51	177	351	7,818
	516,742	429,951	707,768	516,223	133,076	2,303,760
FINANCIAL LIABILITIES:						
Amounts due to customers	1,032,288	131,690	421,072	85,479	28,653	1,699,182
Amounts due to credit institutions	8,903	26	1,208	1,307	3,758	15,202
Financial liabilities at fair value through profit or loss	366	41	32	—	—	439
Debt securities issued	109	—	116,592	107,847	77,371	301,919
Other financial liabilities	2,425	38	166	22	—	2,651
	1,044,091	131,795	539,070	194,655	109,782	2,019,393
Net position	(527,349)	298,156	168,698	321,568	23,294	
Accumulated gap	(527,349)	(229,193)	(60,495)	261,073	284,367	

	31 December 2011					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	304,721	215,270	—	—	—	519,991
Obligatory reserves	29,360	7,119	12,340	2,698	1,016	52,533
Financial assets at fair value through profit or loss	3,752	—	—	—	—	3,752
Amounts due from credit institutions	33	673	13,995	6,395	—	21,096
Available-for-sale investment securities	7,650	14,270	78,579	140,687	64,704	305,890
Investments held to maturity	79	39,935	23,418	13,106	2,316	78,854
Loans to customers	166,974	182,126	591,410	169,950	73,780	1,184,240
Other financial assets	3,510	112	167	115	77	3,981
	516,079	459,505	719,909	332,951	141,893	2,170,337
FINANCIAL LIABILITIES:						
Amounts due to customers	870,078	211,151	366,080	80,035	30,132	1,557,476
Amounts due to credit institutions	31,827	250	1,663	3,859	4,035	41,634
Financial liabilities at fair value through profit or loss	2,547	—	—	—	—	2,547
Debt securities issued	118	10,391	282	133,167	167,110	311,068
Other financial liabilities	538	279	5,329	33	—	6,179
	905,108	222,071	373,354	217,094	201,277	1,918,904
Net position	(389,029)	237,434	346,555	115,857	(59,384)	
Accumulated gap	(389,029)	(151,595)	194,960	310,817	251,433	

	31 December 2010					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	392,898	—	—	—	—	392,898
Obligatory reserves	10,322	2,819	7,437	2,458	4,248	27,284
Financial assets at fair value through profit or loss	6,051	—	—	—	—	6,051
Amounts due from credit institutions	33	1,235	2,902	15,952	1	20,123
Available-for-sale investment securities	17,496	31,743	55,391	132,136	44,528	281,294
Investments held to maturity	6,029	65,349	89,158	9,019	4,864	174,419
Loans to customers	108,669	108,410	515,001	266,774	90,419	1,089,273
Other financial assets	4,384	114	291	268	74	5,131
	545,882	209,670	670,180	426,607	144,134	1,996,473
FINANCIAL LIABILITIES:						
Amounts due to customers	604,183	178,492	468,022	136,861	28,197	1,415,755
Amounts due to credit institutions	51,734	574	3,534	10,522	5,039	71,403
Financial liabilities at fair value through profit or loss	2,910	—	—	—	—	2,910
Debt securities issued	100	993	3,358	136,184	111,532	252,167
Other financial liabilities	506	99	278	126	—	1,009
	659,433	180,158	475,192	283,693	144,768	1,743,244
Net position	(113,551)	29,512	194,988	142,914	(634)	
Accumulated gap	(113,551)	(84,039)	110,949	253,863	253,229	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Group possesses a right to unilaterally call back part of long-term loans provided to customers in ten months period after proper notification would be issued by the Group.

A significant portion of the Group's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group indicate that these deposits provide a long-term and stable source of funding for the Group. Therefore an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk 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 consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

						31 December 2012
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to customers	1,034,737	138,449	442,552	190,069	50,566	1,856,373
Amounts due to credit institutions	8,911	46	1,260	1,771	6,503	18,491
Debt securities issued	2,837	—	136,139	162,548	90,452	391,976
Other financial liabilities	2,425	38	166	22	—	2,651
Guarantees issued	16,146	—	—	—	—	16,146
Commitments to extend credit	117,730	—	—	—	—	117,730
	1,182,786	138,533	580,117	354,410	147,521	2,403,367
Derivative financial assets	33,728	4,307	—	—	—	38,036
Derivative financial liabilities	33,619	3,165	—	958	—	37,742

						31 December 2011
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to customers	872,042	217,484	387,796	173,085	54,699	1,705,106
Amounts due to credit institutions	31,829	252	1,703	4,121	7,255	45,160
Debt securities issued	232	20,906	2,312	140,277	167,984	331,711
Other financial liabilities	539	279	5,329	32	—	6,179
Guarantees issued	86,707	—	—	—	—	86,707
Commitments to extend credit	10,716	—	—	—	—	10,716
	1,002,065	238,921	397,140	317,515	229,938	2,185,579
Derivative financial assets	32,551	—	—	—	—	32,551
Derivative financial liabilities	31,794	—	—	—	—	31,794

						31 December 2010
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to customers	606,150	184,779	493,848	234,619	54,091	1,573,487
Amounts due to credit institutions	51,743	579	3,587	11,207	8,928	76,044
Debt securities issued	212	2,176	22,804	220,794	149,587	395,573
Other financial liabilities	506	99	279	126	—	1,010
Guarantees issued	108,346	—	—	—	—	108,346
Commitments to extend credit	14,925	—	—	—	—	14,925
	781,882	187,633	520,518	466,746	212,606	2,169,385
Derivative financial assets	69,877	—	—	—	—	69,877
Derivative financial liabilities	68,147	—	—	—	—	68,147

Market risk

Market risk is a risk that Group's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Group is exposed to market risks which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimize risk/return, minimize losses in case of adverse events and decrease deviation of factual financial results from the expected one.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review at least on an annual basis and should be monitored continuously.

Interest rate risk

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decrease, interest expense increase or negative impact on equity resulting from adverse changes of market interest rates.

The Group determines two types of interest rate risk:

- Interest rate risk related to securities portfolios changes in fair value of which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rates repricing) mismatch that are sensitive to the interest rates changes (risk of interest rates changes).

ALMC manages interest rate risks and market risks through the management of the Group's position on interest rates to reach positive interest margins. Budgeting and Controlling Department monitors current results of the Group's financial activity, estimates the Group's sensitivity in relation to interest rates changes and influence on the Group's profits.

The Group manages interest rates by determining the Group's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities by 200 basis points.

Sensitivity analysis of interest rate risk

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, 2011 and 2010, and the effect of revaluing instruments with fixed rates accounted at fair value.

Impact on income before tax based on asset values as at 31 December 2012, 2011 and 2010:

	31 December 2012		31 December 2011		31 December 2010	
	Interest rate +2%	Interest rate −2%	Interest rate +2%	Interest rate −2%	Interest rate +2%	Interest rate −2%
FINANCIAL ASSETS:						
Loans to customers	24	(24)	24	(24)	24	(24)
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	23	(23)	—	—	—	—
Net impact on income before tax	47	(47)	24	(24)	24	(24)

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 of available-for-sale investment securities with fixed rates.

Impact on equity:

	31 December 2012		31 December 2011		31 December 2010	
	Interest rate +2%	Interest rate −2%	Interest rate +2%	Interest rate −2%	Interest rate +2%	Interest rate −2%
FINANCIAL ASSETS:						
Loans to customers	24	(24)	24	(24)	24	(24)
Available-for-sale investment securities	(19,346)	19,346	(15,350)	15,350	(14,072)	14,072
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	23	(23)	—	—	—	—
Net impact on equity	(19,299)	19,299	(15,326)	15,326	(14,048)	14,048

Currency Risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Group.

ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the Group's open currency position with the aim to comply with the requirements of the regulatory authority.

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority.

The Group's exposure to foreign currency exchange rate risk follows:

	31 December 2012			31 December 2011			31 December 2010		
	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total
FINANCIAL ASSETS:									
Cash and cash equivalents	71,763	462,306	534,069	58,108	461,883	519,991	94,811	298,087	392,898
Obligatory reserves	24,324	24,143	48,467	23,531	29,002	52,533	12,320	14,964	27,284
Financial assets at fair value through profit or loss	303	968	1,271	399	3,353	3,752	1,291	4,760	6,051
Amounts due from credit institutions	21,205	11,594	32,799	11,526	9,570	21,096	9,448	10,675	20,123
Available-for-sale investment securities	177,232	157,130	334,362	202,142	103,748	305,890	240,694	40,600	281,294
Investments held to maturity	17,233	8,533	25,766	73,459	5,395	78,854	168,752	5,667	174,419
Loans to customers	965,552	353,656	1,319,208	763,741	420,499	1,184,240	591,360	497,913	1,089,273
Other financial assets	6,571	1,247	7,818	3,585	396	3,981	4,012	1,119	5,131
	1,284,183	1,019,577	2,303,760	1,136,491	1,033,846	2,170,337	1,122,688	873,785	1,996,473
FINANCIAL LIABILITIES:									
Amounts due to customers	1,030,300	668,882	1,699,182	915,930	641,546	1,557,476	796,880	618,875	1,415,755
Amounts due to credit institutions	5,382	9,820	15,202	27,811	13,823	41,634	4,737	66,666	71,403
Financial liabilities at fair value through profit or loss	0	439	439	—	2,547	2,547	—	2,910	2,910
Debt securities issued	23,977	277,942	301,919	34,502	276,566	311,068	44,466	207,701	252,167
Other financial liabilities	2,430	221	2,651	5,941	238	6,179	818	191	1,009
	1,062,089	957,304	2,019,393	984,184	934,720	1,918,904	846,901	896,343	1,743,244
Net balance sheet position	222,094	62,273	284,367	152,307	99,126	251,433	275,787	(22,558)	253,229

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group's USD denominated monetary assets and liabilities.

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Group had significant exposure at 31 December 2012, 2011 and 2010, 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 consolidated income statement, while a positive amount reflects a net potential increase. The management of the Group believes income tax not to have substantial effect for the purpose of currency risk management.

Impact on income before tax based on asset values as at 31 December 2012, 2011 and 2010, calculated using currency rate fluctuations analysis:

	31 December 2012		31 December 2011		31 December 2010	
	+25% KZT/USD	–25% KZT/USD	+25% KZT/USD	–25% KZT/USD	+25% KZT/USD	–25% KZT/USD
Impact on income before tax	15,140	(15,140)	19,826	(19,826)	(11,207)	11,207

Impact on equity:

	31 December 2012		31 December 2011		31 December 2010	
	+25% KZT/USD	–25% KZT/USD	+25% KZT/USD	–25% KZT/USD	–25% KZT/USD	–10% KZT/USD
Impact on equity	15,140	(15,140)	19,826	(19,826)	(11,207)	11,207

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 consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in 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. Another limitation is represented by 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, where those changes are caused by factors specific to the individual security, 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.

To limit price risk the Group determines limits for maximum losses (stop-loss) on each security from trade portfolio to minimize potential losses of trade portfolio.

Price risk assessment is also made on the basis of VaR method through establishment of Expected Shortfall (ES) limits on the level of the expected losses, which the Bank is able to undertake within one day in situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidential interval – 95%;
- The method of measurement – historical simulation.

The Group estimates the price risk at 31 December 2012, 2011 and 2010, to be not material and therefore quantitative information is not disclosed.

32. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are as follows:

- To comply with the capital requirements set by the FMSC;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined by taking into account the above objectives during the process of preparing the annual budget, and is approved by the Management Board and the Board of Directors. The capital adequacy of the Group is controlled according to the principles, methods and coefficients employed by Basel Committee. There have been no changes as to the way the Group measures capital.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interest less accrued dividends, net long position in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt calculated based on remaining maturities and limited to 50% of Tier 1 capital and revaluation reserves.

The risk-weighted assets are measured based on a hierarchy of five risk weighting according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2012, 2011 and 2010. During those three years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2012	31 December 2011	31 December 2010
Composition of regulatory capital			
Tier 1			
Share capital, net of treasury shares	62,667	103,735	143,602
Share premium	1,496	1,156	1,352
Retained earnings and other reserves	273,835	204,240	171,744
Less: revaluation, available-for-sale investment securities and translation reserves	(24,802)	(20,303)	(22,217)
Less: goodwill	(3,085)	(3,085)	(3,085)
Non-controlling interest	1,641	1,196	1,186
Total qualifying tier 1 capital	311,752	286,939	292,582
Tier 2			
Subordinated debt	16,363	20,940	32,592
Property and equipment and available-for-sale investment securities revaluation and translation reserves	24,802	20,303	22,217
Total qualifying tier 2 capital	41,165	41,243	54,809
Less: investments in associates	(53)	(67)	(224)
Total regulatory capital	352,864	328,115	347,167
Risk weighted assets	1,923,978	1,718,905	1,696,909
Tier 1 capital ratio	16.2%	16.7%	17.3%
Total capital adequacy ratio	18.3%	19.1%	20.5%

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

33. SEGMENT ANALYSIS

The Group is managed and reported on the basis of two main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

Retail banking offers a range of personal banking, savings and mortgage products and services. Corporate banking offers business banking services principally to small and medium sized companies and commercial loans to larger corporate and commercial customers.

The products and services offered by each segment are:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages to individuals and cash and foreign currency related services.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products to legal entities.

Other – representing capital market services, insurance services, and documentary operations with guarantees issued and commercial letters of credit.

The segment information below is presented on the basis used by the Bank's Chairperson of the Management Board, who is the Group's chief operating decision maker, to evaluate performance, in accordance with IFRS 8. The Management of the Group reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and amounts due to credit institutions and operating expenses other than salaries and other employee benefits.

There were no transactions between business segments during the years ended 31 December 2012, 2011 and 2010. Segment assets and liabilities exclude certain unallocated amounts. Unallocated assets include obligatory reserves, property and equipment and other unallocated assets. Unallocated liabilities include debt securities issued, amounts due to credit institutions and other unallocated liabilities.

Segment information for the main reportable business segments of the Group as at 31 December 2012, 2011 and 2010 and for the years then ended, is set out below:

	Retail banking	Corporate banking	Other	Total
As at 31 December 2012 and for the year then ended				
External revenues	75,052	146,076	22,494	243,622
Total revenues	75,052	146,076	22,494	243,622
Total revenues comprise:				
— Interest income	49,817	111,177	—	160,994
— Fee and commission income	22,802	28,280	—	51,082
— Net gain from financial assets and liabilities at fair value through profit or loss	—	—	169	169
— Net realized gains from available-for-sale investment securities	—	—	1,626	1,626
— Net gain on foreign exchange operations	2,433	6,620	—	9,053
— Share in net loss of associate	—	(1)	—	(1)
— Insurance underwriting income and other income	—	—	20,699	20,699
Total revenues	75,052	146,076	22,494	243,622
— Interest expense on amounts due to customers	(32,579)	(12,366)	—	(44,945)
— Impairment charge	(3,428)	(11,934)	—	(15,362)
— Fee and commission expense	(1,106)	(4,885)	—	(5,991)
— Salaries and other employee benefits	(5,926)	(23,302)	—	(29,228)
— Advertisement expenses	(1,028)	—	—	(1,028)
— Other provisions	—	(962)	—	(962)
Segment result	30,985	92,627	22,494	146,106
Unallocated costs:				
— Interest expense from debt securities issued and amounts due to credit institutions				(24,989)
— Insurance claims incurred, net of reinsurance				(12,733)
— Unallocated operating expenses				(21,555)
— Impairment loss of non-current assets held for sale				(2,100)
				(61,377)
Income before income tax expense				84,729
Income tax expense				(14,768)
Net income				69,961
Total segment assets	354,887	1,531,189	361,452	2,247,528
Unallocated assets				160,470
Total assets				(1,703,566)
Total segment liabilities	(694,228)	(1,004,953)	(3,388)	(364,793)
Unallocated liabilities				(2,068,359)
Total liabilities				(1,963,603)
Other segment items:				
Capital expenditure (unallocated)				(8,453)
Depreciation and amortization expense (unallocated)				(7,036)

	Retail banking	Corporate banking	Other	Total
As at 31 December 2011 and for the year then ended				
External revenues	71,978	144,191	16,876	233,045
Total revenues	71,978	144,191	16,876	233,045
Total revenues comprise:				
— Interest income	42,303	123,863	—	166,166
— Fee and commission income	27,283	13,539	—	40,822
— Net gain from financial assets and liabilities at fair value through profit or loss	—	—	428	428
— Net realized gains from available-for-sale investment securities	—	—	84	84
— Net gain on foreign exchange operations	2,392	6,793	—	9,185
— Share in net loss of associate	—	(4)	—	(4)
— Insurance underwriting income and other income	—	—	16,364	16,364
Total revenues	71,978	144,191	16,876	233,045
— Interest expense on amounts due to customers	(32,836)	(19,126)	—	(51,962)
— Impairment charge	(8,173)	(30,982)	—	(39,155)
— Fee and commission expense	(855)	(4,713)	—	(5,568)
— Salaries and other employee benefits	(4,576)	(19,721)	—	(24,297)
— Advertisement expenses	(812)	—	—	(812)
— Other provisions	—	479	—	479
— Losses incurred from management of pension assets	(5,163)	—	—	(5,163)
Segment result	19,563	70,128	16,876	106,567
Unallocated costs:				
— Interest expense from debt securities issued and amounts due to credit institutions				(26,932)
— Insurance claims incurred, net of reinsurance				(10,394)
— Unallocated operating expenses				(21,222)
				(58,548)
Income before income tax expense				48,019
Income tax expense				(8,511)
Net income				39,508
Total segment assets	309,982	1,415,345	388,563	2,113,890
Unallocated assets				160,040
Total assets				2,273,930
Total segment liabilities	(566,233)	(991,242)	(3,388)	(1,560,863)
Unallocated liabilities				(402,740)
Total liabilities				(1,963,603)
Other segment items:				
Capital expenditure (unallocated)				(9,392)
Depreciation and amortization expense (unallocated)				(6,920)

	Retail banking	Corporate banking	Other	Total
As at 31 December 2010 and for the year then ended				
External revenues	62,579	158,399	16,002	236,980
Total revenues	62,579	158,399	16,002	236,980
Total revenues comprise:				
— Interest income	41,382	137,033	—	178,415
— Fee and commission income	19,612	15,581	—	35,193
— Net gain from financial assets and liabilities at fair value through profit or loss	—	—	1,741	1,741
— Net realized gains from available-for-sale investment securities	—	—	591	591
— Net loss from repurchase of debt securities issued	—	—	(236)	(236)
— Net gain on foreign exchange operations	1,585	—	(236)	(236)
— Share in net loss of associate	—	5,800	—	7,385
— Insurance underwriting income and other income	—	(15)	—	(15)
Total revenues	62,579	158,399	16,002	236,980
— Interest expense on amounts due to customers	(29,706)	(30,878)	—	(60,584)
— Impairment charge	(6,633)	(41,795)	—	(48,428)
— Fee and commission expense	(861)	(4,360)	—	(5,221)
— Salaries and other employee benefits	(4,125)	(18,522)	—	(22,647)
— Advertisement expenses	(662)	—	—	(662)
— Other provisions	—	628	—	628
Segment result	20,592	63,472	16,002	100,066
Unallocated costs:				
— Interest expense from debt securities issued and amounts due to credit institutions				(25,795)
— Insurance claims incurred, net of reinsurance				(7,470)
— Unallocated operating expenses				(21,897)
				(55,162)
Income before income tax expense				44,904
Income tax expense				(8,688)
Net income				36,216
Total segment assets	254,724	1,247,570	461,988	1,964,282
Unallocated assets				133,653
Total assets				2,097,935
Total segment liabilities	(490,877)	(924,878)	(3,861)	(1,419,616)
Unallocated liabilities				(360,435)
Total liabilities				(1,780,051)
Other segment items:				
Capital expenditure (unallocated)				(10,245)
Depreciation and amortization expense (unallocated)				(6,648)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2012, 2011 and 2010, and for the years then ended.

	Kazakhstan	OECD	Non OECD	Total
2012				
Total assets	1,947,751	404,924	55,323	2,407,998
External revenues	235,582	4,174	3,866	243,622
Capital expenditure	(8,453)	—	—	(8,453)
2011				
Total assets	1,795,044	434,947	43,939	2,273,930
External revenues	224,935	4,080	4,030	233,045
Capital expenditure	(9,392)	—	—	(9,392)
2010				
Total assets	1,752,669	306,993	38,273	2,097,935
External revenues	231,428	1,968	3,584	236,980
Capital expenditure	(10,245)	—	—	(10,245)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

34. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a 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.

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts due from and to credit institutions

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 the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2012		31 December 2011		31 December 2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets						
Amounts due from credit institutions	32,799	35,872	21,096	20,390	20,123	18,967
Loans to customers	1,319,208	1,351,271	1,184,240	1,194,183	1,089,273	1,140,622
Investments held-to-maturity	25,766	26,031	78,854	72,905	174,419	173,856
Financial liabilities						
Amounts due to customers	1,699,182	1,689,642	1,557,476	1,537,631	1,415,755	1,397,685
Amounts due to credit institutions	15,202	15,984	41,634	43,673	71,403	75,756
Debt securities issued	301,919	331,322	311,068	308,168	252,167	260,351

The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

Financial assets and liabilities at fair value through profit or loss and available-for-sale investment securities are carried at fair value in the consolidated statement of financial position. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1: If a quoted market price is available for an instrument, the fair value is calculated based on the observable market price;

Level 2: When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty;

Level 3: Where market-based valuation parameters are not directly observable, management will make a judgement as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The tables below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2012, 2011 and 2010, before any allowances for impairment losses:

Consolidated statement of financial position category		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Total 31 December 2012
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	453	—	453
	Equity financial instruments	85	—	85
	Derivative financial instruments	—	733	733
Available-for-sale investment securities	Debt financial instruments	329,583		329,583
	Equity financial instruments	4,779	—	4,779
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	—	439	439

Consolidated statement of financial position category		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Total 31 December 2011
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	228	—	228
	Equity financial instruments	220	—	220
	Derivative financial instruments	—	3,304	3,304
Available-for-sale investment securities	Debt financial instruments	301,251	—	301,251
	Equity financial instruments	4,639	—	4,639
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	—	2,547	2,547

Consolidated statement of financial position category		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Total 31 December 2010
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	270	—	270
	Equity financial instruments	1,141	—	1,141
	Derivative financial instruments	—	4,640	4,640
Available-for-sale investment securities	Debt financial instruments	278,440	—	278,440
	Equity financial instruments	2,854	—	2,854
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	—	2,910	2,910

There were no transfers between Level 1 and 2 during the years ended 31 December 2012, 2011 and 2010.

35. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The ultimate shareholder of the Group Timur Kulibayev (please see Note 1) held the position of Chairman in Samruk-Kazyna in the period from 12 April 2011 till 26 December 2011. Timur Kulibayev held the position of Chairman of the Board of Directors in subsidiaries of Samruk-Kazyna, including JSC NC KazMunayGas from 21 May 2009 till 12 January 2012 and JSC NC Kazatomprom from 17 October 2008 till 12 January 2012. According to the requirements of IAS 24, applicable for annual reports for periods starting 1 January 2011, the entity is considered as related to the reporting entity if a person, who has control or joint control over reporting entity is considered as member of key management personnel of the entity or a parent of the entity. Accordingly, Samruk-Kazyna together with its subsidiaries were considered as related parties until 26 December 2011, except for JSC NC KazMunayGas and JSC NC Kazatomprom, which were considered as related parties up to and including 12 January 2012.

The transactions and balances with Samruk-Kazyna are disclosed as a separate line in related party transactions disclosure below for the periods in which Samruk-Kazyna was a shareholder of the Group.

The Group had the following transactions outstanding as at 31 December 2012, 2011 and 2010, with related parties:

	31 December 2012		31 December 2011		31 December 2010	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Financial assets at fair value through profit or loss	33	1,271	31	3,752	48	6,051
— Samruk-Kazyna and its subsidiaries	33		31		48	
Available-for-sale investment securities before allowance for impairment	61,661	335,361	54,832	306,988	39,058	282,506
— Samruk-Kazyna and its subsidiaries	61,661		54,832		39,058	
Allowance for available-for-sale investment securities impairment	(490)	(999)	(490)	(1,098)	(549)	(1,212)
— Subsidiaries of Samruk-Kazyna	(490)		(490)		(549)	
Investments held to maturity	6,958	25,766	5,138	78,854	4,714	174,419
— Subsidiaries of Samruk-Kazyna	6,958		5,138		4,714	
Loans to customers before allowance for impairment losses	8,221	1,622,134	11,466	1,475,543	12,265	1,342,510
— entities with joint control or significant influence over the entity	6,738		10,195		—	
— key management personnel of the entity or its parent	-		43		109	
— other related parties	1,483		1,228		12,156	
Allowance for impairment losses	(298)	(302,926)	(3,549)	(291,303)	(1,979)	(253,237)
— entities with joint control or significant influence over the entity	(298)		(3,183)		—	
— key management personnel of the entity or its parent	—		(4)		(13)	
— other related parties	—		(362)		(1,966)	
Amounts due to customers	56,441	1,699,182	289,227	1,557,476	280,277	1,415,755
— the parent	36,457		22,421		12,457	
— entities with joint control or significant influence over the entity	558		679		3,017	
— associates	75		152		117	
— key management personnel of the entity or its parent	2,057		1,929		1,450	
— Samruk-Kazyna and its subsidiaries	11,765		240,765		257,750	
— other related parties	5,529		23,281		5,486	
Amounts due to credit institutions	54	15,202	202	41,634	44,482	71,403
— Subsidiaries of Samruk-Kazyna	54		202		44,482	

Included in the consolidated income statement for the years ended 31 December 2012, 2011 and 2010, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2012		Year ended 31 December 2011		Year ended 31 December 2010	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	2,292	160,994	4,159	166,166	3,630	178,415
— entities with joint control or significant influence over the entity	684		1,052		797	
— key management personnel of the entity or its parent	—		4		6	
— Subsidiaries of Samruk-Kazyna	1,466		2,921		1,777	
— other related parties	142		182		1,050	
Interest expense	(2,207)	(69,934)	(8,339)	(78,894)	(7,283)	(86,379)
— the parent	(1,410)		(933)		(989)	
— entities with joint control or significant influence over the entity	—		(9)		(303)	
— key management personnel of the entity or its parent	(125)		(131)		(129)	
— Samruk-Kazyna and its subsidiaries	(528)		(6,024)		(5,339)	
— other related parties	(144)		(1,242)		(523)	
Net gain from financial assets and liabilities at fair value through profit or loss	—	169	—	428	4	1,741
— Subsidiaries of Samruk-Kazyna	—		—		4	

	Year ended 31 December 2012		Year ended 31 December 2011		Year ended 31 December 2010	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:	1,335	29,228	842	24,297	271	22,647
— Salaries and other employee benefits	1,335		842		271	

36. SUBSEQUENT EVENTS

On 23 January 2013, the President of the Republic of Kazakhstan announced creation of a single pension fund and transfer of all pension accounts from the private pension funds into it. At the moment of issuing these consolidated financial statements of the Group neither legislative changes nor definite action plan were complete as such the Management of the Group cannot assess the future implications for JSC Accumulated Pension Fund of Halyk Bank of Kazakhstan and for the Group.

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National Bank of the Republic of Kazakhstan
www.nationalbank.kz

Kazakhstan Stock Exchange
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