

Explanatory Note

(unaudited)

to the consolidated financial statements of 2012 year
«Nurbank» JSC

1. Principal activities

Nurbank JSC (the “Bank”) was formed in 1993 under the laws of the Republic of Kazakhstan. The Bank operates under a general banking licence No. 142 issued on 13 December 2007 by Committee of the Republic of Kazakhstan for Regulation and Supervision of Financial Markets and Financial Organizations (the “FMSC”).

Nurbank JSC and its subsidiaries (together the “Group”) provide retail and corporate banking, pension, asset management and insurance services in Kazakhstan. The Bank accepts deposits from legal entities and individuals, extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank has a primary listing in the Kazakhstan Stock Exchange (“KASE”). The head office of the Bank is located in Almaty, Kazakhstan.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Law of the Republic of Kazakhstan on “Obligatory insurance of second tier banks deposits” dated 7 July 2006. Insurance covers the Bank's liabilities to individual depositors for amounts up to five million Kazakh Tenge for each individual in the event of business failure and revocation of the National Bank's of the Republic of Kazakhstan (the “NBRK”) banking license.

The Bank's registered and actual address is: 51-53 Abylai Khan str., Almaty, 050004, Republic of Kazakhstan. As at 31 December 2012, the Bank had 16 branches and 53 cash settlement units (31 December 2011: the Bank had 16 branches and 54 cash settlement units) located throughout Kazakhstan.

As at 31 December, the Bank's shares were owned by the following shareholders:

	2012 %	2011 %
“J. P. Finance Group” LLP	67.84	–
“Helios” LLP	9.67	9.67
Sarsenova S.T.	0.72	68.56
Other shareholders owing less than 5% each	21.77	21.77
Total	100.00	100.00

As at 31 December 2012 and 2011, members of the Board of Directors and Management Board did not possess shares of the Bank. In December 2012 the controlling shareholder Mrs. Sarsenova S.T. transferred 67.84% of common shares to “J. P. Finance Group” LLP. Mrs. Sarsenova S.T. is the sole participant of “J. P. Finance Group” LLP.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities, investment securities available-for-sale, land and buildings have been measured at fair value. These consolidated financial statement are presented in thousands of Kazakh Tenge (“KZT” or “Tenge”), except per share amounts and unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS during the year:

Amendment to IFRS 7 Financial Instruments: Disclosures

The amendment was issued in October 2010 and became effective for financial years beginning on 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Group's financial statements to evaluate the risks associated with those assets. The amendment affected disclosures only and did not have any impact on the Group's financial position or performance.

The following amendments to standards did not have any impact on the Group's accounting policies, financial position and results of operations:

- Amendment to IAS 12 *Income tax – Deferred Taxes – Recovery of underlying assets;*
- Amendment to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter*

3. Summary of significant accounting policies (continued)

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition financial assets are measured at fair value. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

'Day 1' profit

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

Trading securities

Financial assets classified as held for trading are included in the category 'trading securities'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement. Interest income on trading securities is recorded in the financial statements separately from net income/losses on trading securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets represent non-derivative financial assets that are classified as available-for-sale or are not included in any of three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. At which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

If as the result of change in the Group's intention or abilities, classification of investments as held-to-maturity is no more appropriate, the Group reclassifies them to the category of available-for-sale and measures at fair value. The difference between carrying amount and fair value is recognised in other comprehensive income up the time of investment disposal or derecognition. After such reclassification the Group does not classify any financial assets as held-to-maturity during the period of reclassification and two subsequent financial years.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts, amounts due from NBRK and amounts due from other credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

3. Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements 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. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or cash and cash equivalents, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield 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 they are sold to a third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value within amounts due to credit institutions.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, mostly currency swaps. Such financial instruments are held for trading and are recorded at fair value. 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 other assets when their fair value is positive and as other liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement within gains less losses from trading securities. Derivatives embedded in other financial instruments are accounted for separately and recorded at fair value if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not held for trading or revalued at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results if the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to Government and amounts due to credit institutions, due to the customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

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 recognised in the consolidated income statement.

Lease

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term and included a component of loans to customers in the consolidated statement of financial position. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Group as lessee

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

3. Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment on trading securities and financial assets available-for-sale is recognized directly through reduction in the asset's cost. Impairment on financial assets held-to-maturity and loans and accounts receivable is recognized through establishment of account of provision for related class of financial asset.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses by the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Investment securities available-for-sale

For available-for-sale investment securities, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Restructuring of loans to customers

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.

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised in the statement of financial position.
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities described below.
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to customers to ensure that all criteria are met and that future payments are likely to occur. The loans to customers continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ The 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.

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

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option on a net basis or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantee contracts

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

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

Property and equipment

Following initial recognition at cost, buildings and land are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property and equipment, except for buildings and land, are carried at cost, excluding the costs of day-to-day maintenance, less accumulated depreciation. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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:

	<i>Years</i>
Buildings	40
Motor vehicles	7
Computers and bank equipment	4-10
Leasehold improvements	5
Other	5-15
Land	—

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets include computer software and licences. Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 6 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets are included in the consolidated statement of financial position as a component of other assets.

Inventories

Inventories are valued at the lower of: acquisition cost and net realizable value. Net realisable value is the estimated asset's selling price in the ordinary course of business of the Bank, less the estimated costs to sell. Cost reduction is recognized by the Bank as impairment provision.

Provisions

Provisions are recognised 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 amount of obligation can be made.

Retirement and other employee benefit obligations

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

Share capital

Share capital

Common shares are shown within equity. 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. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends on common shares are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised.

Preferred shares

IAS 32 *Financial Instruments: Presentation* requires that preferred shares or their components be classified as financial liabilities or equity instruments in accordance with the essence of contractual agreement and definitions of financial liability or equity instrument. Preferred shares which carry a mandatory dividend payment are classified as debt securities issued. On initial recognition the fair value of the debt is equivalent to the present value of the mandatory dividend obligations over the term of the preferred share discounted at the interest rate for a similar instrument that does not retain a residual benefit to discretionary dividends.

Dividends on preferred shares are classified as an expense and are recognized in the consolidated income statement within interest expense on debt securities issued.

3. Summary of significant accounting policies (continued)

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Group functions.

Contingencies

Contingent liabilities are not recognised 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 recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

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

Interest and similar income and expenses

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

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

Fee and commission income

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

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

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

► *Commission income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Income from dividends

Income is recognised when the Group's right to receive the payment is established.

Expenses

Expenses are recognized on an accrual basis when the services are provided.

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Income/ (loss) from insurance operations

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded insurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the consolidated statement of financial position.

Losses and loss adjustments are charged to the consolidated income statement as a component of net insurance underwriting income as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recognised in the consolidated income statement as incurred.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new policy, are deferred, recorded in the consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned.

Provision for insurance losses and loss adjustment expenses

The provision for insurance losses and loss adjustment expenses are included in the consolidated statement of financial position within other liabilities 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 provision for all claims incurred but not settled at the reporting date represent case-by-case basis, based on the facts and circumstances available at the time the provisions are established. The estimates reflect the informed judgment of claims based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. These provisions are regularly re-evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available.

Provisions for incurred but not settled claims (IBNR) are established to recognize the estimated cost of losses that have occurred but where the Company has not yet been notified. IBNR provisions are established to recognize the estimated costs, including expenses, necessary to bring claims to final settlement. Since nothing is known about the occurrence, the Company relies on its past experience, adjusted for current trends and any other relevant factors. IBNR provisions are estimates based on actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The analyses are based on facts and circumstances known at the time, predictions of future events, estimates of future inflation and other societal and economic factors. Trends on claim frequency, severity and time lag in reporting are examples of factors used in projecting the IBNR provisions. IBNR provisions are reviewed and revised periodically as additional information becomes available and actual claims are reported. Resulting adjustments are reflected in the consolidated income statement.

Reinsurance

The Group cedes insurance risk in the normal course of business. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal 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 reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the consolidated statement of financial position within other 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 transferred by the Group to the reinsurer.

3. Summary of significant accounting policies (continued)

Foreign currency translation

The consolidated financial statement is presented in Tenge. Tenge, is the Group's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as net gains from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. As at 31 December 2012 and 2011 the official KASE exchange rate was KZT 150.74 and KZT 148.40 to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

IFRS 10 Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements* provides a unified control model that is applicable to all types of entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 eliminates the possibility of accounting for jointly controlled entities using the proportionate consolidation. Instead, the jointly controlled entities that meet the definition of joint ventures are accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 combines the disclosure requirements that were previously contained in IAS 27 as related to consolidated financial statements, as well as IAS 31 and IAS 28. These disclosure requirements apply to shares of the company's participation in subsidiaries, joint venture, associates and structured companies. With respect to such companies were introduced a number of new disclosure requirements. The Group will have to disclose more information on consolidated and non-consolidated structured companies, where it participates or which are funded by the Group. However, the standard will not have any impact on the financial position or performance of the Group.

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 13 Fair Value Measurement

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

IAS 27 Separate Financial Statements (Revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed – IAS 28 *Investments in Associates and Joint Ventures*. Revised standard describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 19 Employee Benefits (Amendment)

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment)

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

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

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

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

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

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

The amendments are effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

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

Improvements to IFRSs

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

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

4. Significant accounting judgements and estimates

Judgments and estimation of uncertainty

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- ▶ Allowances for impairment of assets and other provisions;
- ▶ Fair value of financial instruments;
- ▶ Taxation and deferred income tax assets;
- ▶ Revaluation of property and equipment

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below:

4. Significant accounting judgements and estimates (continued)

Judgments and estimation of uncertainty (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in 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 the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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. The Group uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation and deferred income tax assets

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; 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 of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Revaluation of property and equipment

Buildings and land were revalued at fair value as of 31 December 2011. Revaluation was based on the valuation carried out by an independent, professional, appropriately licensed company for valuation of fixed assets. The methodology used was based on the comparative (sales comparison approach) and on the cost method.

The comparative approach involves comparison of the evaluated item with similar items sold in the market. In most cases the value was determined based on offer prices.

In applying the cost approach, certain key elements were used such as:

- the full cost of reproduction or replacement (total costs for creation of item of comparable usefulness with the use of the project and materials currently used at the market);
- remaining useful life;
- standard useful life;
- depreciation (physical depreciation, functional deterioration, economic obsolescence).

Valuation was performed in accordance with International Standards of Valuation.

5. Acquisition of non-controlling interests

Acquisitions in 2011

On 10 March 2011, 28 March 2011 and 14 December 2011, APF Atameken JSC declared increase in its share capital by KZT 870,200 thousand, KZT 129,800 thousand and KZT 925,600 thousand, respectively, that were fully paid by the Bank. However, other shareholders rejected to use their right to purchase shares. This resulted in additional increase in the Bank's share in capital of APF Atameken JSC by 5.11%, 0.46% and 2.11%, as at the above mentioned dates, respectively. As the result, the Bank's gross share of interest in APF Atameken JSC increased from 87.02% to 94.67%.

5. Acquisition of non-controlling interests (continued)

Acquisitions in 2011 (continued)

The carrying amount of net assets of APF Atameken JSC as at these dates amounted to KZT 2,296,115 thousand, KZT 2,478,164 thousand and KZT 3,517,428 thousand, respectively.

As the result non-controlling interest was increased by KZT 47,581 thousand.

6. Segment information

For management purposes, the Group is organised into three business segments as follows:

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Group function	Treasury functions, including balances and transactions with trading securities and investment securities available-for-sale and held-to-maturity.

Where the Group cannot directly attribute or reasonably allocate items of revenue and operating expense to segments, it reports them as unallocated.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2012 or 2011.

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments:

<i>2012</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Group function</i>	<i>Unallocated</i>	<i>Total</i>
Revenue					
Interest income	7,765,313	13,977,737	1,915,128	–	23,658,178
Fee and commission income	1,191,019	1,959,272	223,704	64,892	3,438,887
Net loss from trading securities	–	–	(197,333)	–	(197,333)
Net losses from investment securities available-for-sale	–	–	994,485	–	994,485
Net gains from foreign currencies	–	–	1,233,699	–	1,233,699
Net insurance income	170,067	–	–	–	170,067
Proceeds from loans issuance	–	14,238,275	–	–	14,238,275
Other income	15,348	200,484	–	436,662	652,494
Total income	9,141,747	30,375,768	4,169,683	501,554	44,188,752
Interest expenses	(4,563,446)	(6,809,136)	–	–	(11,372,582)
Fee and commission expenses	(135,938)	(13,104)	(21,230)	(69,558)	(239,830)
Allowance for loan impairment	(1,816,351)	(19,015,757)	–	–	(20,832,108)
Personnel expenses	–	–	–	(4,699,038)	(4,699,038)
Depreciation and amortization	–	–	–	(602,530)	(602,530)
Other impairment and provisions	(26,324)	(354,870)	–	765	(380,429)
Taxes other than income tax	–	–	–	(267,842)	(267,842)
Other operating expenses	(1,325)	(10,514)	–	(3,138,055)	(3,149,894)
Total expenses	(6,543,384)	(26,203,381)	(21,230)	(8,776,258)	(41,544,253)
Segment's financial results before corporate income tax expenses	2,598,363	4,172,387	4,148,453	(8,274,704)	2,644,499
Corporate income tax expense	–	–	–	(690,250)	(690,250)
Net segment result after corporate income tax expenses	2,598,363	4,172,387	4,148,453	(8,964,954)	1,954,249
Segment assets	29,318,191	148,587,667	59,820,487	18,616,015	256,342,360
Segment liabilities	48,890,870	112,995,454	21,795,297	903,871	184,585,492
Other segment information					
Capital expenditures	–	–	–	49,066	49,066

6. Segment information (continued)

<i>2011</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Group function</i>	<i>Unallocated</i>	<i>Total</i>
Revenue					
Interest income	3,773,085	17,160,721	1,848,989	–	22,782,795
Fee and commission income	1,117,849	1,967,206	34,368	366,464	3,485,887
Net loss from trading securities	–	–	(875,338)	–	(875,338)
Net losses from investment securities available-for-sale	–	–	(103,298)	–	(103,298)
Net gains from foreign currencies	–	–	779,328	–	779,328
Net insurance income	283,939	–	–	–	283,939
Other income	24,151	42,875	39	124,107	191,172
Total income	5,199,024	19,170,802	1,684,088	490,571	26,544,485
Interest expenses	(4,372,598)	(9,338,965)	–	–	(13,711,563)
Fee and commission expenses	(66,086)	(131,342)	(18,711)	(102,486)	(318,625)
Allowance for loan impairment	(1,544,028)	(4,781,043)	–	–	(6,325,071)
Personnel expenses	–	–	–	(4,362,310)	(4,362,310)
Depreciation and amortization	–	–	–	(651,077)	(651,077)
Impairment of property and equipment	–	–	–	(11,724)	(11,724)
Other impairment and provisions	(173,935)	1,297,747	–	167,225	1,291,037
Taxes other than income tax	–	–	–	(329,418)	(329,418)
Other operating expenses	–	–	–	(3,491,245)	(3,491,245)
Total expenses	(6,156,647)	(12,953,603)	(18,711)	(8,781,035)	(27,909,996)
Segment's financial results before corporate income tax benefit	(957,623)	6,217,199	1,665,377	(8,290,464)	(1,365,511)
Corporate income tax benefit	–	–	–	1,867,808	1,867,808
Net segment result after corporate income tax benefit	(957,623)	6,217,199	1,665,377	(6,422,656)	502,297
Segment assets	26,241,839	173,513,439	55,924,502	12,134,789	267,814,569
Segment liabilities	54,917,231	120,076,768	21,282,543	791,890	197,068,432
Other segment information					
Capital expenditures	–	–	–	(186,960)	(186,960)

All the Group's revenues are received from the transactions with clients located in Kazakhstan.

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2012</i>	<i>2011</i>
Cash on hand	8,234,705	7,475,448
Current accounts with other credit institutions	7,595,151	7,840,116
Time deposits with credit institutions with contractual maturity up to 90 days	217,836	958,600
Reverse repurchase agreements with credit institutions with maturity up to 90 days	7,455,236	8,344,529
Cash and cash equivalents	23,502,928	24,618,693

As at 31 December 2012 and 2011, the Bank entered into short-term reverse repurchase agreements on KASE. The subject of these agreements are treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the National Bank of the Republic of Kazakhstan with a fair value of KZT 9,316,300 thousand (31 December 2011: KZT 9,007,523 thousand).

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either correspondent accounts with the NBRK or as cash on hand, and the scope of such provisions depends upon aggregate of cash on hand and cash on correspondent accounts with NBRK for the period of reserves formation. The period of reserves formation comprises 14 days. These funds can be used by the Bank for its current needs.

As at 31 December 2012 obligatory reserves amounted to KZT 2,819,131 thousand (31 December 2011: KZT 5,102,651 thousand).

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8. Trading securities

	2012	2011
Debt securities:		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,906,494	2,050,901
Treasury bills of OECD central state management bodies	55,117	47,953
Eurobonds of local banks	33,945	–
Eurobonds of foreign banks	–	28,817
	1,995,556	2,127,671
Equity securities:		
Preferred shares of Kazakh banks	346	227
Common shares of local financial institutions	104	19,171
	450	19,398
	1,996,006	2,147,069

9. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	2011
Time deposits with contractual maturity over 90 days	1,120,010	604,696
Long-term deposits	339,336	921,121
Amounts due from credit institutions	1,459,346	1,525,817

As at 31 December 2012 and 2011, amounts due from credit institutions were placed with 2 and 4 second-tier banks of the Republic of Kazakhstan, respectively.

Long-term deposits as at 31 December 2012 comprise deposits at the amount of KZT 339,336 thousand (31 December 2011: KZT 562,221 thousand) that represent collateral on the Bank's liabilities on processing services, related to transactions on credit cards.

10. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2012	2011
Debt securities:		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	25,848,213	17,922,753
Eurobonds of local banks	2,776,340	2,633,923
Bonds of local banks	1,657,855	2,152,892
Eurobonds of foreign banks	1,265,164	1,006,456
Corporate bonds	1,249,623	4,118,172
Foreign corporate Eurobonds	730,081	–
Bonds of local credit institutions, other than banks	425,035	580,905
USA Government Eurobonds	294,250	–
Notes of foreign banks	–	579,210
	34,246,561	28,994,311
Equity securities:		
Shares of local banks and other credit institutions	40,853	13,950
Corporate shares	34,139	150,479
	74,992	164,429
Investment securities available-for-sale	34,321,553	29,158,740

11. Loans to customers

Loans to customers comprise:

	<i>2012</i>	<i>2011</i>
Individually significant corporate loans	162,593,059	219,822,407
Individually insignificant corporate, small and medium size loans	38,666,036	22,695,752
Consumer lending	24,359,856	20,086,589
Residential mortgages	9,361,534	8,794,988
Gross loans to customers	234,980,485	271,399,736
Less: Allowance for impairment	(62,396,969)	(74,674,142)
Loans to customers	172,583,516	196,725,594

During 2012 the Bank, with the support of the shareholders, had transferred the rights on certain individually impaired loans to collector companies J.A. Collection Company LLP and Alatau Collection Company LLP, in exchange for the cash consideration of KZT 36,661,298 thousand, and an obligation to pay an additional amount in instalments with the net present value of KZT 9,463,306 thousand as at the date of the transaction. Total exposure at the date of transfer equalled to KZT 54,333,449 thousand. Provision for these loans amounted to KZT 22,447,120 thousand. Gain from sale of the loans in the amount of KZT 14,238,275 thousand was recognized in the income statement.

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

<i>2012</i>	<i>Individually not significant corporate, small and medium size loans</i>	<i>Individually significant corporate loans</i>	<i>Consumer loans</i>	<i>Residential mortgages</i>	<i>Total</i>
At 1 January 2012	1,381,190	70,653,214	2,347,515	292,223	74,674,142
Charge for the year	1,832,805	17,182,952	1,526,303	290,048	20,832,108
Write-offs	(20,486)	(10,588,784)	(48,378)	(4,513)	(10,662,161)
Sale of loans	-	(22,447,120)	-	-	(22,447,120)
At 31 December 2012	3,193,509	54,800,262	3,825,440	577,758	62,396,969
Individual impairment	1,626,029	52,151,330	2,987,408	504,657	57,269,424
Collective impairment	1,567,480	2,648,932	838,032	73,101	5,127,545
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,626,029	96,363,949	2,987,408	504,657	101,482,043

11. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

<i>2011</i>	<i>Individually significant corporate loans</i>	<i>Individually not significant corporate, small and medium size loans</i>	<i>Consumer loans</i>	<i>Residential mortgages</i>	<i>Total</i>
At 1 January 2011	64,755,071	4,376,159	836,764	261,978	70,229,972
Charge/ (recovered) for the year	7,771,893	(2,990,850)	1,513,783	30,245	6,325,071
Write-offs	(1,873,750)	(4,119)	(3,032)	–	(1,880,901)
At 31 December 2011	70,653,214	1,381,190	2,347,515	292,223	74,674,142
Individual impairment	67,896,249	334,848	1,528,590	227,342	69,987,029
Collective impairment	2,756,965	1,046,342	818,925	64,881	4,687,113
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	139,068,895	334,848	1,528,590	227,342	141,159,675

Loans individually determined as impaired

Interest income accrued on loans, individually determined as impaired during 2012 comprises KZT 6,500,570 thousand (31 December 2011: KZT 3,967,393 thousand).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired as at 31 December 2012 amounts to KZT 46,792,971 thousand (31 December 2011: KZT 51,036,479 thousand). In accordance with the Group policies loans to customers may only be written off upon approval by the Credit Committee or the decision of the Court.

Collateral and other credit enhancements

The amounts and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For commercial lending, charges over real estate properties, equipment and inventory;
- ▶ For retail lending, mortgages over residential properties, charges over vehicles and third party guarantees.

Management may request additional collateral in accordance with the underlying agreement and monitors the estimated fair value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During 2012, the Bank took possession of a real estate properties with an estimated value of KZT 1,967,222 thousand (2011: KZT 2,704,001 thousand). Currently, the Bank sells this real estate properties. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the current debt. The Bank does not occupy repossessed properties for business use.

Concentration of loans to customers

As at 31 December 2012, the Bank had a concentration of loans represented by KZT 83,172,491 thousand due from 10 largest borrowers that comprised 35% of the total gross loan portfolio or 139% of the equity (2011 – KZT 108,100,021 thousand or 40% of the total gross loan portfolio, or 161% of the equity). As of 31 December 2012, an allowance of KZT 33,870,533 thousand (as of 31 December 2011: KZT 48,070,272 thousand) was recognised against these loans.

11. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans are made to individuals and commercial entities in the following industry sectors:

	2012	%	2011	%
Real estate	40,165,062	17	51,885,806	19
Retail loans	36,188,314	15	30,902,628	11
Rental properties	27,108,550	12	35,560,355	13
Oil and gas	17,370,456	7	28,077,623	10
Food industry	17,365,242	7	14,705,794	5
Construction	17,140,690	7	20,667,752	8
Agriculture	16,620,013	7	17,920,486	7
Wholesale trading	16,167,980	7	10,478,362	4
Entertainment	9,040,509	4	9,312,418	4
Mining industry	5,105,582	2	4,505,015	2
Retail trading	4,353,989	2	4,487,634	2
Transportation	3,798,628	2	3,277,904	1
Hospitality industry	3,285,292	2	17,097,989	6
Communications	1,793,828	1	1,762,981	1
Medicine and pharmaceuticals	149,496	0	3,752,006	1
Other	19,326,854	8	17,004,983	6
	234,980,485	100	271,399,736	100

12. Property and equipment

The movements in property and equipment were as follows:

	<i>Land</i>	<i>Buildings</i>	<i>Vehicles</i>	<i>Computers and bank equipment</i>	<i>Leasehold improve- ments</i>	<i>Other</i>	<i>Total</i>
Revalued amount:							
At 31 December							
2010	851,699	1,962,994	291,269	1,386,646	66,303	2,211,548	6,770,459
Effect of revaluation	(38,502)	21,536	–	–	–	–	(16,966)
Impairment	(6,007)	(5,717)	–	–	–	–	(11,724)
Additions	838	–	20,384	88,067	–	77,671	186,960
Disposals	–	–	(53,847)	(37,693)	(2,500)	(29,841)	(123,881)
Transfers	–	–	–	(22,712)	–	22,712	–
At 31 December							
2011	808,028	1,978,813	257,806	1,414,308	63,803	2,282,090	6,804,848
Additions	–	–	2,173	47,246	–	44,670	94,089
Disposals	(26)	–	(4,063)	(53,481)	–	(16,293)	(73,863)
Transfers	–	–	15,730	–	–	(15,730)	–
At 31 December							
2012	808,002	1,978,813	271,646	1,408,073	63,803	2,294,737	6,825,074

12. Property and equipment (continued)

	<i>Land</i>	<i>Buildings</i>	<i>Vehicles</i>	<i>Computers and bank equipment</i>	<i>Leasehold improve- ments</i>	<i>Other</i>	<i>Total</i>
Accumulated depreciation:							
At 31 December 2010	–	–	(108,598)	(960,431)	(57,143)	(870,250)	(1,996,422)
Amortization charge	–	(53,911)	(36,405)	(138,310)	(4,524)	(279,712)	(512,862)
Disposals	–	–	31,436	35,656	2,499	16,945	86,536
Transfers	–	–	–	6,258	–	(6,258)	–
Effect of revaluation	–	53,911	–	–	–	–	53,911
At 31 December 2011	–	–	(113,567)	(1,056,827)	(59,168)	(1,139,275)	(2,368,837)
Amortization charge	–	(52,427)	(38,274)	(122,318)	(2,243)	(251,430)	(466,692)
Disposals	–	–	3,447	51,538	–	14,559	69,544
Additions	–	–	–	–	–	(388)	(388)
Transfers	–	–	(4,986)	–	–	4,986	–
At 31 December 2012	–	(52,427)	(153,380)	(1,127,607)	(61,411)	(1,371,548)	(2,766,373)
Net book value:							
At 31 December 2010	851,699	1,962,994	182,671	426,215	9,160	1,341,298	4,774,037
At 31 December 2011	808,028	1,978,813	144,239	357,481	4,635	1,142,815	4,436,011
At 31 December 2012	808,002	1,926,386	118,266	280,466	2,392	923,189	4,058,701

The Group engaged an independent appraiser to determine the fair market value of its land and buildings. Fair value is determined by comparison and cost methods. The date of the last revaluation was 31 December 2011. If the land and buildings were measured using the cost model, the carrying amounts as at 31 December 2012 would be KZT 1,747,849 thousand (31 December 2011: KZT 1,791,133 thousand).

During 2011, the Bank recognized net income from revaluation at the amount of KZT 37,211 thousand in the comprehensive income, to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the same land and buildings. Such an impairment loss on revalued assets reduced the revaluation surplus for the land and buildings and the remaining amount was charged directly to 2011 consolidated income statement in the amount of KZT 11,724 thousand.

In 2012 depreciation of its revaluation reserve for the Bank's property and equipment net of tax was KZT 9,170 thousand (2011: KZT 20,302 thousand). Depreciation and amortization in the consolidated income statement in 2012 include amortization of intangible assets of KZT 135,836 thousand (2011: KZT 138,215 thousand).

13. Taxation

The corporate income tax expense comprises:

	<i>2012</i>	<i>2011</i>
Current income tax charge	11,907	25,348
Deferred tax expense/(benefit) – origination and reversal of temporary differences	678,343	(1,893,156)
Corporate income tax expense/(benefit)	690,250	(1,867,808)

Deferred tax recognized in other comprehensive income during the year is allocated as follows:

	<i>2012</i>	<i>2011</i>
Revaluation of buildings	–	7,442
Income tax expenses recognized within other comprehensive income	–	7,442

13. Taxation (continued)

The tax rate for the Bank's profit and its subsidiaries was 20% for 2012.

The tax rate for the Bank's profit and its subsidiaries, except for the insurance company, comprised 20% for 2011. In 2011 tax rate for insurance companies was 4% and 8% for subsidiaries of commission income and written insurance premiums less ceded for insurance.

The effective income tax rate differs from the statutory tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<i>2012</i>	<i>2011</i>
Income/(loss) before corporate income tax benefit	2,644,499	(1,365,511)
Statutory tax rate	20%	20%
Theoretical corporate income tax expense/(benefit) at the statutory rate	528,900	(273,102)
Loss recognised for tax purposes only	-	766,966
Income on state and other qualifying securities	323,783	44,528
Dividends on preferred shares	45,139	45,139
Income from sale of loans	2,847,655	-
Adjustment in tax declarations of prior years	-	341,335
Change in unrecognised deferred corporate income tax assets	(2,949,984)	(2,897,523)
Other	(105,243)	104,849
Corporate income tax expense/(benefit)	690,250	(1,867,808)

As at 31 December 2012, the Group's current income tax assets comprised KZT 185,374 thousand (31 December 2011: KZT 425,162 thousand).

(Thousands of Kazakh Tenge)

13. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2010	Origination and reversal of temporary differences in the consolidated income statement	Origination and reversal of temporary differences in the consolidated statement of comprehensive income	Origination and reversal of temporary differences in the consolidated statement of changes in equity	2011	Origination and reversal of temporary differences in the consolidated income statement	Origination and reversal of temporary differences in the consolidated statement of changes in equity	2012
Deferred corporate income tax assets:								
Tax losses carry-forward	17,455,025	123,037	-	-	17,578,062	(574,299)	-	17,003,763
Other liabilities	138,788	(16,629)	-	-	122,159	(39,046)	-	83,113
	17,593,813	106,408	-	-	17,700,221	(613,345)	-	17,086,876
Deferred tax liabilities:								
Loans to customers	(2,570,401)	(1,164,951)	-	-	(3,735,352)	3,735,352	-	-
Dynamic reserves	-	-	-	-	-	(6,938,831)	-	(6,938,831)
Property and equipment	(320,984)	65,802	(7,442)	5,076	(257,548)	118,232	1,834	(137,482)
Allowances on contingent liabilities	-	(117,871)	-	-	(117,871)	70,265	-	(47,606)
Investments in subsidiaries	(82,065)	82,065	-	-	-	-	-	-
Debt securities issued	(6,883)	6,883	-	-	-	-	-	-
Other assets	(17,297)	17,297	-	-	-	-	-	-
	(2,997,630)	(1,110,775)	(7,442)	5,076	(4,110,771)	(3,014,982)	1,834	(7,123,919)
Deferred corporate income tax assets/ (liabilities)	14,596,183	(1,004,367)	(7,442)	5,076	13,589,450	(3,628,327)	1,834	9,962,957
Allowance for unrecognised deferred corporate income tax assets	(12,834,345)	2,897,523	-	-	(9,936,822)	2,949,984	-	(6,986,838)
Net deferred corporate income tax assets/ (liabilities)	1,761,838	1,893,156	(7,442)	5,076	3,652,628	(678,343)	1,834	2,976,119

13. Taxation (continued)

The Bank has tax losses carried forwards which begin to expire in 2019, if not utilised. Tax loss carry-forward represents losses which arose mainly from differences in classification between FMSC and IFRS allowances on loans to customers.

The Bank did not recognize a deferred tax asset to the extent of probable future profits, which cannot be reliably measured.

14. Other assets

Other assets comprise:

	<u>2012</u>	<u>2011</u>
Accounts receivable from sale of loans	9,595,673	–
Inventories	3,517,041	3,592,779
Other accounts receivable	1,430,929	1,262,426
Intangible assets	447,696	544,856
Accrued commission	229,376	272,645
Insurance assets	40,911	43,561
Other	386,928	149,295
Total other assets	15,648,554	5,865,562
Less: Allowance for impairment (<i>Note 15</i>)	(389,737)	(740,707)
Other assets	15,258,817	5,124,855

As at 31 December 2012 and 2011, inventory comprises real estate that was collected by the Bank from borrowers who failed to meet the obligations to repay a loan to the Bank. Allowance for impairment on these assets as at 31 December 2012 and 2011 amount to KZT 112,479 thousand.

15. Other impairment and provisions

The movements in allowances for impairment of other assets and guarantees and commitments are as follows:

	<u>Guarantees and commitments</u>	<u>Other assets</u>	<u>Total</u>
31 December 2010	2,167,851	1,069,618	3,237,469
Recovery	(1,029,381)	(261,656)	(1,291,037)
Write-offs	(9,603)	(67,255)	(76,858)
31 December 2011	1,128,867	740,707	1,869,574
Charge	268,698	111,731	380,429
Write-offs	(553)	(462,701)	(463,254)
31 December 2012	1,397,012	389,737	1,786,749

Allowances for impairment of other assets are deducted from carrying amount of the related assets.

16. Amounts due to the Government of the Republic of Kazakhstan

As at 31 December 2012 funds attracted by the Bank from Entrepreneurship Development Fund DAMU JSC, 100% owned by the Government, amounted to KZT 8,789,677 thousands (31 December 2011: KZT 9,792,737 thousand). In accordance with the contractual provisions, the Group can utilize these funds only for financing small and medium business. Interest rate on these amounts is 5.5%-8.5% p.a., repayment is done by semi-annual payments with last payment date based on schedule in years 2015-2019.

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2012</u>	<u>2011</u>
Loans from credit institutions, other than banks	1,074,63	1,318,22
Deposits from local banks and non-OECD banks	503,16	719,05
Deposits from OECD banks	151,77	261,29
Current accounts	22,78	6,66
Repurchase agreements	45,00	–
Amounts due to credit institutions	1,797,36	2,305,23

Loans from credit institutions, other than banks represent liabilities towards “Kazakhstan Mortgage Company” (hereafter “KMC”) on sold loans with right on full recourse to Group (Note 27).

18. Amounts due to customers

The amounts due to customers comprise:

	2012	2011
Current accounts:		
Legal entities	46,534,345	40,452,449
Individuals	6,886,292	5,264,842
Held as security against letters of credit	17,153	8,848
Time deposits:		
Legal entities	54,459,903	66,080,435
Individuals	41,182,415	49,652,389
Amounts due to customers	149,080,108	161,458,963

As at 31 December 2012, the Bank's ten largest customers accounted for KZT 45,912,100 thousand or approximately 31% of total amounts due to customers (31 December 2011: KZT 60,363,315 thousand or 37%).

As at 31 December 2012 included in time deposits are deposits of individuals in the amount of KZT 41,182,415 thousand (31 December 2011: KZT 49,652,389 thousand). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	2012	%	2011	%
Individuals	48,068,707	32	54,917,231	34
Wholesale trading	17,669,234	12	17,093,184	11
Oil and gas	15,001,758	10	27,667,732	17
Non-bank financial institutions	14,373,734	10	19,176,839	12
Construction	12,457,132	8	6,722,503	4
Metallurgy	5,467,169	4	7,113,868	4
Sale, repair and maintenance of automobiles	5,381,800	4	1,078,283	1
Advertising	4,997,398	3	6,630,756	4
Entertainment	3,616,021	2	2,901,859	2
Education	3,381,706	2	2,674,047	2
Real estate	1,891,066	1	1,693,696	1
Communications	1,729,596	1	1,166,158	1
Catering	793,051	1	2,715,678	2
Other	14,251,736	10	9,907,129	5
Amounts due to customers	149,080,108	100	161,458,963	100

19. Debt securities issued

Debt securities issued comprise:

	2012	2011
KZT bonds	14,970,910	14,970,910
KZT subordinated bonds	4,987,520	4,987,520
Preferred shares	2,043,164	2,043,164
	22,001,594	22,001,594
Net unamortized discount and cost of issuance	(846,259)	(1,356,856)
	21,155,335	20,644,738
Interest accrued	639,962	637,805
Debt securities issued	21,795,297	21,282,543

20. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	<i>Number of shares</i>		<i>Amount</i>		<i>Total</i>
	<i>Common</i>	<i>Preferred</i>	<i>Common</i>	<i>Preferred</i>	
31 December 2010	10,514,077	28,885	127,048,936	288,708	127,337,644
31 December 2011	10,514,077	28,885	127,048,936	288,708	127,337,644
31 December 2012	10,514,077	28,747	127,048,936	287,052	127,335,988

As at 31 December 2012 and 31 December 2011, the Bank had 13,375,557 authorised ordinary shares and 300,000 preferred shares. Each common share is entitled to one vote and shares equally in dividends declared.

In accordance with IAS 32, if the non-redeemable preferred share establishes a contractual right to a dividend, it contains a financial liability in respect of the dividends, whereby the net present value of the right to receive dividends is shown as a liability and the balance of the issue proceeds as equity.

The share capital of the Bank was contributed by the shareholders in Tenge and they are entitled to dividends and any capital distribution in Tenge. Preferred shares carry a cumulative dividend of a minimum of KZT 1,000 per annum, but not less than declared dividends on common shares and do not have any voting rights unless payment of preferred dividends has been delayed for three months or more from the date they became due. All common and preferred shares are KZT denominated.

Movements in other reserves

Movements in other reserves were as follows:

	<i>Revaluation reserve for land and buildings</i>	<i>Unrealised gains/ (losses) on investment securities available- for-sale</i>	<i>Foreign currency translation reserve</i>	<i>Insurance reserve</i>	<i>Total</i>
At 31 December 2010	986,241	(41,183)	(196)	–	944,862
Depreciation on revaluation reserve, net of tax	(20,302)	–	–	–	(20,302)
Revaluation of property and equipment	37,211	–	–	–	37,211
Tax effect on revaluation reserve of property and equipment	(7,442)	–	–	–	(7,442)
Net unrealized gains on available-for- sale investment securities, net of tax	–	635,015	–	–	635,015
Realized gains on available-for-sale investment securities reclassified to the income statement, net of tax	–	(598,137)	–	–	(598,137)
Impairment of available-for-sale investment securities, net of tax	–	494,839	–	–	494,839
Origination of allowance for insurance	–	–	–	111,120	111,120
Currency translation differences	–	–	106	–	106
At 31 December 2011	995,708	490,534	(90)	111,120	1,597,272
Depreciation on revaluation reserve, net of tax	(9,170)	–	–	–	(9,170)
Net unrealized loss on available-for-sale investment securities, net of tax	–	(1,934,268)	–	–	(1,934,268)
Realized losses on available-for-sale investment securities reclassified to the income statement, net of tax	–	771,622	–	–	771,622
Impairment of available-for-sale investment securities, net of tax	–	222,863	–	–	222,863
Origination of allowance for insurance	–	–	–	16,056	16,056
Currency translation differences	–	–	90	–	90
At 31 December 2012	986,538	(449,249)	–	127,176	664,465

20. Equity (continued)

Movements in other reserves (continued)

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in other comprehensive income.

Unrealised gains/ (losses) on investment securities available-for-sale

This fund demonstrates changes in fair value of available-for-sale investments.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Insurance reserve

Allowance for insurance was established in accordance with regulation of NBRK No.97 dated 28 November 2008 (with the last amendments dated 30 April 2010) on the Group's forecast requirements.

21. Commitments and contingencies

Legal issues

The Group is subject to various legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

Commitments and contingencies

As of 31 December the Group's commitments and contingencies comprised the following:

	<u>2012</u>	<u>2011</u>
Credit related commitments		
Undrawn loan commitments	16,473,261	17,497,914
Guarantees	9,306,206	10,028,468
Letters of credit	290,045	277,452
	<u>26,069,512</u>	<u>27,803,834</u>
Operating lease commitments		
Not later than 1 year	196,715	135,952
More than 1 year but less than 5 years	481,548	571,044
More than 5 years	94,732	63,160
	<u>772,995</u>	<u>770,156</u>
Commitments and contingencies, gross	<u>26,842,507</u>	<u>28,573,990</u>
Less: Funds held as security against guarantees and letters of credit	(17,153)	(8,848)
Less: provisions (Note 15)	(1,397,012)	(1,128,867)
Commitments and contingencies	<u>25,428,342</u>	<u>27,436,275</u>

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

Fiduciary assets

The Group provides fiduciary services to third parties, which involve the Group making allocation, purchase and sales decisions in relation to the trust funds. Those funds that are held in a fiduciary capacity are not included in these consolidated financial statements. As at 31 December 2012, such funds amounted to KZT 92,119,142 thousand (31 December 2011: KZT 83,657,993 thousand).

22. Net fee and commission income

Net fee and commission income comprise:

	<i>2012</i>	<i>2011</i>
Cash transactions	933,936	887,852
Pension asset management	824,616	803,208
Bank transfers	708,923	611,191
Bank cards	354,944	436,007
Guarantees and letters of credit	293,971	440,302
Purchase – sale of currencies	169,951	150,406
Agent's fees	49,647	61,934
Other	102,899	94,987
Fee and commission income	3,438,887	3,485,887
Bank transfers	(105,952)	(94,405)
Bank cards	(56,596)	(92,096)
Transactions with securities	(46,591)	(62,283)
Cash transactions	(5,356)	(38,577)
Guarantees and letters of credit	(798)	(3,352)
Agent's fees	–	(3,743)
Other	(24,537)	(24,169)
Fee and commission expenses	(239,830)	(318,625)
Net fee and commission income	3,199,057	3,167,262

23. Net income from insurance operations

Net income from insurance operations comprise:

	<i>2012</i>	<i>2011</i>
Premium written, gross	611,207	371,178
Ceded insurance premiums	(100,804)	(17,908)
Insurance premiums written, net of ceded insurance	510,403	353,270
Change in unearned premiums, net	(43,101)	108,065
Insurance premiums earned, net of ceded insurance	467,302	461,335
Commission income from insurance	5,991	1,123
Insurance underwriting income	473,293	462,458
Claims, gross	(369,581)	(330,682)
Claims incurred, reinsurance share	90,053	36,043
Commission expense from insurance	(101,447)	(88,428)
Change in loss reserve, net	77,749	204,548
Insurance underwriting expense	(303,226)	(178,519)
Net income from insurance operations	170,067	283,939

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<i>2012</i>	<i>2011</i>
Personnel expenses and other payments	(4,288,407)	(3,997,710)
Social security costs	(410,631)	(364,600)
Personnel expenses	(4,699,038)	(4,362,310)
Lease	(926,229)	(902,571)
Deposit insurance	(537,217)	(511,388)
Advertising	(199,549)	(296,457)
Information technologies	(189,250)	(257,824)
Security	(181,978)	(170,535)
Communications	(170,949)	(200,992)
Professional fees	(153,633)	(218,897)
Repair and maintenance	(110,864)	(125,350)
Transportation	(93,807)	(95,882)
Utilities	(83,074)	(87,110)
Business trip expenses	(82,710)	(82,348)
Representative expenses	(63,935)	(58,903)
Cash collection	(49,254)	(43,011)
Postal services	(25,216)	(21,366)
Trainings	(4,885)	(10,255)
Other	(277,344)	(408,350)
Other operating expenses	(3,149,894)	(3,491,245)

25. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net profit for the year attributable to common and preferred shareholders of the Bank by the weighted average number of common and preferred shares (excluding treasury shares) outstanding during the year.

The following table shows the profit and share data used in the basic and diluted earnings per share calculations:

	<i>2012</i>	<i>2011</i>
Net income for the year attributable to shareholders of the Bank	1,951,817	468,553
Weighted average number of participating shares for basic and diluted earnings per share	10,542,824	10,542,962
Basic and diluted earnings per share (in Tenge)	185.13	44.44

26. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

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

Board of Directors

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

Management Board

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

26. Risk management (continued)

Introduction (continued)

Assets and Liabilities Management Committee

Assets and Liabilities Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk management

The Risk Controlling Department is responsible for monitoring compliance with risk principles, policies and limits, across the Group. The Risk Controlling Department comprise divisions on credit, finance (interest rate, currency and market risk) and operating risks. These divisions are also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. Risk Controlling Department also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit

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

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The Risk Controlling Department presents and explains this information to the Board of Directors, Management Board and the head of each relevant business division. The reports include aggregate credit exposure, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geography risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives risk reports once a month which are designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and credit risks. The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

26. Risk management (continued)

Credit risk

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

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

Credit-related commitments risks

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

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

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 11.

Credit quality per class of financial assets

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

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, standard – below Baa3 but above B3, sub-standard – below B3.

	Notes	2012				Total
		High grade	Standard grade	Sub-standard grade	Past due or individually impaired	
Cash and cash equivalents (excluding cash on hand)	7	14,627,823 ^a	640,400	–	–	15,268,223
Amounts due from credit institutions	9	–	1,459,346	–	–	1,459,346
Loans to customers:	11					
Individually significant corporate loans		10,929,001	33,574,564	10,430,133	107,659,361	162,593,059
Individually not significant corporate, small and medium size loans		10,162,632	8,671,765	1,999,223	17,832,416	38,666,036
Consumer loans		1,589,423	8,928,878	404,517	13,437,038	24,359,856
Residential mortgages		5,240,282	1,616,682	64,784	2,439,786	9,361,534
		27,921,338	52,791,889	12,898,657	141,368,601	234,980,485
Debt securities:						
Trading securities	8	1,961,612	–	33,944	–	1,995,556
Available-for-sale investment securities	10	29,356,700	4,417,255	472,606	–	34,246,561
		31,318,312	4,417,255	506,550	–	36,242,117
Total		73,867,473	59,308,890	13,405,207	141,368,601	287,950,171

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

	Notes	2011				Total
		High grade	Standard grade	Sub-standard grade	Past due or individually impaired	
Cash and cash equivalents (excluding cash on hand)	7	11,851,240	5,292,005	–	–	17,143,245
Amounts due from credit institutions	9	–	1,525,817	–	–	1,525,817
Loans to customers:	11					
Individually significant corporate loans		9,840,807	41,494,341	4,344,617	164,142,642	219,822,407
Individually not significant corporate, small and medium size loans		7,742,281	2,981,660	749,658	11,222,153	22,695,752
Consumer loans		1,904,015	5,419,671	302,546	12,460,357	20,086,589
Residential mortgages		4,108,202	2,043,226	9,988	2,633,572	8,794,988
		23,595,305	51,938,898	5,406,809	190,458,724	271,399,736
Debt securities:						
Trading securities	8	2,127,671	–	–	–	2,127,671
Available-for-sale investment securities	10	21,249,513	7,273,754	471,044	–	28,994,311
		23,377,184	7,273,754	471,044	–	31,121,982
Total		58,823,729	66,030,474	5,877,853	190,458,724	321,190,780

Past due loans to customers include those that are past due by more than 1 day. An analysis of past due loans, by age, is provided below. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of pass due but not impaired per class of financial assets:

	2012				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	
Loans to customers:					
Individually significant corporate loans	861,735	1,457,471	–	8,976,206	11,295,412
Individually not significant corporate, small and medium size loans	1,043,207	249,729	243,063	14,670,388	16,206,387
Consumer loans	479,228	114,824	58,681	9,796,898	10,449,631
Residential mortgages	193,513	28,238	21,248	1,692,129	1,935,128
Total	2,577,683	1,850,262	322,992	35,135,621	39,886,558
	2011				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Individually not significant corporate loans	5,216,117	1,785,281	3,010,328	15,062,021	25,073,747
Individually not significant corporate, small and medium size loans	551,457	757,771	394,639	9,183,438	10,887,305
Consumer loans	518,640	209,967	162,013	10,041,148	10,931,768
Residential mortgages	221,562	234,796	41,135	1,908,736	2,406,229
Total	6,507,776	2,987,815	3,608,115	36,195,343	49,299,049

26. Risk management (continued)

Credit risk (continued)

Aging analysis of pass due but not impaired per class of financial assets: (continued)

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2012 was KZT 59,864,804 thousand (31 December 2011: KZT 51,122,918 thousand). Detailed information about the types of collateral obtained is contained in Note 11, "Collateral and other credit enhancements".

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class:

	<u>2012</u>	<u>2011</u>
Loans to customers:		
Individually significant corporate loans	65,410,146	106,365,282
Individually not significant corporate, small and medium size loans	5,387,087	4,291,603
Consumer loans	1,254,512	1,962,892
Residential mortgages	105,943	167,000
Total	<u>72,157,688</u>	<u>112,786,777</u>

See Note 11 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including residential mortgages, consumer lending and small and medium size lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

26. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

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

	2012				2011			
	Kazakhstan	OECD	CIS and other countries	Total	Kazakhstan	OECD	CIS and other countries	Total
Assets:								
Cash and cash equivalents	21,047,974	2,369,092	85,862	23,502,928	20,525,201	4,071,042	22,450	24,618,693
Trading securities	1,940,439	-	55,117	1,995,556	2,050,901	-	76,770	2,127,671
Amounts due from credit institutions	1,459,346	-	-	1,459,346	1,410,947	-	114,870	1,525,817
Investment securities available-for-sale	31,957,068	1,541,964	747,529	34,246,561	26,857,035	1,445,437	691,839	28,994,311
Loans to customers	172,583,516	-	-	172,583,516	196,717,205	-	8,389	196,725,594
Other monetary assets	10,171,552	-	-	10,171,552	262,443	4	7	262,454
	239,159,895	3,911,056	888,508	243,959,459	247,823,732	5,516,483	914,325	254,254,540
Liabilities:								
Amounts due to the Government of RK	8,789,677	-	-	8,789,677	9,792,737	-	-	9,792,737
Amounts due to credit institutions	1,644,724	152,640	-	1,797,364	2,043,100	262,130	-	2,305,230
Amounts due to customers	145,731,649	3,226,682	121,777	149,080,108	156,907,098	4,437,373	114,492	161,458,963
Debt securities issued	21,795,297	-	-	21,795,297	21,282,543	-	-	21,282,543
Provisions	1,397,012	-	-	1,397,012	1,128,867	-	-	1,128,867
Other liabilities	1,039,781	-	-	1,039,781	1,086,885	13,163	44	1,100,092
	180,398,140	3,379,322	121,777	183,899,239	192,241,230	4,712,666	114,536	197,068,432
Net assets/ (liabilities)	58,761,755	531,734	766,731	60,060,220	55,582,502	803,817	799,789	57,186,108

Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Group maintains an obligatory reserve with the NBRK, the amount of which depends on the level of certain liabilities attracted.

26. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the FMSC. As at 31 December 2012 and 2011, these ratios were as follows:

	<i>2012</i>	<i>2011</i>
Quick ratio k4-1 (average amount of highly liquid assets) / (average liabilities with remaining maturities up to 7 days) Minimum ratio: greater than 1	13.38	14.26
Quick ratio k4-2 (average assets with remaining maturities up to 1 month, including highly liquid assets) / (average liabilities with remaining maturities up to 1 month, including demand liabilities) Minimum ratio: greater than 0.9	10.42	24.13
Quick ratio k4-3 (average assets with remaining maturities up to 3 months, including highly liquid assets) / (average liabilities with remaining maturities up to 3 months, including demand liabilities) Minimum ratio: greater than 0.8	7.01	10.15
Quick currency ratio k4-4 (average amount of highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 7 days in foreign currency) Minimum ratio: greater than 1	180.04	131.57
Quick currency ratio k4-5 (average assets with remaining maturities up to 1 month, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 1 month, including demand liabilities in foreign currency) Minimum ratio: greater than 0.9	11.38	176.72
Quick currency ratio k4-6 (average assets with remaining maturities up to 3 months, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 3 months, including demand liabilities in foreign currency) Minimum ratio: greater than 0.8	5.75	33.39

Analysis of financial liabilities by remaining contractual maturities

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

<i>Financial liabilities At 31 December 2012</i>	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>1 year to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to the Government of the Republic of Kazakhstan:	1,181,290	1,582,986	6,689,650	766,667	10,220,593
Amounts due to credit institutions	279,399	1,335,361	4,491,658	5,115,747	11,222,165
Amounts due to customers	63,240,290	51,173,583	39,551,723	3,793,630	157,759,226
Debt securities issued	233,853	11,869,222	12,561,447	224,429	24,888,951
Other liabilities	188,179	361,777	-	-	549,956
Total undiscounted financial liabilities	65,123,011	66,322,929	63,294,478	9,900,473	204,640,891

26. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

<i>Financial liabilities At 31 December 2011</i>	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>1 year to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to the Government of the Republic of Kazakhstan:	1,222,646	1,656,672	8,379,146	3,824	11,262,288
Amounts due to credit institutions	813,893	2,233,045	6,438,435	8,115,582	17,600,955
Amounts due to customers	55,834,073	53,196,081	63,755,344	3,200,458	175,985,956
Debt securities issued	231,365	1,929,373	26,670,778	224,567	29,056,083
Other liabilities	616,514	14,610	–	–	631,124
Total undiscounted financial liabilities	58,718,491	59,029,781	105,243,703	11,544,431	234,536,406

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2012	4,350,827	6,386,126	10,416,591	5,688,963	26,842,507
2011	5,147,560	2,510,226	10,167,737	10,748,467	28,573,990

The Group's capability to meet its liabilities depends upon its ability to realise an equivalent amount of assets within the certain period of time. The Group has a concentration of KZT 45,912,100 thousand with top ten customers as at 31 December 2012 (31 December 2011: KZT 60,363,315 thousand).

In the period within 3 to 12 months any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

Except for the loss of several large customers during the course of ownership change in the Group, historically customers' current accounts demonstrated stability such that their liquidity has taken place over a longer period than less than three months as indicated in the tables above. Included in amounts due to customers are term deposits of individuals. In accordance with the Kazakh legislation, the Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 18.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on sensitivities on market variables. The market risk for non-trading portfolio is managed and monitored based on sensitivity analysis.

Interest rate risk

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

26. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2012 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

<i>Currency</i>	<i>Increase in basis points, 2012</i>	<i>Sensitivity of net interest income, 2012</i>	<i>Sensitivity of equity, 2012</i>
Tenge	+200	10,118	(2,117,384)
USD	+200	(47)	(226,700)
EUR	+200	-	(128,061)
<i>Currency</i>	<i>Decrease in basis points, 2012</i>	<i>Sensitivity of net interest income, 2012</i>	<i>Sensitivity of equity, 2012</i>
Tenge	-200	(10,118)	2,117,384
USD	-200	47	226,700
EUR	-200	-	128,061
<i>Currency</i>	<i>Increase in basis points, 2011</i>	<i>Sensitivity of net interest income, 2011</i>	<i>Sensitivity of equity, 2011</i>
Tenge	+200	28,384	(2,197,399)
USD	+200	(54)	(249,985)
<i>Currency</i>	<i>Decrease in basis points, 2011</i>	<i>Sensitivity of net interest income, 2011</i>	<i>Sensitivity of equity, 2011</i>
Tenge	-200	(28,384)	2,197,399
USD	-200	54	249,985

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive trading monetary assets). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in exchange rates in % 2012</i>	<i>Effect on profit before tax 2012</i>	<i>Change in exchange rates in % 2011</i>	<i>Effect on profit before tax 2011</i>
USD to KZT	20.00%	872,194	10.72%	1,747,857
USD to KZT	-20.00%	(872,194)	-10.72%	(1,747,857)
EUR to KZT	20.00%	69,733	16.33%	(142,166)
EUR to KZT	-20.00%	(69,733)	-16.33%	142,166

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax and equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	<i>Effect on net interest income</i>	<i>Effect on equity</i>
2012	(1,852,012)	(1,481,610)
2011	(2,394,943)	(1,915,954)

26. Risk management (continued)

Operational risk

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

27. Transferred financial assets

Transferred financial assets that are not derecognised in their entirety.

The table below shows list of financial assets which have been transferred in such a way that part or all the transferred assets do not qualify for derecognition:

	<i>Transferred financial assets</i>	<i>2012</i>	<i>2011</i>
Carrying value of assets	Loans to customers	1,074,635	1,318,220
Total		1,074,635	1,318,220
Carrying value of liabilities	Amounts due to credit institutions	1,074,635	1,318,220
Total		1,074,635	1,318,220

The Group periodically sells part of its mortgage portfolio to KMC with the full recourse to the Group for any default loan. The Group determined that as result of these transactions not all significant risks and rewards were transferred to KMC. Accordingly, the Group continues to recognise these loans as asset in consolidated statement of financial position and as corresponding liability within loans received from financial institutions for the same amount. (Note 17).

28. Fair value of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>At 31 December 2012</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>Financial assets</i>			
Trading securities	1,962,062	33,944	1,996,006
Investment securities available-for-sale	33,925,046	396,507	34,321,553
Total	35,887,108	430,451	36,317,559
<i>At 31 December 2011</i>			
<i>Financial assets</i>			
Trading securities	2,127,671	19,398	2,147,069
Investment securities available-for-sale	28,665,141	493,599	29,158,740
Total	30,792,812	512,997	31,305,809

During 2012, there were no transfers between level 1 and level 2.

28. Fair value of financial instruments (continued)

Trading securities and investment securities available-for-sale

Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying value 2012</i>	<i>Fair value 2012</i>	<i>Unrecognised gain/(loss) 2012</i>	<i>Carrying value 2011</i>	<i>Fair value 2011</i>	<i>Unrecognised gain/(loss) 2011</i>
<i>Financial assets</i>						
Cash and cash equivalents	23,502,928	23,502,928	–	24,618,693	24,618,693	–
Amounts due from credit institutions	1,459,346	1,459,346	–	1,525,817	1,430,209	(95,608)
Loans to customers	172,583,516	175,832,857	3,249,341	196,725,594	197,667,270	941,676
Other assets (excluding non-monetary items)	10,171,552	10,171,552	–	262,574	262,574	–
<i>Financial liabilities</i>						
Amounts due to the Government	8,789,677	8,880,336	(90,659)	9,792,737	10,200,472	(407,735)
Amounts due to credit institutions	1,797,364	1,797,364	–	2,305,230	2,305,230	–
Amounts due to customers	149,080,108	150,618,571	(1,538,463)	161,458,963	162,978,463	(1,519,500)
Debt securities issued	21,795,297	22,405,283	(609,986)	21,282,543	22,680,373	(1,397,830)
Other liabilities	549,957	549,957	–	631,123	631,123	–
Total unrecognised change in unrealized fair value			1,010,233			(2,478,997)

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

29. Maturity analysis of financial assets and financial liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2012			2011		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	23,502,928	–	23,502,928	24,618,693	–	24,618,693
Trading securities	–	1,996,006	1,996,006	12,795	2,134,274	2,147,069
Amounts due from credit institutions	1,410,002	49,344	1,459,346	805,385	720,432	1,525,817
Investment securities available-for-sale	2,689,758	31,631,795	34,321,553	1,580,353	27,578,387	29,158,740
Loans to customers	55,516,841	117,066,675	172,583,516	57,015,334	139,710,260	196,725,594
Property and equipment	–	4,058,701	4,058,701	–	4,436,011	4,436,011
Current corporate income tax assets	–	185,374	185,374	–	425,162	425,162
Deferred corporate income tax assets	–	2,976,119	2,976,119	–	3,652,628	3,652,628
Other assets	5,208,569	10,050,248	15,258,817	4,614,451	510,404	5,124,855
Total	88,328,098	168,014,262	256,342,360	88,647,011	179,167,558	267,814,569
Financial liabilities						
Amounts due to the Government of RK	144,063	8,645,614	8,789,677	2,397,123	7,395,614	9,792,737
Amounts due to credit institutions	577,288	1,220,076	1,797,364	776,717	1,528,513	2,305,230
Amounts due to customers	93,195,500	55,884,608	149,080,108	92,298,122	69,160,841	161,458,963
Debt securities issued	9,652,669	12,142,628	21,795,297	–	21,282,543	21,282,543
Provisions	1,397,012	–	1,397,012	1,128,867	–	1,128,867
Other liabilities	1,602,807	123,227	1,726,034	1,100,092	–	1,100,092
Total	106,569,339	78,016,153	184,585,492	97,700,921	99,367,511	197,068,432
Net assets	(18,241,241)	89,998,109	71,756,868	(9,053,910)	79,800,047	70,746,137

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2012 the Group had a negative liquidity gap of KZT 18,241,241 thousand within a year (31 December 2011: KZT 9,053,910 thousand). Management has an action plan in place to meet these obligations including disposal of its investment securities available-for-sale, interbank borrowings at local money markets and other measures including extending deposits of the Bank's larger and older customers and increase of the share capital.

Included in amounts due to customers are term deposits of individuals. In accordance with the Kazakh legislation, the Bank is obliged to repay such deposits upon demand of a depositor. The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

30. Related party transactions

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

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

30. Related party transactions (continued)

The outstanding balances of related party transactions are as follows:

	2012			2011		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Loans to customers outstanding at 1 January, gross	–	3,266,733	52,043	–	–	26,529
Loans to customers issued during the year	–	2,758,753	48,631	–	3,445,043	30,280
Loans to customers repaid during the year	–	(2,612,486)	(5,443)	–	–	(3,715)
Loans to customers outstanding at 31 December, gross	–	3,413,000	95,231	–	3,445,043	53,094
Less: Allowance for impairment of loans to customers	–	(144,029)	(592)	–	(178,310)	(1,051)
Loans to customers outstanding at 31 December, net	–	3,268,971	94,639	–	3,266,733	52,043
Amounts due to customers at 1 January	25,097,887	5,293,840	3,097	853,816	382,379	4,409
Amounts due to customers received during the year	342,793,454	576,119,208	1,075,838	141,112,249	43,891,203	45,334
Amounts due to customers repaid during the year	(361,205,276)	(575,164,403)	(768,980)	(116,868,178)	(38,979,742)	(46,646)
Amounts due to customers at 31 December	6,686,065	6,248,645	309,955	25,097,887	5,293,840	3,097
Commitments and guarantees	–	23,752	–	–	2,800,000	375

As at 31 December, interest rates and maturity dates on transactions with related parties are as follows:

	2012			2011		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Loans to customers:						
Maturities	–	2012-2014	2012-2031	–	2011-2018	2011-2030
Interest rate in KZT	–	12%	11%-13.7%	–	13%	11%-13.7%
Amounts due to customers						
Maturities	2012-2014	2012-2015	2012-2015	2011-2014	2011-2014	2011-2015
Interest rate in KZT	5.5%-12.5%	0%-9%	7.5%-11.5%	5.5%-12.5%	5.5%-8%	7.5%-11.5%
Interest rate in EUR	–	–	–	–	2011-2018	2011-2030
Interest rate in USD	6%-10.5%	13%	4.5%-5.2%	6%-10.5%	13%	11%-13.7%

30. Related party transactions (continued)

The income and expense arising from related party transactions are as follows:

	<i>For the year ended 31 December</i>							
	<i>2012</i>				<i>2011</i>			
	<i>Shareholder</i>	<i>Companies under common control</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Shareholder</i>	<i>Companies under common control</i>	<i>Associates</i>	<i>Key management personnel</i>
Interest income on loans to customers	-	262,000	-	11,336	-	77,964	-	5,136
Allowance for loan impairment	-	34,281	-	459	-	-	-	-
Interest expense on amounts due to customers	(1,034,678)	(371,566)	-	(17,086)	(442,160)	(119,861)	-	146
Fee and commission income	20,787	48,352	-	90	11,204	9,163	-	20
Other operating expenses	-	-	-	(2,909)	-	-	-	(2,359)

Compensation of key management personnel was comprised of the following:

	<i>2012</i>	<i>2011</i>
Salary and other short-term benefits	176,899	134,746
Termination benefits	-	3,094
Social security costs	388	892
Total key management personnel compensation	177,287	138,732

Subsidiaries

These consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i>Holding % 2012</i>	<i>Holding % 2011</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Activity</i>	<i>Date of acquisition</i>
"OOIUUPA "Nur-Trust" JSC	100	100	Kazakhstan	2001	Asset management	2001
Leasing Company Nur-Leasing LLP	100	100	Kazakhstan	2001	Leasing	2001
Money Experts JSC	100	100	Kazakhstan	2002	Brokerage	2002
Insurance Company Nurpolicy JSC	100	100	Kazakhstan	1999	Insurance	2004
APF Atameken JSC	94.79	94.67	Kazakhstan	1997	Pension fund	2006

On 18 October 2011, the Board of Directors of the Bank decided to liquidate "OOIUUPA "Nur-Trust" JSC. The liquidation process is planned to be completed in the first six months of 2013. As at 31 December 2012 "OOIUUPA "Nur-Trust" JSC assets were transferred to the Bank.

Pension assets that were previously managed by "OOIUUPA "Nur-Trust" JSC were transferred to APF Atameken JSC independent management on 16 May 2011.

On 23 January 2013 at the extended meeting of the Government of the RK, the President of the RK issued a decree on establishment of the United Accumulative Pension Fund, which will be formed and governed by the National Bank of the RK.

In accordance with the decree, prior to 1 July 2013 all pension funds, including APF Atameken JSC shall transfer pension assets under their control to the United Accumulative Pension Fund.

Special purpose entities

On 31 July 2006, the Bank established a wholly owned special purpose entity ("SPE") Nurfinance B.V. The SPE was created for the purpose of issuing Eurobonds. The Group consolidates special purpose entities it controls. In assessing and determining if the Group controls such special purpose entities, judgements are made about the Group's exposure to the risks, rewards and its ability to make operational decisions.

On 19 August 2010, the issuer was replaced from NurFinance B.V. to Nurbank JSC with respect to the five-year bonds.

On 26 November 2010, the Management Board of the Bank decided to discontinue NurFinance B.V. activities.

The liquidation process was completed as at 13 April 2012.

31. Capital adequacy

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

During 2012 and 2011 the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

FMSC capital adequacy ratio

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

The FMSC requires the Bank to maintain the capital adequacy ratio k 1-1 at the level of no less than 5% of the total assets in accordance with the rules of the FMSC, k 1-2 at the level of 5% and k 2 at the level of 10% of assets, contingent liabilities, possible claims and liabilities and operational risks. As at 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As at 31 December 2012 and 2011, the capital adequacy ratio of the Bank calculated in accordance with the requirements of the FMSC was as follows:

	<i>2012</i>	<i>2011</i>
Tier 1 capital	39,930,700	41,796,743
Tier 2 capital	4,293,369	5,917,986
Total statutory capital	44,224,069	47,714,729
Total assets as per the rules of the FMSC	225,791,848	240,350,215
Risk weighted assets and liabilities, possible claims and liabilities	185,623,692	217,383,124
Operational risks	6,596,948	5,900,205
Capital adequacy ratio k1-1	17.7%	17.4%
Capital adequacy ratio k1-2	20.5%	19.2%
Capital adequacy ratio k2	22.8%	21.9%

32. Subsequent events

On 28 March and 4 April 2013 the Group placed on KASE 108,3 million and 20,0 million, respectively, of six-year bonds with the coupon rate of 8% per annum. The funds received amounted to KZT 10,647,867 thousand and 1,968,938 thousand, respectively.

33. Calculation of balance cost of one common share of Bank as of 01.01.2013.

$BVcs = NAV/NOcs$

Balance cost of one common share for the date of calculation (BVcs) = 6 679,53 tenge

Net assets for the common shares (NAV) = 70 308 930 ths. tenge;

Number of stocks for the date of calculation (NOcs) = 10 526 030 pieces;

$NAV = (TA-IA)-TL-PS$

Bank assets according to the report of financial position of the Bank for the calculation date (TA) = 256 342 360 ths. tenge;

Intangible assets according to the report of financial position of the Bank for the calculation date (IA) = 1 152 882 ths. tenge;

Bank liabilities according to the report of financial position of the Bank for the calculation date (TL) = 184 585 492 ths. tenge;

Balance of the account «authorized capital, preference shares», according to the report of financial position of the Bank for the date of calculation (PS) – 295 056 ths. tenge

Calculation of balance cost of one preferred share of Bank as of 01.01.2013.

$$BV_{ps1} = (EPC + DC_{ps1}) / NO_{ps1}$$

Balance cost of the preferred share for the date of calculation (BV_{ps1}) = 11 398,23 tenge.

The capital belonging to the holders of preference shares of the first group for the date of calculation (EPC) = 520 751 000 tenge.

Debt cost of preference shares of the first group, considered in liabilities (DC_{ps1}) = 2 051 772 727, 27 tenge.

$$EPC = TD_{ps1} + PS$$

The sum charged, but not paid dividends on preferred shares of the first group for the date of calculation (TD_{ps1}). In calculation dividends on preferred shares of the first group are not considered, which were not paid, because of absence of data ,actual information, requisites of the holder = 225 695 000 tenge;

Number of stocks for the date of calculation (NO_{ps1}) = 225 695 pieces.

Chairman of the Board

Chief Accountant

Performer: Iglukova A.M. *Iglukova*

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