Tsesnabank JSC

Consolidated Financial Statements

for the year ended 31 December 2012

Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
050051 Алматы, Достық д-лы 180,
Тел./факс 8 (727) 298-08-98, 298-07-08

KPMG Audit LLC
050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Board of Directors of Tsesnabank JSC

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

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

Нигай Алла Никифоровна * Казахстан Республикасының Аудиторы * 0536

Nigay A. N.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate No.536
of 10 January 2003

Alun Bowen
Partner

KPMG Audit LLC

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

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

16 April 2013

	Note	2012 KZT'000	2011 KZT'000
Interest income	4	56,227,637	34,630,413
Interest expense	4	(27,660,742)	(19,058,295)
Net interest income		**28,566,895**	**15,572,118**
Fee and commission income	5	8,165,623	5,111,743
Fee and commission expense	6	(1,401,104)	(443,778)
Net fee and commission income		**6,764,519**	**4,667,965**
Net earned insurance premiums	7	2,862,190	453,571
Net insurance claims incurred	8	(723,918)	-
Net gain/(loss) on financial instruments at fair value through profit or loss	9	251,240	(560,539)
Net foreign exchange income	10	1,970,741	1,201,201
Net gain on available-for-sale financial assets		74,533	-
Dividend income		18,415	39,624
Income from investment in associate		-	16,881
Other income		42,010	207,703
Other operating income		**4,495,211**	**1,358,441**
Impairment losses	11	(8,165,121)	(3,124,498)
Personnel expenses	12	(8,521,173)	(5,589,816)
Other general administrative expenses	13	(9,254,307)	(7,509,402)
Other operating expenses		**(25,940,601)**	**(16,223,716)**
Profit before income tax		**13,886,024**	**5,374,808**
Income tax expense	14	(3,008,286)	(1,235,296)
Profit for the year		**10,877,738**	**4,139,512**
Profit attributable to:			
- Equity holders of the Bank		10,872,334	4,141,088
- Non-controlling interests		5,404	(1,576)
Profit for the year		**10,877,738**	**4,139,512**
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		17,270	32,251
- Net change in fair value transferred to profit or loss		(74,533)	-
Foreign currency translation differences for foreign operations		(78,453)	3,953
Other comprehensive income for the year, net of income tax		**(135,716)**	**36,204**
Total comprehensive income for the year		**10,742,022**	**4,175,716**
Total comprehensive income attributable to:			
- Equity holders of the Bank		10,735,906	4,177,292
- Non-controlling interests		6,116	(1,576)
Total comprehensive income for the year		**10,742,022**	**4,175,716**
Basic and diluted earnings per ordinary share (in KZT)	31	377	185

The consolidated financial statements as set out on pages 5 to 80 were approved by the Management Board on 16 April 2013:

Zhaksybek D.A.
Chairman of the Management Board

Bagautdinova N.M.
Chief Accountant

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

	Note	2012 KZT'000	2011 KZT'000
ASSETS			
Cash and cash equivalents	15	35,437,119	19,331,360
Deposits and balances with banks and other financial institutions	16	15,578,350	13,942,016
Financial instruments at fair value through profit or loss			
- Held by the Group	17	31,092,844	22,032,037
- Pledged under sale and repurchase agreements	17	-	19,455,030
Available-for-sale financial assets			
- Held by the Group	18	5,600,340	2,534,550
- Pledged under sale and repurchase agreements	18	-	198,551
Loans to customers	19	480,438,042	338,144,562
Held-to-maturity investments			
- Held by the Group	20	18,073,395	5,546,005
- Pledged under sale and repurchase agreements	20	-	116,785
Property, equipment and intangible assets	21	10,823,149	8,877,557
Investment property	22	1,267,483	1,267,483
Current tax asset		154,710	-
Deferred tax asset	14	-	227,076
Other assets	23	22,966,988	7,316,296
Total assets		**621,432,420**	**438,989,308**
LIABILITIES			
Due to the Government of the Republic of Kazakhstan		-	15,488
Deposits and balances from banks and other financial institutions	24	7,786,891	17,761,043
Current accounts and deposits from customers	25	518,429,918	342,742,366
Debt securities issued	26	8,970,263	8,549,009
Subordinated debt	27	30,107,734	16,201,225
Current tax liability		-	9,381
Deferred tax liability	14	253,099	-
Amounts payable under repurchase agreements	28	-	18,589,041
Other liabilities	29	7,449,176	2,357,532
Total liabilities		**572,997,081**	**406,225,085**
EQUITY			
Share capital	30	32,409,788	27,480,830
Additional paid-in capital		27,675	27,539
Revaluation reserve for property and equipment		12,191	13,247
Revaluation reserve for available-for-sale financial assets		(27,983)	29,992
Cumulative translation reserve		-	78,453
Reserve for general banking risks		6,989,704	2,843,529
Retained earnings		8,772,453	2,045,238
Total equity attributable to equity holders of the Group		**48,183,828**	**32,518,828**
Non-controlling interests		251,511	245,395
Total equity		**48,435,339**	**32,764,223**
Total liabilities and equity		**621,432,420**	**438,989,308**

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

	2012 KZT'000	2011 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	49,492,939	28,908,813
Interest payments	(28,420,278)	(18,020,932)
Fee and commission receipts	7,741,220	5,565,824
Fee and commission payments	(1,486,927)	(544,537)
Net earned insurance premium receipts	2,903,735	1,095,470
Net insurance claims paid	(520,855)	-
Net receipts/(payments) from financial instruments at fair value through profit or loss	251,240	(308,345)
Net receipts from foreign exchange	1,966,471	1,163,423
Dividends received	18,295	39,624
Other income receipts	39,762	207,692
Personnel and other general administrative expenses	(16,897,300)	(12,492,643)
(Increase)/decrease in operating assets		
Mandatory reserves	2,470,913	(6,168,050)
Deposits and balances with banks and other financial institutions	(4,003,360)	(768,768)
Financial instruments at fair value through profit or loss	10,476,425	(28,987,602)
Loans to customers	(146,540,392)	(180,684,453)
Other assets	(1,945,383)	(1,855,269)
Increase/(decrease) in operating liabilities		
Due to the Government of the Republic of Kazakhstan	(15,429)	(35,757)
Deposits and balances from banks and other financial institutions	(9,649,050)	5,550,209
Current accounts and deposits from customers	173,717,571	165,735,153
Amounts payable under repurchase agreements	(18,586,009)	18,589,041
Other liabilities	2,248,860	(44,862)
Net cash from/(used in) operating activities before income tax paid	**23,262,448**	**(23,055,969)**
Income tax paid	(2,664,084)	(1,370,167)
Cash flows from/(used in) operations	**20,598,364**	**(24,426,136)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(3,894,138)	(355,119)
Sale and repayment of available-for-sale financial assets	1,940,996	200,000
Purchases of held-to-maturity investments	(24,154,201)	(1,046,719)
Redemption of held-to-maturity investments	11,681,310	4,343,497
Purchases of property, equipment and intangible assets	(2,433,100)	(1,871,288)
Proceeds of sales of property and equipment	12,442	-
Refundable advance consideration	(6,767,100)	-
Purchase of additional share in associate	-	(44,100)
Purchase of subsidiary, net of cash received	-	81,624
Cash flows (used in)/from investing activities	**(23,613,791)**	**1,307,895**

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

	2012 KZT'000	2011 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Placement of subordinated debt	15,835,803	9,479,510
Repayment of subordinated debt	(2,244,588)	(42,880)
Redemption of debt securities	(2,961,730)	(872,218)
Placement of debt securities issued	3,387,824	495,785
Proceeds from issuance of share capital	5,040,000	7,000,000
Repurchase of treasury shares	(111,042)	(19,170)
Cash flows from financing activities	**18,946,267**	**16,041,027**
Net increase/(decrease) in cash and cash equivalents	**15,930,840**	**(7,077,214)**
Effect of changes in exchange rates on cash and cash equivalents	174,919	(149,416)
Cash and cash equivalents as at the beginning of the year	19,331,360	26,557,990
Cash and cash equivalents as at the end of the year (Note 15)	**35,437,119**	**19,331,360**

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

	Attributable to equity holders of the Group									
KZT'000	**Share capital**	**Additional paid-in capital**	**Revaluation reserve for property and equipment**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Reserve for general banking risk**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2012	27,480,830	27,539	13,247	29,992	78,453	2,843,529	2,045,238	32,518,828	245,395	32,764,223
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	10,872,334	10,872,334	5,404	10,877,738
Other comprehensive income										
Net change in fair value of available-for-sale financial assets	-	-	-	16,558	-	-	-	16,558	712	17,270
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(74,533)	-	-	-	(74,533)	-	(74,533)
Revaluation of property and equipment, net of income tax	-	-	(1,056)	-	-	-	1,056	-	-	-
Foreign currency translation differences for foreign operations	-	-	-	-	(78,453)	-	-	(78,453)	-	(78,453)
Total other comprehensive income	-	-	(1,056)	(57,975)	(78,453)	-	1,056	(136,428)	712	(135,716)
Total comprehensive income for the year	**-**	**-**	**(1,056)**	**(57,975)**	**(78,453)**	**-**	**10,873,390**	**10,735,906**	**6,116**	**10,742,022**
Transactions with owners, recorded directly in equity										
Shares issued	5,040,000	-	-	-	-	-	-	5,040,000	-	5,040,000
Treasury shares	(111,042)	136	-	-	-	-	-	(110,906)	-	(110,906)
Transfer between reserves (Note 30(e))	-	-	-	-	-	4,146,175	(4,146,175)	-	-	-
Balance as at 31 December 2012	**32,409,788**	**27,675**	**12,191**	**(27,983)**	**-**	**6,989,704**	**8,772,453**	**48,183,828**	**251,511**	**48,435,339**

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

KZT'000	Attributable to equity holders of the Group									
	Share capital	Additional paid-in capital	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Cumulative translation reserve	Reserve for general banking risk	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2011	20,500,000	1,770	14,129	(2,259)	74,500	2,777,280	(2,030,483)	21,334,937	-	21,334,937
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	4,141,088	4,141,088	(1,576)	4,139,512
Other comprehensive income										
Net change in fair value of available-for-sale financial assets	-	-	-	32,251	-	-	-	32,251	-	32,251
Foreign currency translation differences for foreign operations	-	-	-	-	3,953	-	-	3,953	-	3,953
Revaluation of property and equipment, net of income tax	-	-	(882)	-	-	-	882	-	-	-
Total other comprehensive income	-	-	(882)	32,251	3,953	-	882	36,204	-	36,204
Total comprehensive income for the year	**-**	**-**	**(882)**	**32,251**	**3,953**	**-**	**4,141,970**	**4,177,292**	**(1,576)**	**4,175,716**
Transactions with owners, recorded directly in equity										
Shares issued	7,000,000	-	-	-	-	-	-	7,000,000	-	7,000,000
Acquisition of subsidiary	-	25,769	-	-	-	-	-	25,769	246,971	272,740
Elimination of treasury shares held by the acquired subsidiary	(19,170)	-	-	-	-	-	-	(19,170)	-	(19,170)
Transfer between reserves (Note 30(e))	-	-	-	-	-	66,249	(66,249)	-	-	-
Balance as at 31 December 2011	**27,480,830**	**27,539**	**13,247**	**29,992**	**78,453**	**2,843,529**	**2,045,238**	**32,518,828**	**245,395**	**32,764,223**

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

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of Tsesnabank JSC (the "Bank") and its subsidiaries (together referred to as the "Group"). The principal subsidiaries include insurance, securities trading and asset management companies and a special purpose entity.

The Bank was established in the Republic of Kazakhstan as an open joint stock company under the laws of the Republic of Kazakhstan on 17 January 1992. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company on 26 December 2003. The Bank operates based on general license #1.2.74/74/29 for banking operations and activities on securities market granted on 12 October 2009 by the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA"). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Committee on the Regulation and Supervision of Financial Markets and Financial Organisations of the National Bank of the Republic of Kazakhstan (the "FMSC") and the National Bank of the Republic of Kazakhstan (the "NBRK"). The Bank has a general banking license, and is a member of the state deposit insurance system in Kazakhstan.

On 3 January 2007 the Bank established a subsidiary, Tsesna International B.V., which is a special purpose entity intended to raise funds on international capital markets and make these funds available to the Bank. As at 31 December 2012 and 2011, the Bank owned 100% of the share capital of Tsesna International B.V.

In accordance with the resolutions of the FMSA #65 and #66 dated 18 May 2010 the Bank was given a permission to purchase a subsidiary, Subsidiary Company of Tsesnabank Insurance Company Tsesna Garant JSC ("Tsesna Garant"). The primary business activity of Tsesna Garant is insurance of vehicle owners' civil liability, employers' civil liability, property, cargo, vehicle, air, railway and water transport, casualty and other insurance.

During the year ended 31 December 2011, the Bank obtained control over Tsesna Capital JSC. On 11 November 2011 the Bank acquired an additional 18.86% of the shares in the associated company Tsesna Capital JSC. As at 31 December 2011 the share of ownership of the Bank in Tsesna Capital JSC comprises 67.86% of share capital. During the year ended 31 December 2012 the Bank acquired an additional 8.9% of the shares in Tsesna Capital JSC. As at 31 December 2012 the share of ownership of the Bank in Tsesna Capital JSC comprises 76.80% of share capital.

As at 31 December 2012 the Bank had 21 branches (2011: 19) and 103 sub-branches (2011: 84) from which it conducts business throughout the Republic of Kazakhstan. The registered address of the head office is 29, Zhenis Avenue, Astana, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located in Kazakhstan.

The principal subsidiaries are as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal activities**	**2012**	**2011**
Tsesna International B.V.	Netherlands	Raising funds on international capital markets and make these funds available to the Bank	100.00	100.00
Subsidiary Company of Tsesnabank Insurance Company Tsesna Garant JSC	Kazakhstan	Insurance activity	100.00	100.00
Tsesna Capital JSC	Kazakhstan	Brokerage and dealing activity	76.80	67.86

1 Background, continued

(a) Organisation and operations, continued

At 31 December 2012, Financial Holding Tsesna JSC, Tsesna Corporation JSC and Accumulated Pension Fund Respublika JSC owned 48.94%, 15.91%, and 9.24% of the outstanding common shares of the Bank, respectively, (2011: Tsesna Corporation JSC owned 64.31%). Other shareholders have less than 5% of the outstanding shares each.

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

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

(c) Functional and presentation currency

The functional currency of the Bank and its subsidiaries is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - Note 19
- impairment of held-to-maturity investments – Note 20
- estimates of fair value of financial instruments – Note 38.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

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

(iii) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

(iv) Acquisitions of entities under common control

The assets and liabilities acquired as a result of the acquisition of a controlling interest in an entity that is under the control of the beneficiaries of the Group are recognised at their carrying amounts, as recognised in the individual financial statements of the subsidiary acquired. The difference between the consideration paid for the acquisition and the carrying value of net assets acquired is recognised directly in equity attributable to equity holders of the Bank.

(v) Acquisitions and disposals of non-controlling interests

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

(vi) Transactions eliminated on consolidation

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

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(vii) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Non-controlling interests

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

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

(c) Foreign currency

Transactions in foreign currencies are translated to the functional currency at exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3 Significant accounting policies, continued

(e) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(v) Fair value measurement principles, continued

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

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vii) Derecognition, continued

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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 included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability incl uded in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within deposits and balances with banks and other financial institutions or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Derivative financial instruments

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

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

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

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

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

(x) Offsetting

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

3 Significant accounting policies, continued

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and buildings, which are stated at revalued amounts as described below.

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

(ii) Revaluation

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

Management uses independent valuation firms to estimate the fair value of land and buildings. The valuation firms typically use the income approach and the comparable sales approach, or a combination of the two, depending on the availability and reliability of information.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- buildings	25 to 55 years
- computer equipment	5 to 10 years
- motor vehicles	7 years
- other	2 to 20 years

(g) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is 3.5 years.

(h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at historical cost.

When the use of a property changes such that it is reclassified as property and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

Management uses independent valuation firms to estimate the fair value of investment property. The valuation firms typically use the income approach and the comparable sales approach, or a combination of the two, depending on the availability and reliability of information.

3 Significant accounting policies, continued

(i) Impairment

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

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

(ii) Financial assets carried at cost

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

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

3 Significant accounting policies, continued

(i) Impairment, continued

(iii) Available-for-sale financial assets

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

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

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

(iv) Non financial assets

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

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

(j) Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(k) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

3 Significant accounting policies, continued

(k) Credit related commitments, continued

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(l) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Cumulative non-redeemable preference shares

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the statement of comprehensive income. On issuance of the cumulative non-redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iv) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

3 Significant accounting policies, continued

(m) Taxation

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

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

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

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

(n) Income and expense recognition

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

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

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

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

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(o) Segment reporting

The Group's operations are highly integrated and constitute two operating business segments for the purposes of IFRS 8 *Operating Segments*: banking and insurance. The insurance segment is not reported separately in these consolidated financial statements as it does not exceed the quantitative threshold set out in *IFRS 8 Operating Segments*. Assets are concentrated primarily in the Republic of Kazakhstan, and the majority of revenues and net income are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Bank, the Chairman of the Management Board, only receives and reviews the information on the Group as a whole.

3 Significant accounting policies, continued

(p) Insurance contracts

(i) Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the "policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the "insured event") adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance risk is the risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as financial instruments.

(ii) Recognition and measurement of contracts

Premiums

General business premiums written comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. The portion of outward reinsurance premiums not recognised is treated as a prepayment.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Claims

Claims comprise claims and claim handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and developments and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

3 Significant accounting policies, continued

(p) Insurance contracts, continued

(iii) Reinsurance assets

The Group cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted as for financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as reinsurers' share in insurance contract provisions in the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(iv) Acquisition costs

Acquisition costs include direct costs such as commissions paid to insurance agents and brokers and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies.

Acquisition costs are expensed as incurred.

(v) Liability adequacy test

At each reporting date, liability adequacy tests are performed to determine if the insurance contract provisions are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests.

If a shortfall is identified, an additional provision is established, if necessary. The deficiency is recognised in profit or loss for the year.

(vi) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

3 Significant accounting policies, continued

(q) New standards and interpretations not yet adopted

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

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.* The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

3 Significant accounting policies, continued

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

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment should be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 KZT'000	2011 KZT'000
Interest income		
Loans to customers	54,222,097	33,094,567
Financial instruments at fair value through profit or loss	1,324,383	771,466
Deposits and balances with banks and other financial institutions	388,718	245,107
Held-to-maturity investments	181,897	414,715
Available-for-sale financial assets	88,462	70,753
Cash and cash equivalents	22,080	33,805
	56,227,637	**34,630,413**
Interest expense		
Current accounts and deposits from customers	(23,758,589)	(16,088,963)
Subordinated debt	(2,069,687)	(1,003,555)
Deposits and balances from banks and other financial institutions	(901,496)	(1,047,284)
Debt securities issued	(747,455)	(902,569)
Amounts payable under repurchase agreements	(183,254)	(14,495)
Due to the Government of the Republic of Kazakhstan	(261)	(1,429)
	(27,660,742)	**(19,058,295)**
	28,566,895	**15,572,118**

5 Fee and commission income

	2012 KZT'000	2011 KZT'000
Guarantee and letter of credit issuance fees	3,378,917	1,215,340
Transfer operations	1,693,050	1,246,919
Cash withdrawal fees	1,224,290	967,692
Foreign exchange fees	796,217	412,633
Settlement fees	613,504	404,462
Cash collection fees	31,130	26,569
Underwriting and corporate finance fees	-	82,348
Other	428,515	755,780
	8,165,623	**5,111,743**

6 Fee and commission expense

	2012 KZT'000	2011 KZT'000
Insurance acquisition costs	612,029	56,138
Commission expense on received deposits	263,220	157,314
Transfer operations	135,034	104,438
Client card account maintenance fees	59,323	77,306
Net insurance claims incurred	-	28,895
Other	331,498	19,687
	1,401,104	**443,778**

7 Net earned insurance premiums

	Obligatory		Voluntary				
2012 **'000 KZT**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Civil liability**	**Transport and cargo**	**Other voluntary**	**Total**
Gross premiums written	4,337,044	280,486	1,432,558	1,075,704	1,768,506	377,343	9,271,641
Change in the gross provision for unearned premiums	(1,613,705)	70,815	(170,706)	97,723	(335,018)	84,954	(1,865,937)
Gross earned premiums	**2,723,339**	**351,301**	**1,261,852**	**1,173,427**	**1,433,488**	**462,297**	**7,405,704**
Less: written premiums ceded to reinsurers	(2,003,267)	(19,730)	(890,690)	(932,059)	(1,468,742)	(59,696)	(5,374,184)
Reinsurers' share of change in the gross provision for unearned premiums	987,903	(91,062)	31,371	(165,248)	199,241	(131,535)	830,670
Ceded earned premiums	**(1,015,364)**	**(110,792)**	**(859,319)**	**(1,097,307)**	**(1,269,501)**	**(191,231)**	**(4,543,514)**
Net earned premiums	**1,707,975**	**240,509**	**402,533**	**76,120**	**163,987**	**271,066**	**2,862,190**

	Obligatory		Voluntary				
2011 **'000 KZT**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Civil liability**	**Transport and cargo**	**Other voluntary**	**Total**
Gross premiums written	606,974	310,743	304,494	284,698	192,820	219,425	1,919,154
Change in the gross provision for unearned premiums	(452,648)	(225,237)	(214,488)	(214,612)	(86,747)	(133,449)	(1,327,181)
Gross earned premiums	**154,326**	**85,506**	**90,006**	**70,086**	**106,073**	**85,976**	**591,973**
Less: written premiums ceded to reinsurers	-	(122,430)	(114,238)	(206,670)	(8,589)	(187,498)	(639,425)
Reinsurers' share of change in the gross provision for unearned premiums	-	90,441	98,338	174,943	(134)	137,435	501,023
Ceded earned premiums	**-**	**(31,989)**	**(15,900)**	**(31,727)**	**(8,723)**	**(50,063)**	**(138,402)**
Net earned premiums	**154,326**	**53,517**	**74,106**	**38,359**	**97,350**	**35,913**	**453,571**

8 Net insurance claims incurred

	Obligatory		Voluntary				
2012 **'000 KZT**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Civil liability**	**Transport and cargo**	**Other voluntary**	**Total**
Insurance claims incurred	(285,905)	(32,454)	(14,858)	(17,437)	(81,343)	(92,399)	(524,396)
Change in provisions for incurred but not reported claims	(579,633)	(4,331)	(30,782)	573	(12,840)	(15,220)	(642,233)
Change in provisions for reported but not settled claims	(24,632)	(467)	-	(265)	(6,093)	(6,709)	(38,166)
Change in reinsurers' share in claims provisions	480,877	-	(1)	(1)	-	2	480,877
Change in net insurance contract provisions	**(123,388)**	**(4,798)**	**(30,783)**	**307**	**(18,933)**	**(21,927)**	**(199,522)**
Net insurance claims incurred	**(409,293)**	**(37,252)**	**(45,641)**	**(17,130)**	**(100,276)**	**(114,326)**	**(723,918)**

During 2011, the Group incurred net insurance claims of KZT 28,895 thousand, which are disclosed within fee and commission expense (Note 6).

9 Net gain/(loss) on financial instruments at fair value through profit or loss

	2012 KZT'000	2011 KZT'000
Equity financial instruments	161,977	(321,175)
Debt financial instruments	89,263	(239,364)
	251,240	**(560,539)**

10 Net foreign exchange income

	2012 KZT'000	2011 KZT'000
Gain on spot transactions and derivatives	1,951,147	1,238,979
Gain/(loss) from revaluation of financial assets and liabilities	19,594	(37,778)
	1,970,741	**1,201,201**

11 Impairment losses

	2012 KZT'000	2011 KZT'000
Loans to customers (Note 19)	7,693,513	1,714,505
Held-to-maturity investments (Note 20)	-	1,351,562
Commitments	1,079	(21,944)
Other assets (Note 23)	470,529	80,375
	8,165,121	**3,124,498**

12 Personnel expenses

	2012 KZT'000	2011 KZT'000
Employee compensation	7,920,846	5,208,447
Payroll related taxes	600,327	381,369
	8,521,173	**5,589,816**

13 Other general administrative expenses

	2012 KZT'000	2011 KZT'000
Occupancy	3,002,750	2,625,043
Depreciation and amortisation	883,396	603,436
Taxes other than on income	786,868	602,887
Advertising and marketing	695,040	365,489
Repairs and maintenance	672,428	439,962
Contributions to deposit insurance fund	589,509	553,279
Transportation	371,533	224,542
Charity	360,447	438,767
Security	344,557	215,105
Communications and information services	316,267	222,546
Stationery and office equipment supplies	314,720	173,566
Travel expenses	199,100	110,420
Professional services	122,536	130,796
Encashment expenses	108,806	54,696
Recruitment and training	38,770	30,311
Post and courier services	21,920	16,841
Market maker services	16,581	89,293
Insurance	8,192	104,881
Other	400,887	507,542
	9,254,307	**7,509,402**

14 Income tax expense

	2012 KZT'000	2011 KZT'000
Current tax expense		
Current year	(2,567,009)	(1,418,722)
Overprovided in prior years	38,898	-
	(2,528,111)	**(1,418,722)**
Deferred tax expense		
Origination and reversal of temporary differences	(480,175)	(43,255)
Effect of change in tax rates	-	226,681
Total income tax expense	**(3,008,286)**	**(1,235,296)**

In 2012, the applicable rate for current and deferred tax is 20% (2011: 20%, except for insurance subsidiary).

In 2011, the applicable tax rate for current tax for insurance companies was 4% on the amount of gross premiums recognised during the year less payments made to the Insurance Payments Guarantee Fund and premiums paid to reinsurers during the year, which in 2011 was the primary reason for the effect of change in tax rates. With effect from 1 January 2012 the income tax rate for Kazakh insurance companies has been increased to 20% applied to the net taxable income under the general tax regime.

14 Income tax expense, continued

Reconciliation of effective tax rate for the year ended 31 December:

	2012 KZT'000	%	2011 KZT'000	%
Profit before income tax	**13,886,024**	**100**	**5,374,808**	**100**
Income tax at the applicable tax rate	(2,777,205)	(20)	(1,074,962)	(20)
Non-deductible expense	(231,081)	(2)	(387,015)	(7)
Effect of change in tax rates	-	-	226,681	4
	(3,008,286)	**(22)**	**(1,235,296)**	**(23)**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2012 and net deferred tax assets as at 31 December 2011. Deferred tax assets in respect of tax losses carried forward are recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in ten years after the date of origination.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows.

2012 KZT'000	**Balance 1 January 2012**	**Recognised in profit or loss**	**Balance 31 December 2012**
Property, equipment and intangible assets	(111,549)	107,920	(3,629)
Loans to customers	(3,526)	(62,227)	(65,753)
Other assets	-	(301,763)	(301,763)
Other liabilities	233,039	(263,609)	(30,570)
Tax losses carried forward	109,112	39,504	148,616
	227,076	**(480,175)**	**(253,099)**

2011 KZT'000	**Balance 1 January 2011**	**Recognised in profit or loss**	**Balance 31 December 2011**
Property, equipment and intangible assets	(65,992)	(45,557)	(111,549)
Loans to customers	65,852	(69,378)	(3,526)
Other liabilities	43,790	189,249	233,039
Tax losses carried forward	-	109,112	109,112
	43,650	**183,426**	**227,076**

15 Cash and cash equivalents

	2012 KZT'000	2011 KZT'000
Cash on hand	**10,306,476**	**8,381,195**
Nostro accounts with the NBRK	**22,601,783**	**7,590,771**
Nostro accounts with other banks		
- rated AA- to AA+	102,772	77,259
- rated A- to A+	1,827,316	2,302,911
- rated from BBB- to BBB+	122,598	523,299
- rated from BB- to BB+	148,872	152,059
- rated below B+	93,307	131,361
- not rated	71,066	68,886
Total nostro accounts with other banks	**2,365,931**	**3,255,775**
Cash equivalents		
Term deposits with other banks		
- rated A- to A+	39,244	12,293
- rated from BBB- to BBB+	3,167	55,248
- rated from BB- to BB+	6,906	53
- rated below B+	32,817	2,847
- not rated	80,795	33,178
Total term deposits with other banks	**162,929**	**103,619**
Total cash and cash equivalents	**35,437,119**	**19,331,360**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency.

None of cash and cash equivalents are impaired or past due.

As at 31 December 2012 and 2011 the Group has one bank, whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2012 is KZT 22,601,783 thousand (2011: KZT 7,590,771 thousand).

16 Deposits and balances with banks and other financial institutions

	2012 KZT'000	2011 KZT'000
Mandatory reserve with the NBRK	**6,845,307**	**9,316,220**
Loans and deposits		
- rated A- to A+	399,985	-
- rated from BBB- to BBB+	321,128	274,339
- rated from BB- to BB+	25,485	319,095
- rated below B+	168	319,483
- not rated	7,709,272	3,371,854
- defaulted	48,130	48,130
Total loans and deposits	**8,504,168**	**4,332,901**
Reverse repurchase agreements	**277,005**	**341,025**
Impairment allowance	(48,130)	(48,130)
Net deposits and balances with banks and other financial institutions	**15,578,350**	**13,942,016**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency.

Overdue or impaired deposits and balances with banks and other financial institutions comprise deposits and balances with banks and other financial institutions overdue for more than 360 days of KZT 48,130 thousand (2011: overdue for more than 360 days of KZT 48,130 thousand).

The amount of loans and deposits from not rated banks includes KZT 1,660,994 thousand of subordinated debt.

(a) Collateral accepted as security for assets

At 31 December 2012 the fair value of financial assets collateralising reverse repurchase agreements that the Group is permitted to sell or repledge in the absence of default is KZT 397,331 thousand (2011: KZT 411,679 thousand).

(b) Concentration of deposits and balances with banks and other financial institutions

As at 31 December 2012 the Group has one bank (2011: one bank), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2012 is KZT 6,845,307 thousand (2011: KZT 9,316,220 thousand).

(c) Mandatory reserve with the NBRK

Under local legislation, the Group is required to maintain certain obligatory reserves that are computed as a percentage of certain liabilities of the Group. Such reserves must be held in either corresponding accounts with NBRK or in physical cash and maintained based on average bi-weekly balances of the aggregate of deposits with the NBRK and physical cash. The use of such funds is, therefore, subject to certain restrictions and they are excluded from cash and cash equivalents.

17 Financial instruments at fair value through profit or loss

	2012 KZT'000	2011 KZT'000
Held by the Group		
Debt and other fixed-income instruments		
- Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	24,156,643	7,293,228
Notes of the NBRK	-	7,628,653
- Total government bonds	**24,156,643**	**14,921,881**
- Corporate bonds		
rated from BBB- to BBB+	2,134,311	2,061,771
rated from BB- to BB+	4,716,701	3,208,455
rated from B- to B+	-	1,056,270
- Total corporate bonds	**6,851,012**	**6,326,496**
Equity investments		
Corporate shares	62,771	624,867
American and Global depository receipts	22,418	158,793
Total equity investments	**85,189**	**783,660**
	31,092,844	**22,032,037**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	7,928,712
Notes of the NBRK	-	11,526,318
- Total government bonds	**-**	**19,455,030**
	-	**19,455,030**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency. Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

None of financial assets at fair value through profit or loss are past due.

The pledged trading assets presented in the table above are those financial assets that may be repledged or resold by counterparties. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as intermediary.

18 Available-for-sale financial assets

	2012 KZT'000	2011 KZT'000
Held by the Group		
Debt instruments		
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	366,888	404,103
Total government bonds	**366,888**	**404,103**
Corporate bonds		
Corporate bonds rated from BBB- to BBB+	1,135,602	420,762
Corporate bonds rated from BB- to BB+	301,115	-
Total corporate bonds	**1,436,717**	**420,762**
Equity instruments		
Corporate shares	3,796,735	1,709,685
	5,600,340	**2,534,550**
Pledged under sale and repurchase agreements		
Debt instruments		
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	198,551
Total government bonds	**-**	**198,551**

As at 31 December 2012 available-for-sale investments stated at cost of KZT 20,843 thousand (2011: KZT 20,944 thousand) comprise unquoted equity securities in the financial services industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows.

19 Loans to customers

	2012 KZT'000	2011 KZT'000
Loans to corporate customers		
Loans to large corporates	301,970,707	261,582,644
Loans to small and medium size companies	134,135,348	45,783,878
Total loans to corporate customers	**436,106,055**	**307,366,522**
Loans to retail customers		
Mortgage loans	33,673,640	23,017,186
Consumer loans	23,234,035	17,096,571
Car loans	4,115,217	1,151,352
Express loans	1,206,821	1,225,229
Credit cards	89,053	98,271
Total loans to retail customers	**62,318,766**	**42,588,609**
Gross loans to customers	**498,424,821**	**349,955,131**
Impairment allowance	(17,986,779)	(11,810,569)
Net loans to customers	**480,438,042**	**338,144,562**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	8,697,455	3,113,114	11,810,569
Net charge	5,884,830	1,808,683	7,693,513
Foreign exchange effect	-	34,669	34,669
Write-offs	(1,507,063)	(48,149)	(1,555,212)
Recovery of previously written-off balances	7,094	20	7,114
Effect of unwinding of discount	(1,595)	(2,279)	(3,874)
Balance at the end of the year	**13,080,721**	**4,906,058**	**17,986,779**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	8,028,799	2,129,013	10,157,812
Net charge	694,941	1,019,564	1,714,505
Write-offs	(26,285)	(35,463)	(61,748)
Balance at the end of the year	**8,697,455**	**3,113,114**	**11,810,569**

19 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	291,721,459	(3,099,970)	288,621,489	1.06
Impaired or overdue loans:				
- not overdue	4,532,138	(629,704)	3,902,434	13.89
- overdue less than 90 days	6,101	(2,829)	3,272	46.37
- overdue more than 90 days and less than 1 year	3,509,524	(1,357,292)	2,152,232	38.67
- overdue more than 1 year	2,201,485	(1,495,584)	705,901	67.94
Total impaired or overdue loans	10,249,248	(3,485,409)	6,763,839	34.01
Total loans to large corporates	**301,970,707**	**(6,585,379)**	**295,385,328**	**2.18**
Loans to small and medium size companies				
Loans without individual signs of impairment	123,256,791	(1,261,420)	121,995,371	1.02
Impaired or overdue loans:				
- not overdue	4,487,837	(868,627)	3,619,210	19.36
- overdue less than 90 days	784,942	(160,000)	624,942	20.38
- overdue more than 90 days and less than 1 year	1,786,688	(1,251,113)	535,575	70.02
- overdue more than 1 year	3,819,090	(2,954,182)	864,908	77.35
Total impaired or overdue loans	10,878,557	(5,233,922)	5,644,635	48.11
Total loans to small and medium size companies	**134,135,348**	**(6,495,342)**	**127,640,006**	**4.84**
Total loans to corporate customers	**436,106,055**	**(13,080,721)**	**423,025,334**	**3.00**

19 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	28,449,888	(279,082)	28,170,806	0.98
- overdue less than 30 days	1,025,993	(154,605)	871,388	15.07
- overdue 30-89 days	938,092	(277,276)	660,816	29.56
- overdue 90-179 days	481,241	(282,468)	198,773	58.70
- overdue more than 180 days	2,778,426	(1,977,100)	801,326	71.16
Total mortgage loans	**33,673,640**	**(2,970,531)**	**30,703,109**	**8.82**
Consumer loans				
- not overdue	19,396,853	(70,121)	19,326,732	0.36
- overdue less than 30 days	1,091,505	(41,049)	1,050,456	3.76
- overdue 30-89 days	553,526	(109,068)	444,458	19.7
- overdue 90-179 days	280,409	(123,170)	157,239	43.93
- overdue more than 180 days	1,911,742	(1,184,404)	727,338	61.95
Total consumer loans	**23,234,035**	**(1,527,812)**	**21,706,223**	**6.58**
Car loans				
- not overdue	3,880,379	(3,690)	3,876,689	0.10
- overdue less than 30 days	38,431	(2,344)	36,087	6.10
- overdue 30-89 days	22,084	(5,440)	16,644	24.63
- overdue 90-179 days	21,420	(7,965)	13,455	37.18
- overdue more than 180 days	152,903	(67,670)	85,233	44.26
Total car loans	**4,115,217**	**(87,109)**	**4,028,108**	**2.12**
Express loans				
- not overdue	864,887	(5,038)	859,849	0.58
- overdue less than 30 days	9,494	(1,871)	7,623	19.71
- overdue 30-89 days	8,068	(3,300)	4,768	40.90
- overdue 90-179 days	9,067	(7,338)	1,729	80.93
- overdue more than 180 days	315,305	(299,970)	15,335	95.14
Total express loans	**1,206,821**	**(317,517)**	**889,304**	**26.31**
Credit cards				
- not overdue	42,743	(140)	42,603	0.33
- overdue less than 30 days	8,239	(69)	8,170	0.84
- overdue 30-89 days	293	(11)	282	3.75
- overdue 90-179 days	366	(14)	352	3.83
- overdue more than 180 days	37,412	(2,855)	34,557	7.63
Total credit cards	**89,053**	**(3,089)**	**85,964**	**3.47**
Total loans to retail customers	**62,318,766**	**(4,906,058)**	**57,412,708**	**7.87**
Total loans to customers	**498,424,821**	**(17,986,779)**	**480,438,042**	**3.61**

19 Loans to customers, continued

(a) Credit quality of loans to customers, continued

The following table provides information on the credit quality of the loans to customers as at 31 December 2011:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	252,992,286	(2,642,986)	250,349,300	1.04
Impaired or overdue loans:				
-overdue less than 90 days	4,789,610	(1,081,607)	3,708,003	22.58
- overdue more than 90 days and less than 1 year	1,079,087	(524,577)	554,510	48.61
- overdue more than 1 year	2,721,661	(1,811,878)	909,783	66.57
Total impaired or overdue loans	8,590,358	(3,418,062)	5,172,296	39.79
Total loans to large corporates	**261,582,644**	**(6,061,048)**	**255,521,596**	**2.32**
Loans to small and medium size companies				
Loans without individual signs of impairment	41,321,777	(376,426)	40,945,351	0.91
Impaired or overdue loans:				
- overdue less than 90 days	784,246	(234,267)	549,979	29.87
- overdue more than 90 days and less than 1 year	885,518	(235,466)	650,052	26.59
- overdue more than 1 year	2,792,337	(1,790,248)	1,002,089	64.11
Total impaired or overdue loans	4,462,101	(2,259,981)	2,202,120	50.65
Total loans to small and medium size companies	**45,783,878**	**(2,636,407)**	**43,147,471**	**5.76**
Total loans to corporate customers	**307,366,522**	**(8,697,455)**	**298,669,067**	**2.83**

19 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	20,001,309	(399,449)	19,601,860	2.00
- overdue less than 30 days	1,164,503	(237,939)	926,564	20.43
- overdue 30-89 days	809,564	(262,012)	547,552	32.36
- overdue 90-179 days	127,433	(92,326)	35,107	72.45
- overdue more than 180 days	914,377	(753,251)	161,126	82.38
Total mortgage loans	**23,017,186**	**(1,744,977)**	**21,272,209**	**7.58**
Consumer loans				
- not overdue	15,256,657	(97,875)	15,158,782	0.64
- overdue less than 30 days	497,347	(73,351)	423,996	14.75
- overdue 30-89 days	419,474	(177,797)	241,677	42.39
- overdue 90-179 days	215,171	(139,906)	75,265	65.02
- overdue more than 180 days	707,922	(520,099)	187,823	73.47
Total consumer loans	**17,096,571**	**(1,009,028)**	**16,087,543**	**5.90**
Car loans				
- not overdue	967,095	(1,073)	966,022	0.11
- overdue less than 30 days	31,424	(960)	30,464	3.05
- overdue 30-89 days	4,783	(388)	4,395	8.11
- overdue 90-179 days	522	(112)	410	21.46
- overdue more than 180 days	147,528	(48,718)	98,810	33.02
Total car loans	**1,151,352**	**(51,251)**	**1,100,101**	**4.45**
Express loans				
- not overdue	879,769	(5,842)	873,927	0.66
- overdue less than 30 days	23,261	(5,796)	17,465	24.92
- overdue 30-89 days	20,781	(14,183)	6,598	68.25
- overdue 90-179 days	11,927	(11,019)	908	92.39
- overdue more than 180 days	289,491	(271,018)	18,473	93.62
Total express loans	**1,225,229**	**(307,858)**	**917,371**	**25.13**
Credit cards				
- not overdue	1,115	-	1,115	-
- overdue less than 30 days	97,156	-	97,156	-
Total credit cards	**98,271**	**-**	**98,271**	**-**
Total loans to retail customers	**42,588,609**	**(3,113,114)**	**39,475,495**	**7.31**
Total loans to customers	**349,955,131**	**(11,810,569)**	**338,144,562**	**3.37**

Interest income for the year ended 31 December 2012 of KZT 1,163,559 thousand (2011: KZT 1,025,176 thousand) has been accrued on impaired loans to customers.

19 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- annual loss rates are based on historic loss experience of 1.02-1.06% p.a.
- a discount of between 30% and 50% to the annually appraised value if the property pledged is sold
- a delay of twelve months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2012 would be KZT 4,230,253 thousand lower/higher (2011: KZT 2,986,691 thousand lower/higher).

(ii) Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- a discount of between 10% and 30% to the annually appraised value if the property pledged is sold
- a delay of twelve months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be KZT 574,127 thousand lower/higher (2011: KZT 394,755 thousand).

19 Loans to customers, continued

(c) Analysis of collateral

(i) Loans to corporate customers

The following table provides the analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December 2012:

	2012 KZT'000	% of loan portfolio	2011 KZT'000	% of loan portfolio
Real estate	131,699,967	31	124,559,978	42
Guarantees	64,394,362	15	26,362,201	9
Grain	57,164,606	14	39,859,701	13
Inventory in turnover	52,033,806	12	29,783,399	10
Trading securities	14,554,169	3	4,844,392	1
Equipment	9,775,999	2	7,557,519	3
Cash deposits	7,035,659	2	38,816,903	13
Motor vehicles	6,881,034	2	4,821,694	1
Other collateral	409,612	-	1,858,445	1
No collateral	79,076,120	19	20,204,835	7
	423,025,334	**100**	**298,669,067**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

The amount disclosed in the table above within "No collateral" line includes blank loans and portions of loans without full collateral coverage. As at 31 December 2012, the net carrying value of blank corporate loans is KZT 6,587,516 thousand or 1.56% of corporate loan portfolio (2011: KZT 8,791,878 thousand or 2.94% of corporate loan portfolio).

Management estimates that the impairment allowance on loans to corporate customers secured by guarantees would have been KZT 6,772,678 thousand higher without the respective guarantees (2011: KZT 5,575,178 thousand).

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers with a net carrying value of KZT 12,408,474 thousand (2011: KZT 7,374,416 thousand) are secured by collateral with a fair value of KZT 8,719,331 thousand (2011: KZT 6,962,829 thousand), excluding the effect of overcollateralisation.

Loans to corporate customers that are neither past due nor impaired

As at 31 December 2012, the fair value of traded securities and cash balances, serving as collateral for loans to corporate customers with a net carrying value of KZT 21,589,828 thousand (2011: KZT 43,661,295 thousand), is KZT 21,550,745 thousand (2011: KZT 27,941,095 thousand).

As at 31 December 2012, for loans to corporate customers with a carrying amount of KZT 93,875,240 thousand (2011: KZT 22,217,688 thousand), management estimates that the fair value of collateral is at least equal to their carrying amounts.

For remaining loans to corporate customers with a net carrying amount of KZT 216,075,672 thousand (2011: KZT 205,210,833 thousand), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and is reviewed and adjusted for subsequent changes on occurence of the risk of impairment of collateral as at the reporting date. The impairment assessment relies primarily on the creditworthiness of borrowers. In case the financial positon of borrowers is assessed as stable, the value of the collateral is not considered during the impairment assessment.

19 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

Collateral obtained

During the year ended 31 December 2012, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2012, the carrying amount of such assets was KZT 68,236 thousand (2011: KZT 81,352 thousand), which consisted of property of KZT 63,942 thousand (2011: KZT 72,510 thousand) and other assets of KZT 4,294 thousand (2011: KZT 8,842 thousand). The Group's policy is to dispose of these assets as soon as it is practicable.

(ii) Loans to retail customers

Mortgage loans are secured by underlying housing real estate. Car loans are secured by a car. Consumer loans are secured by immovable and movable assets. Credit card overdrafts and express loans are not secured.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 1,347,975 thousand (2011: KZT 1,621,429 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 999,712 thousand (2011: KZT 1,320,176 thousand).

For mortgage loans with a net carrying amount of KZT 3,958,251 thousand (2011: KZT 7,237,086 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral at each reporting date in case there are indications of impairment.

For mortgage loans with a net carrying amount of KZT 25,396,883 thousand (2011: KZT 12,413,694 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Consumer loans

Included in consumer loans are loans with a net carrying amount of KZT 419,810 thousand (2011: KZT 759,210 thousand) which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 285,890 thousand (2011: KZT 623,111 thousand).

For consumer loans with a net carrying amount of KZT 3,221,208 thousand (2011: KZT 3,304,253 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in prices and aging of collateral. The Group obtains specific individual valuation of collateral at each reporting date in case there are indications of impairment.

For consumer loans with a net carrying amount of KZT 18,065,205 thousand (2011: KZT 12,024,080 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Car loans

The Group does not take into account collateral in the assessment of impairment allowance for the car loans portfolio due to the fact that it is impracticable to determine the fair value of collateral at the reporting date. Recoverable amounts of car loans are determined based on actual historical cash recovery rates calculated on a portfolio basis.

19 Loans to customers, continued

(c) Analysis of collateral, continued

(ii) Loans to retail customers, continued

Collateral obtained

During the year ended 31 December 2012, the Group obtained certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2012, the carrying amount of such assets was KZT 61,532 thousand (2011: KZT 6,287 thousand), which consisted of property. The Group's policy is to dispose of these assets as soon as it is practicable.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	2012 KZT'000	2011 KZT'000
Trade	191,139,051	146,987,174
Services	66,300,793	43,231,675
Construction	64,962,483	32,500,929
Production	43,404,624	23,000,458
Finance and insurance	31,475,752	23,364,311
Agriculture	21,767,206	27,251,469
Transportation	13,040,384	7,149,961
Education	2,867,052	3,045,586
Public authority companies	56,218	49,824
Other	1,092,492	785,135
Total loans to corporate customers	**436,106,055**	**307,366,522**
Loans issued to retail customers		
Mortgage loans	33,673,640	23,017,186
Consumer loans	23,234,035	17,096,571
Car loans	4,115,217	1,151,352
Express loans	1,206,821	1,225,229
Credit cards	89,053	98,271
Total retail loans	**62,318,766**	**42,588,609**
Total loans issued	**498,424,821**	**349,955,131**
Impairment allowance	(17,986,779)	(11,810,569)
	480,438,042	**338,144,562**

(e) Significant credit exposures

As at 31 December 2012 the Group has 22 borrowers or groups of connected borrowers (2011: 27), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2012 is KZT 178,575,424 thousand (2011: KZT 165,188,911 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 32 which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than that based on contractual terms.

20 Held-to-maturity investments

	2012 KZT'000	2011 KZT'000
Held by the Group		
Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	17,178,748	4,291,453
Total government bonds	**17,178,748**	**4,291,453**
Corporate bonds		
- rated from BBB- to BBB+	304,828	587,566
- rated from BB- to BB+	149,153	-
- rated below B+	-	167,307
- not rated	1,939,702	1,998,715
Total corporate bonds	**2,393,683**	**2,753,588**
Impairment allowance	(1,499,036)	(1,499,036)
Total net corporate bonds	**894,647**	**1,254,552**
	18,073,395	**5,546,005**
Pledged under sale and repurchase agreements		
Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	116,785
	-	**116,785**

Analysis of movements in the impairment allowance

	2012 KZT'000	2011 KZT'000
Balance at the beginning of the year	1,499,036	515,255
Net charge	-	1,351,562
Write-off	-	(383,594)
Effect of foreign currency translation	-	15,813
Balance at the end of the year	**1,499,036**	**1,499,036**

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Astana-Nedvizhimost JSC ("Astana-Nedvizhimost"). Astana-Nedvizhimost bonds were excluded from trading at KASE in July 2011. During the year ended 31 December 2011 the Group created a 83% impairment allowance for Astana-Nedvizhimost bonds of KZT 1,499,036 thousand based on management's estimate of expected future cash flows.

21 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost/revalued amount							
Balance at 1 January 2012	3,176,396	1,271,283	101,379	3,470,838	2,272,320	1,085,193	11,377,409
Additions	2,330	962,702	15,752	677,363	787,722	632,785	3,078,654
Disposals	(10,475)	(134,335)	(5,701)	(214,313)	(263,653)	(91)	(628,568)
Transfers	3,073,647	141,554	-	(3,507,187)	275,730	16,256	-
Balance at 31 December 2012	**6,241,898**	**2,241,204**	**111,430**	**426,701**	**3,072,119**	**1,734,143**	**13,827,495**
Depreciation and amortisation							
Balance at 1 January 2012	64,276	695,663	70,473	-	1,141,449	527,991	2,499,852
Depreciation and amortisation for the year	41,400	275,062	11,714	-	340,214	215,006	883,396
Disposals	(61)	(132,069)	(4,425)	-	(242,258)	(89)	(378,902)
Transfers	-	(2,558)	-	-	2,558	-	-
Balance at 31 December 2012	**105,615**	**836,098**	**77,762**	**-**	**1,241,963**	**742,908**	**3,004,346**
Carrying amount							
At 31 December 2012	**6,136,283**	**1,405,106**	**33,668**	**426,701**	**1,830,156**	**991,235**	**10,823,149**

21 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost/revalued amount							
Balance at 1 January 2011	210,097	1,009,820	90,538	5,833,039	1,763,459	973,037	9,879,990
Acquisition through business combination	25,338	430	2,486	-	1,165	-	29,419
Additions	203,512	260,659	8,355	605,133	377,611	113,450	1,568,720
Disposals	(525)	(10,160)	-	(50,722)	(38,019)	(1,294)	(100,720)
Transfers	2,737,974	10,534	-	(2,916,612)	168,104	-	-
Balance at 31 December 2011	**3,176,396**	**1,271,283**	**101,379**	**3,470,838**	**2,272,320**	**1,085,193**	**11,377,409**
Depreciation and amortisation							
Balance at 1 January 2011	27,084	540,484	56,117	-	911,634	385,971	1,921,290
Depreciation and amortisation for the year	37,258	162,888	14,356	-	246,914	142,020	603,436
Disposals	(66)	(7,709)	-	-	(17,099)	-	(24,874)
Balance at 31 December 2011	**64,276**	**695,663**	**70,473**	**-**	**1,141,449**	**527,991**	**2,499,852**
Carrying amount							
At 31 December 2011	**3,112,120**	**575,620**	**30,906**	**3,470,838**	**1,130,871**	**557,202**	**8,877,557**

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

21 Property, equipment and intangible assets, continued

Revalued assets

At 31 December 2010 land and buildings were revalued based on the results of an independent appraisal performed by Apprais Consult LLC.

The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar land and buildings.

The carrying value of land and buildings as at 31 December 2012, if the land and buildings would not have been revalued, would be KZT 5,912,422 thousand (2011: KZT 2,881,869 thousand).

At 31 December 2012 the management believes that the carrying values of land and buildings are not significantly different from their fair value.

22 Investment property

	Land KZT'000
Cost	
At 1 January 2011	1,267,483
At 31 December 2011	1,267,483
At 31 December 2012	**1,267,483**

Investment property comprises a plot of commercial land located in Almaty, purchased during 2007. The management believes that the carrying value approximates the fair value of the property at 31 December 2012.

23 Other assets

	2012 KZT'000	2011 KZT'000
Other receivables	10,152,620	3,868,976
Insurance and reinsurance receivables	1,766,589	440,369
Commissions receivable	522,918	495,101
Amount due from local commercial bank	210,035	210,035
Impairment allowance	(479,395)	(312,628)
Total other financial assets	**12,172,767**	**4,701,853**
Refundable advance consideration*	6,744,543	-
Reinsurers' share in insurance contract provisions (Note 29)	1,816,914	505,367
Prepayments	854,790	585,082
Prepayments for office buildings	646,524	660,652
Materials and supplies	621,318	441,283
Deferred insurance acquisition costs	384,325	100,574
Other	299,523	611,250
Impairment allowance	(573,716)	(289,765)
Total other non-financial assets	**10,794,221**	**2,614,443**
Total other assets	**22,966,988**	**7,316,296**

* On 10 April 2013 the Group entered into an agreement with the shareholders of Plus Bank OJSC to increase the Group's shareholding of 19% up to 91.09%, subject to Kazakhstan and Russian Federation regulatory approval. Prior to 31 December 2012, the Group acquired certain assets for KZT 6,744,543 thousand which will be used as consideration for the completion of the transaction during one year from date of agreement.

23 Other assets, continued

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2012 are as follows:

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	312,628	289,765	602,393
Net charge	166,767	303,762	470,529
Write-offs	-	(19,811)	(19,811)
Balance at the end of the year	**479,395**	**573,716**	**1,053,111**

Movements in the impairment allowance for the year ended 31 December 2011 are as follows:

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	312,628	215,138	527,766
Net charge	-	80,375	80,375
Write-offs	-	(5,748)	(5,748)
Balance at the end of the year	**312,628**	**289,765**	**602,393**

As at 31 December 2012, included in other assets are overdue other debtors of gross KZT 1,627,336 thousand (2011: KZT 725,235 thousand), of which KZT 1,209,540 thousand are overdue for more than 90 days (2011: KZT 503,916 thousand).

24 Deposits and balances from banks and other financial institutions

	2012 KZT'000	2011 KZT'000
Loans and deposits from banks and other financial institutions	7,747,450	17,727,959
Vostro accounts	39,441	33,084
	7,786,891	**17,761,043**

As at 31 December 2012 the Group has one financial institution (2011: two banks), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2012 is KZT 6,386,262 thousand (2011: KZT 14,594,579 thousand).

25 Current accounts and deposits from customers

	2012 KZT'000	2011 KZT'000
Current accounts and demand deposits		
- Corporate	126,945,011	93,397,346
- Retail	7,497,961	6,904,165
- Accrued interest	28	-
Term deposits		
- Corporate	233,500,497	148,632,873
- Retail	148,477,684	92,573,429
- Accrued interest	2,008,737	1,234,553
	518,429,918	**342,742,366**

25 Current accounts and deposits from customers, continued

As at 31 December 2012, the Group maintained customer deposit balances of KZT 15,947,688 thousand (2011: KZT 32,941,347 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2012, the Group has 19 customers (2011: 17 customers), whose balances exceed 10% of equity. These balances as at 31 December 2012 are KZT 220,841,062 thousand (2011: KZT 170,533,023 thousand).

26 Debt securities issued

	2012 KZT'000	2011 KZT'000
Nominal	9,925,920	9,428,692
Discount	(1,199,271)	(1,133,504)
Accrued interest	243,614	253,821
	8,970,263	**8,549,009**

The summary of bond issues at 31 December 2012 and 2011 is presented below:

					Carrying amount	
	Issue date	Maturity	Coupon rate	Effective rate	2012 KZT'000	2011 KZT'000
KZT denominated bonds of the second issue *	8.08.2005	8.08.2012	9.0%	10.6%	-	3,036,122
KZT denominated bonds of the sixth issue *	14.12.2006	14.12.2015	6.5%	10.8%	2,325,334	2,376,827
KZT denominated bonds of the seventh issue *	11.07.2007	11.07.2027	7.5%	10.9%	2,633,377	2,633,396
KZT denominated bonds of the ninth issue *	19.10.2011	12.07.2014	6.0%	6.9%	4,011,552	502,664
					8,970,263	**8,549,009**

* Quoted on KASE

27 Subordinated debt

	2012 KZT'000	2011 KZT'000
Cumulative non-redeemable preferred shares	2,714,441	2,741,080
Subordinated bonds	26,456,959	12,559,061
Subordinated loans	936,334	901,084
	30,107,734	**16,201,225**

As at 31 December 2012 and 2011 subordinated debt comprises bonds and loans from foreign financial institutions and cumulative non-redeemable preferred shares. In case of bankruptcy, the repayment of the subordinated debt would be made after repayment in full of all other liabilities of the Group but before repayment of the preferred shares.

(a) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividend of 10% per annum on the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to the Group's residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at their par value of KZT 1,000.

27 Subordinated debt, continued

(a) Cumulative non-redeemable preference shares, continued

During the year ended 31 December 2012, the Group accrued dividends on preference shares amounting to KZT 250,000 thousand (31 December 2011: KZT 250,000 thousand).

(b) Subordinated bonds

The summary of subordinated bonds at 31 December 2012 and 2011 is presented below:

					Carrying amount	
	Issue date	Maturity	Coupon rate	Effective rate	2012 KZT'000	2011 KZT'000
KZT denominated bonds of the fifth issue *	28.06.2006	28.06.2014	6.5%	10.1%	2,782,800	2,927,471
KZT denominated bonds of the eighth issue *	13.04.2011	13.04.2018	8.0%	8.1%	5,544,487	5,549,259
KZT denominated bonds of the tenth issue *	30.06.2011	12.07.2014	8.0%	10.7%	3,671,589	4,082,331
KZT denominated bonds of the eleventh issue *	01.02.2012	01.02.2019	8.00%	9.20%	4,915,773	-
KZT denominated bonds of the twelfth issue *	02.08.2012	02.08.2019	8.00%	9.70%	3,807,293	-
KZT denominated bonds of the thirteenth issue *	02.08.2012	02.08.2019	8.00%	9.70%	5,735,017	-
					26,456,959	**12,559,061**

* Quoted on KASE

(c) Subordinated loans

Creditor	2012 KZT'000	2011 KZT'000	Interest rate	Origination date	Maturity date
Halden Invest and Finance S.A.	936,334	901,084	1 month Euro LIBOR plus 4.75%	30.06.2006	30.06.2013

28 Amounts payable under repurchase agreements

	2012 KZT'000	2011 KZT'000
Amounts payable under repurchase agreements	-	18,589,041

As at 31 December 2011 amounts payable under repurchase agreements were collateralised by financial instruments at fair value through profit or loss (Note 17), available-for-sale financial assets (Note 18) and held-to-maturity investments (Note 20):

	2012 KZT'000	2011 KZT'000
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	8,244,048
Notes of NBRK	-	11,526,318
	-	**19,770,366**

29 Other liabilities

	2012 KZT'000	2011 KZT'000
Sundry creditors	556,495	155,010
Insurance and reinsurance payables	448,580	199,602
Dividends payable	1,421	1,421
Total other financial liabilities	**1,006,496**	**356,033**
Insurance contract provisions	4,017,925	1,471,588
Deferred income for guarantees and letters of credit issued	1,460,924	128,592
Other prepayments	415,897	8,752
Accrued vacation	303,216	228,942
Other taxes payable	216,993	84,942
Other non-financial liabilities	27,725	78,683
Total other non-financial liabilities	**6,442,680**	**2,001,499**
Total other liabilities	**7,449,176**	**2,357,532**

(a) Insurance contract provisions

	Gross 2012 '000 KZT	Reinsurance 2012 '000 KZT	Net 2012 '000 KZT
Unearned premium provision	3,281,244	(1,336,037)	1,945,207
Provision for claims incurred but not reported	691,922	(467,448)	224,474
Provision for claims reported but not settled	44,759	(13,429)	31,330
	4,017,925	**(1,816,914)**	**2,201,011**

	Gross 2011 '000 KZT	Reinsurance 2011 '000 KZT	Net 2011 '000 KZT
Unearned premium provision	1,415,306	(505,367)	909,939
Provision for claims incurred but not reported	49,689	-	49,689
Provision for claims reported but not settled	6,593	-	6,593
	1,471,588	**(505,367)**	**966,221**

Key insurance contract provision assumptions

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is, however, a general lack of publicly available information on the Kazakhstan insurance market that would be relevant to identification of assumptions and sensitivities.

29 Other liabilities, continued

(a) Insurance contract provisions, continued

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate cost of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

Provisions for claims incurred but not reported (IBNR) are estimated using a range of chain ladder statistical methods. Such methods extrapolate the development of paid and incurred claims for each accident year based upon observed development of earlier years using statistics of other Kazakh insurance companies for similar products.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case. Such reasons include economic, legal, political and social trends, change in mix of business, random fluctuations, including the impact of large losses.

The assumptions that have the greatest effect on the measurement of general insurance contract provisions are the expected loss ratios for the most recent accident years. The expected loss ratio is the ratio of expected claims to earned premiums. When determining the total liability, the projection of future cash flows includes the estimated values of parameters that can affect the amount of an individual claim.

Management believes that due to the short-tail nature of the majority of the Group's business, the performance of the Group's portfolio is sensitive mainly to changes in expected loss ratios. The Group adjusts its insurance tariffs on a regular basis, based on the latest developments in these variables so that any emerging trends are taken into account.

30 Share capital

(a) Issued capital

As at 31 December 2012, the authorised share capital comprises 77,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares (2011: 27,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares). Issued and outstanding share capital comprises 30,226,122 ordinary shares and 2,467,674 non-redeemable cumulative preference shares (2011: 27,480,830 ordinary shares and 2,491,080 non-redeemable cumulative preference shares). The shares do not have a par value. During the year ended 31 December 2012, 2,800,000 ordinary shares were issued at KZT 1,800 per share (2011: 7,000,000 ordinary shares were issued at KZT 1,000 per share).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

In accordance with Kazakhstan legislation distributable reserves are limited to the balance of retained earnings as recorded in the statutory financial statements prepared in accordance with IFRS. As at 31 December 2012 the Bank had retained earnings of KZT 8,715,221 thousand (2011: KZT 1,855,333 thousand).

(c) Treasury shares

As at 31 December 2012 the Group held 73,878 of its own ordinary shares (2011: 19,170 ordinary shares).

30 Share capital, continued

(d) Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated financial statements. The book value per ordinary share is calculated by dividing net assets less intangible assets by number of outstanding ordinary shares. As at 31 December 2012 the book value per ordinary share was KZT 1,569 (2011: KZT 1,172).

The book value per preferred share is calculated by dividing equity with prior claims and debt component of preferred shares by number of outstanding preferred shares. As at 31 December 2012 and 2011 the book value per preferred share was KZT 1,100.

(e) Reserves for general banking risks

In accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSC on 31 January 2011, the Group should establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities (as defined in Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FMSC on 25 December 2006) during the preceding year. Such percentage increase will be not less than 10% and not more than 100%.

Transfer from retained earnings to the reserve for general banking risks in the amount of KZT 4,146,175 thousand was made for the year ended 31 December 2012 (2011: KZT 66,249 thousand).

The statutory reserve for general banking risks is non-distributable.

In 2012 the FMSC issued a requirement for banks to disclose separately a portion of their retained earnings representing the difference between impairment allowances assessed under IFRS and statutory rules. As at 31 December 2012 the amount of the difference is KZT 193,618 thousand (unaudited) and it relates primarily to loans to customers (impairment allowances assessed under IFRS are lower than under statutory rules).

31 Earnings per share

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2012 is based on the profit attributable to ordinary shareholders of KZT 10,872,334 thousand (2011: KZT 4,141,088 thousand), and a weighted average number of ordinary shares outstanding of 28,802,751 (2011: 22,402,695) calculated as follows:

	2012	2011
Net profit, in thousand of KZT	10,872,334	4,141,088
Issued ordinary shares at the beginning of the year	27,480,830	20,500,000
Effect of shares issued during the year	1,321,921	1,902,695
Weighted average number of ordinary shares for the year ended 31 December	**28,802,751**	**22,402,695**
Basic earnings per share, in KZT	377	185

The Group does not have any potentially dilutive securities.

32 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

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

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

The Group also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

(i) Interest rate risk

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

32 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2012							
ASSETS							
Cash and cash equivalents	2,290,717	-	-	-	-	33,146,402	35,437,119
Deposits and balances with banks and other financial institutions	425,183	1,400,000	2,314,618	2,321,123	-	9,117,426	15,578,350
Financial instruments at fair value through profit or loss	1,498,492	448,633	29,060,530	-	-	85,189	31,092,844
Available-for-sale financial assets	982,462	-	821,143	-	-	3,796,735	5,600,340
Loans to customers	33,842,707	52,747,632	150,074,318	169,865,146	43,717,235	30,191,004	480,438,042
Held-to-maturity investments	804,623	-	9,267,336	7,612,761	-	388,675	18,073,395
	39,844,184	**54,596,265**	**191,537,945**	**179,799,030**	**43,717,235**	**76,725,431**	**586,220,090**
LIABILITIES							
Deposits and balances from banks and other financial institutions	28,217	203,834	141,665	7,034,637	200,000	178,538	7,786,891
Current accounts and deposits from customers	31,148,502	63,405,527	163,843,928	190,041,107	5,116,863	64,873,991	518,429,918
Debt securities issued	-	-	-	6,443,909	2,282,730	243,624	8,970,263
Subordinated debt	-	936,334	-	2,781,258	23,023,066	3,367,076	30,107,734
	31,176,719	**64,545,695**	**163,985,593**	**206,300,911**	**30,622,659**	**68,663,229**	**565,294,806**
	8,667,465	**(9,949,430)**	**27,552,352**	**(26,501,881)**	**13,094,576**	**8,062,202**	**20,925,284**

32 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2011							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	19,331,360	19,331,360
Deposits and balances with banks and other financial institutions	412,679	260,648	1,987,166	1,646,208	-	9,635,315	13,942,016
Financial instruments at fair value through profit or loss	1,056,270	14,186,996	8,125,263	15,377,555	1,957,323	783,660	41,487,067
Available-for-sale financial assets	-	-	209,593	72,097	741,726	1,709,685	2,733,101
Loans to customers	21,106,492	65,861,868	71,051,621	117,113,600	43,807,196	19,203,785	338,144,562
Held-to-maturity investments	-	-	587,566	5,075,224	-	-	5,662,790
	22,575,441	**80,309,512**	**81,961,209**	**139,284,684**	**46,506,245**	**50,663,805**	**421,300,896**
LIABILITIES							
Deposits and balances from banks and other financial institutions	8,363,705	1,293,600	7,972,000	98,654	33,084	-	17,761,043
Current accounts and deposits from customers	70,110,215	43,170,257	107,568,185	75,087,841	5,041,990	41,763,878	342,742,366
Debt securities issued	123,321	105,835	2,954,951	2,854,828	2,510,074	-	8,549,009
Subordinated debt	1,082,084	-	481,304	2,791,134	9,355,623	2,491,080	16,201,225
Amounts payable under repurchase agreements	18,589,041	-	-	-	-	-	18,589,041
	98,268,366	**44,569,692**	**118,976,440**	**80,832,457**	**16,940,771**	**44,254,958**	**403,842,684**
	(75,692,925)	**35,739,820**	**(37,015,231)**	**58,452,227**	**29,565,474**	**6,408,847**	**(17,458,212)**

32 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2012 Average effective interest rate, %			2011 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	1.80	2.89	0.24	0.01	0.01
Deposits and balances with banks and other financial institutions	4.91	8.98	-	9.0	3.8	-
Financial instruments at fair value through profit or loss	3.62	3.98	-	2.9	5.6	-
Available-for-sale financial assets	6.01	-	-	6.3	-	-
Loans to customers	14.10	10.61	7.40	14.0	13.8	14.0
Held-to-maturity investments	3.99	-	-	6.1	-	2.5
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Vostro accounts	-	-	-	4.5	-	-
- Term deposits	7.46	4.34	4.35	7.4	2.0	3.0
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.21	-	-	1.6	-	-
- Term deposits	7.52	6.20	5.32	7.8	6.6	6.5
Debt securities issued	10.10	-	-	10.9	-	-
Subordinated debt	9.67	-	EuroLIBOR +4.75	9.4	-	EuroLIBOR +4.75
Amounts payable under repurchase agreements	-	-	-	1.1	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities expected for the period of up to twelve months existing as at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	(82,778)	(82,778)	453,093	453,093
100 bp parallel rise	82,778	82,778	(453,093)	(453,093)

32 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves using modified duration method is as follows:

	2012		2011	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	337,613	337,613	526,512	567,444
100 bp parallel rise	(337,613)	(337,613)	(526,512)	(567,444)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	KZT KZT'000	**USD KZT'000**	**EUR KZT'000**	**RUB KZT'000**	**Other currencies KZT'000**	**Total KZT'000**
ASSETS						
Cash and cash equivalents	29,045,332	3,633,451	1,848,020	849,887	60,429	35,437,119
Deposits and balances with banks and other financial institutions	12,733,981	2,844,364	-	5	-	15,578,350
Financial instruments at fair value through profit or loss	29,171,920	1,902,245	-	-	18,679	31,092,844
Available-for-sale financial assets	3,187,269	2,409,127	3,944	-	-	5,600,340
Loans to customers	417,153,874	58,069,457	5,214,711		-	480,438,042
Held-to-maturity investments	18,073,395	-	-	-	-	18,073,395
Other financial assets	11,461,148	627,558	54,960	29,101	-	12,172,767
Total financial assets	**520,826,919**	**69,486,202**	**7,121,635**	**878,993**	**79,108**	**598,392,857**
LIABILITIES						
Deposits and balances from banks and other financial institutions	7,297,294	336,799	148,546	4,252	-	7,786,891
Current accounts and deposits from customers	442,334,047	69,606,065	6,073,628	415,737	441	518,429,918
Debt securities issued	8,970,263	-	-	-	-	8,970,263
Subordinated debt	29,171,400	-	936,334	-	-	30,107,734
Other financial liabilities	992,592	2,442	11,289	108	65	1,006,496
Total financial liabilities	**488,765,596**	**69,945,306**	**7,169,797**	**420,097**	**506**	**566,301,302**
Net position as at 31 December 2012	**32,061,323**	**(459,104)**	**(48,162)**	**458,896**	**78,602**	**32,091,555**

32 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	7,592,095	4,068,754	6,783,203	766,477	120,831	19,331,360
Deposits and balances with banks and other financial institutions	11,279,562	2,662,449	-	5	-	13,942,016
Financial instruments at fair value through profit or loss	39,281,601	2,093,648	-	-	111,818	41,487,067
Available-for-sale financial assets	1,085,732	1,647,369	-	-	-	2,733,101
Loans to customers	313,566,634	22,728,717	1,128,867	720,344	-	338,144,562
Held-to-maturity investments	5,075,224	-	587,566	-	-	5,662,790
Other financial assets	4,150,544	429,412	52,386	69,511	-	4,701,853
Total financial assets	**382,031,392**	**33,630,349**	**8,552,022**	**1,556,337**	**232,649**	**426,002,749**
LIABILITIES						
Due to the Government of the Republic of Kazakhstan	15,488	-	-	-	-	15,488
Deposits and balances from banks anf other financial institutions	15,980,818	757,884	81,859	940,482	-	17,761,043
Current accounts and deposits from customers	302,586,752	32,215,124	7,511,313	429,044	133	342,742,366
Debt securities issued	8,549,009	-	-	-	-	8,549,009
Subordinated debt	15,300,141	-	901,084	-	-	16,201,225
Amounts payable under repurchase agreements	18,589,041	-	-	-	-	18,589,041
Other financial liabilities	354,216	1,535	96	95	91	356,033
Total financial liabilities	**361,375,465**	**32,974,543**	**8,494,352**	**1,369,621**	**224**	**404,214,205**
Net position as at 31 December 2011	**20,655,927**	**655,806**	**57,670**	**186,716**	**232,425**	**21,788,544**

32 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012		2011	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% appreciation of USD against KZT	(36,728)	(36,728)	52,464	52,464
10% appreciation of EUR against KZT	(3,853)	(3,853)	4,614	4,614
10% appreciation of RUB against KZT	(36,728)	(36,728)	14,937	14,937

A strengthening of the KZT against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in an equity financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on equity instrument positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 10% change in all equity securities prices is as follows:

	2012		2011	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	8,519	388,192	78,366	249,335
10% decrease in securities prices	(8,519)	(388,192)	(78,366)	(249,335)

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)

32 Risk management, continued

(c) Credit risk, continued

- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Business Department, which is responsible for the corporate loan portfolio. Analysis reports made by the department are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Credit Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. Before approval of independent transactions by the Credit Committee, they are reviewed by the Legal and Collateral Departments on the basis of the risk specification. The Credit Committee reviews the loan credit application on the basis of documents submitted by the Loan, Risk, Legal and Collateral Departments.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2012 KZT'000	2011 KZT'000
ASSETS		
Cash equivalents	25,130,643	10,950,165
Deposits and balances with banks and other financial institutions	15,578,350	13,942,016
Financial instruments at fair value through profit or loss	31,007,655	40,703,407
Available-for-sale financial assets	1,803,605	1,023,416
Loans to customers	480,438,042	338,144,562
Held-to-maturity investments	18,073,395	5,662,790
Other financial assets	12,172,767	4,701,853
Total maximum exposure	**584,204,457**	**415,128,209**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 19.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 34.

As at 31 December 2012 the Group did not have debtors or groups of connected debtors (2011: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

32 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, deposits and balances with banks and other financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

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

32 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Deposits and balances from banks and other financial institutions	370,509	570,457	748,690	7,403,303	347,238	-	9,440,197	7,786,891
Current accounts and deposits from customers	149,607,132	24,341,623	163,872,908	226,185,567	8,909,364	-	572,916,594	518,429,918
Debt securities issued	237,958	-	8,019	7,377,022	4,844,818	-	12,467,817	8,970,263
Subordinated debt	167,791	336,343	1,549,554	3,598,155	36,547,504	2,500,000	44,699,347	30,107,734
Other financial liabilities	488,370	38,417	479,701	8	-	-	1,006,496	1,006,496
Total liabilities	**150,871,760**	**25,286,840**	**166,658,872**	**244,564,055**	**50,648,924**	**2,500,000**	**640,530,451**	**566,301,302**
Credit related commitments	154,872,064	-	-	-	-	-	154,872,064	154,872,064

Future interest payments for non-redeemable cumulative preference shares are not included in the table above, which are payable annually.

32 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Due to the Government of the Republic of Kazakhstan	59	-	15,429	-	-	-	15,488	15,488
Deposits and balances from banks and other financial institutions	536,319	1,487,318	8,779,967	10,089,804	179,819	-	21,073,227	17,761,043
Current accounts and deposits from customers	61,225,661	45,805,822	162,730,521	76,932,430	9,417,710	-	356,112,144	342,742,366
Debt securities issued	226,669	373,202	3,539,701	4,250,302	4,372,036	-	12,761,910	8,549,009
Subordinated debt	185,321	8,643	1,523,933	6,116,533	10,116,451	2,491,080	20,441,961	16,201,225
Amounts payable under repurchase agreements	18,589,956	-	-	-	-	-	18,589,956	18,589,041
Other financial liabilities	168,703	183,753	3,577	-	-	-	356,033	356,033
Total liabilities	**80,932,688**	**47,858,738**	**176,593,128**	**97,389,069**	**24,086,016**	**2,491,080**	**429,350,719**	**404,214,205**
Credit related commitments	113,978,871	-	-	-	-	-	113,978,871	113,978,871

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

In accordance with Kazakhstan legislation, retail term deposits can be withdrawn at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

- from 1 to 3 months: KZT 8,274,486 thousand (2011: KZT 11,282,862 thousand)
- from 3 to 12 months: KZT 23,673,708 thousand (2011: KZT 24,517,115 thousand)
- more than 1 year: KZT 116,529,490 thousand (2011: KZT 56,773,452 thousand).

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

32 Risk management, continued

(d) Liquidity risk, continued

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	35,437,119	-	-	-	-	-	-	35,437,119
Deposits and balances with banks and other financial institutions	705,501	1,597,938	2,747,186	3,682,418	-	6,845,307	-	15,578,350
Financial instruments at fair value through profit or loss	1,498,493	448,633	14,014,415	15,022,571	36,487	72,245	-	31,092,844
Available-for-sale financial assets	44,426	-	-	1,156,815	646,790	3,752,309	-	5,600,340
Loans to customers	57,375,796	52,747,632	150,074,318	169,865,146	43,717,235	-	6,657,915	480,438,042
Held-to-maturity investments	499,795	-	9,197,407	7,939,968	304,828	-	131,397	18,073,395
Property, equipment and intangible assets	-	-	-	-	-	10,823,149	-	10,823,149
Investment property	-	-	-	-	-	1,267,483	-	1,267,483
Current tax asset	150,035	-	4,675	-	-	-	-	154,710
Other assets	7,496,337	788,726	5,172,478	1,464,759	478	6,894,543	1,149,667	22,966,988
Total assets	**103,207,502**	**55,582,929**	**181,210,479**	**199,131,677**	**44,705,818**	**29,655,036**	**7,938,979**	**621,432,420**
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	368,029	562,872	705,885	5,958,105	192,000	-	-	7,786,891
Current accounts and deposits from customers	49,024,726	110,004,015	164,243,207	190,041,107	5,116,863	-	-	518,429,918
Debt securities issued	236,128	-	7,496	6,216,584	2,510,055	-	-	8,970,263
Subordinated debt	166,434	330,942	1,440,323	2,781,258	22,921,103	2,467,674	-	30,107,734
Deferred tax liability	-	-	-	253,099	-	-	-	253,099
Other liabilities	1,737,506	423,366	4,814,556	473,384	364	-	-	7,449,176
Total liabilities	**51,532,823**	**111,321,195**	**171,211,467**	**205,723,537**	**30,740,385**	**2,467,674**	**-**	**572,997,081**
Net position	**51,674,679**	**(55,738,266)**	**9,999,012**	**(6,591,860)**	**13,965,433**	**27,187,362**	**7,938,979**	**48,435,339**

32 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	19,331,360	-	-	-	-	-	-	19,331,360
Deposits and balances with banks and other financial institutions	427,776	260,648	1,985,709	1,632,400	-	9,635,483	-	13,942,016
Financial instruments at fair value through profit or loss	210,749	11,219,111	11,093,147	16,342,671	1,837,729	783,660	-	41,487,067
Available-for-sale financial assets	-	-	209,593	72,097	741,726	1,709,685	-	2,733,101
Loans to customers	30,062,072	65,861,868	71,051,621	117,113,600	43,807,196	-	10,248,205	338,144,562
Held-to-maturity investments	-	-	587,566	5,075,224	-	-	-	5,662,790
Property, equipment and intangible assets	-	-	-	-	-	8,877,557	-	8,877,557
Investment property	-	-	-	-	-	1,267,483	-	1,267,483
Deferred tax asset	-	-	-	-	-	227,076	-	227,076
Other assets	5,511,053	20,890	1,219,525	-	-	441,283	123,545	7,316,296
Total assets	**55,543,010**	**77,362,517**	**86,147,161**	**140,235,992**	**46,386,651**	**22,942,227**	**10,371,750**	**438,989,308**
Non-derivative liabilities								
Due to the Government of Republic of Kazakhstan	59	-	15,429	-	-	-	-	15,488
Deposits and balances from banks and other financial institutions	200,037	634,043	8,027,572	8,899,391	-	-	-	17,761,043
Current accounts and deposits from customers	60,570,045	43,170,257	157,914,402	75,699,148	5,388,514	-	-	342,742,366
Debt securities issued	123,321	105,835	2,954,951	2,854,828	2,510,074	-	-	8,549,009
Subordinated debt	181,000	-	481,304	3,692,218	9,355,623	2,491,080	-	16,201,225
Current tax liability	-	-	9,381	-	-	-	-	9,381
Amounts payable under repurchase agreements	18,589,041	-	-	-	-	-	-	18,589,041
Other liabilities	698,409	190,551	1,468,572	-	-	-	-	2,357,532
Total liabilities	**80,361,912**	**44,100,686**	**170,871,611**	**91,145,585**	**17,254,211**	**2,491,080**	**-**	**406,225,085**
Net position	**(24,818,902)**	**33,261,831**	**(84,724,450)**	**49,090,407**	**29,132,440**	**20,451,147**	**10,371,750**	**32,764,223**

33 Capital management

The FMSC sets and monitors capital requirements for the Bank. The Bank and its subsidiaries are directly supervised by their respective local regulators.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital, which is comprised of ordinary and preference share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, qualifying perpetual debt less intangible assets and current year losses

- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's income, revaluation reserves, qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of risk-weighted assets.

Tier 3 capital is required for the purposes of calculation of total capital and includes subordinated liabilities not included into tier 2 capital.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the FMSC banks have to maintain:

- a ratio of tier 1 capital less investments to total assets less investments (k1.1)
- a ratio of tier 1 capital less investments to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1.2)
- a ratio of total capital to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k2).

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

As at 31 December 2012 and 2011 the minimum level of ratios as applicable to the Bank are as follows:

- k1.1 – 5%
- k1.2 – 5%
- k2 - 10%.

The Bank is in compliance with the statutory capital ratios as at 31 December 2012. As at 31 December 2012 the Bank's ratios were as follows: k1.1 – 6.4%, k1.2 – 6.7% and k2 – 11.8%.

34 Commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

34 Commitments, continued

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

	2012 KZT'000	2011 KZT'000
Contracted amount		
Loan and credit line commitments	101,227,406	83,366,230
Guarantees	53,458,317	30,539,281
Letters of credit	87,553	-
Credit card commitments	98,788	73,360
	154,872,064	**113,978,871**

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

As at 31 December 2012 the Group has outstanding contractual commitments that exceed 10% of capital to five clients for the total amount of KZT 33,485,851 thousand. Of these commitments, KZT 20,420,000 thousand are related to revocable loan and credit line commitments. The remaining amount of KZT 13,065,851 thousand related to the guarantees issued by the Bank.

35 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2012 KZT'000	2011 KZT'000
Less than 1 year	344,200	223,664

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year KZT 3,002,365 thousand was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases (2011: KZT 2,625,043 thousand).

36 Contingencies

(a) Insurance

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

36 Contingencies, continued

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

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

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

37 Related party transactions

(a) Control relationships

The party with ultimate control over the Group is Mr. Zhaksybekov A.R., who has transferred effective control to Mrs. Zhaksybekova L.I. under a trust management agreement. No publicly available financial statements are produced by the Group's ultimate controlling party. The Group's parent Financial Holding Tsesna JSC (the "Parent company") produces publicly available financial statements.

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

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2012 KZT'000	2011 KZT'000
Members of the Board of Directors	27,639	14,199
Members of the Management Board	434,703	285,866
	462,342	**300,065**

37 Related party transactions, continued

(b) Transactions with the members of the Board of Directors and the Management Board, continued

The outstanding balances and average interest rates as at 31 December for transactions with the members of the Board of Directors and the Management Board are as follows:

	2012 KZT'000	Average interest rate, %	2011 KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	118,145	10.38%	181,592	10.27%
Loan impairment allowance	(310)	-	(988)	-
Other assets	7,550	-	8,153	-
LIABILITIES				
Current accounts and deposits from customers	2,589,389	8.51%	938,204	9.30%
Other liabilities	8	-	-	-
Items not recognised in the consolidated statement of financial position				
Contingent liabilities	50,267	-	10,000	-

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2012 KZT'000	2011 KZT'000
Profit or loss		
Interest income	16,792	11,277
Interest expense	(74,758)	(50,105)
	(57,966)	**(38,828)**

37 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include the Parent company, the associate company, fellow subsidiaries and other related entities. The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows.

	Parent company		Ultimate parent company and other fellow subsidiaries		Other*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Consolidated statement of financial position							
ASSETS							
Available-for-sale financial assets	-	-	-	-	895,180	-	895,180
Loans to customers							
In KZT:							
Principal balance	-	-	1,611,619	12.00	4,506,076	12.24	6,117,695
Allowance for impairment	-	-	-	-	(3,154)		(3,154)
In USD:							
Principal balance	-	-	-	-	759,859	11.00	759,859
Other assets	-	-	6	-	260	-	266
IABILITIES							
Current accounts and deposits from customers							
In KZT	101,436	6.90	619,467	5.05	1,474,930	8.04	2,195,833
In USD	-	-	-	-	122,488	6.90	122,488
In other currency	-	-	-	-	392,152	7.90	392,152
Other liabilities	-	-	309	-	75	-	384
Items not recognised in the consolidated statement of financial position							
Guarantees received	-	-	-	-	22,000	-	22,000
Commitments	-	-	139,000	-	642,266	-	781,266
Consolidated statement of comprehensive income							
Interest income	-	-	100,930	-	481,032	-	581,962
Interest expense	(681)	-	(44,292)	-	(127,635)	-	(172,608)
Fee and commission income	4	-	18,761	-	18,305	-	37,070
Other general administrative expenses	-	-	(925,390)	-	-	-	(925,390)

37 Related party transactions, continued

(c) Transactions with other related parties, continued

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

	Parent company		Other subsidiaries of the parent company		Associates		Other*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Consolidated statement of financial position									
ASSETS									
Loans to customers									
In KZT:									
Principal balance	-	-	25,765	14.00	-	-	6,122,444	12.27	6,148,209
Allowance for impairment	-	-	-	-	-	-	(34,342)	-	(34,342)
In USD:									
Principal balance	-	-	-	-	-	-	41,393	11.25	41,393
Allowance for impairment	-	-	-	-	-	-	(7,899)	-	(7,899)
In other currency:									
Principal balance	-	-	-	-	-	-	720,344	11.00	720,344
Other assets	-	-	308,327	-	-	-	1,413	-	309,740
LIABILITIES									
Current accounts and deposits from customers									
In KZT	861,871	5.67	263,841	2.69	-	-	1,214,113	9.86	2,339,825
In USD	-	-	-	-	-	-	143,204	7.43	143,204
In other currency	-	-	-	-	-	-	377,764	7.93	377,764
Items not recognised in the consolidated statement of financial position									
Guarantees received	20,589	-	-	-	-	-	-	-	20,589
Commitments	-	-	20,000	-	-	-	115,468	-	135,468
Consolidated statement of comprehensive income									
Interest income	-	-	13,787	-	-	-	580,301	-	594,088
Interest expense	(41,740)	-	(9,003)	-	(7)	-	(87,392)	-	(138,142)
Fee and commission income	1,515	-	15,189	-	560	-	37,862	-	55,126
Income from investment in associate	-	-	-	-	16,881	-	-	-	16,881
Other general administrative expenses	(785,542)	-	(183,094)	-	(62,699)	-	(2)	-	(1,031,337)

* Other related parties are the entities that are controlled by the ultimate controlling party.

38 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	35,437,119	-	-	35,437,119	35,437,119
Deposits and balances with banks and other financial institutions	-	-	15,578,350	-	-	15,578,350	15,578,350
Financial instruments at fair value through profit or loss	31,092,844	-	-	-	-	31,092,844	31,092,844
Available-for-sale financial assets	-	-	-	5,600,340	-	5,600,340	5,600,340
Loans to customers	-	-	480,438,042	-	-	480,438,042	492,611,697
Held-to-maturity investments:							
Government bonds	-	17,178,748	-	-	-	17,178,748	16,660,484
Corporate bonds	-	894,647	-	-	-	894,647	459,613
Other financial assets	-	-	12,172,767	-	-	12,172,767	12,172,767
	31,092,844	**18,073,395**	**543,626,278**	**5,600,340**	**-**	**598,392,857**	**609,613,214**
Deposits and balances from banks and other financial institutions	-	-	-	-	7,786,891	7,786,891	7,786,891
Current accounts and deposits from customers	-	-	-	-	518,429,918	518,429,918	527,226,875
Debt securities issued	-	-	-	-	8,970,263	8,970,263	9,725,131
Subordinated debt	-	-	-	-	30,107,734	30,107,734	29,837,829
Other financial liabilities	-	-	-	-	1,006,496	1,006,496	1,006,496
	-	**-**	**-**	**-**	**566,301,302**	**566,301,302**	**575,583,222**

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

(a) Accounting classifications and fair values, continued

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	19,331,360	-	-	19,331,360	19,331,360
Deposits and balances with banks and other financial institutions	-	-	13,942,016	-	-	13,942,016	13,942,016
Financial instruments at fair value through profit or loss	41,487,067	-	-	-	-	41,487,067	41,487,067
Available-for-sale financial assets	-	-	-	2,733,101	-	2,733,101	2,733,101
Loans customers	-	-	338,144,562	-	-	338,144,562	346,262,398
Held-to-maturity investments:							
Government bonds	-	4,408,238	-	-	-	4,408,238	4,441,116
Corporate bonds	-	1,254,552	-	-	-	1,254,552	1,259,079
Other financial assets	-	-	4,701,853	-	-	4,701,853	4,701,853
	41,487,067	**5,662,790**	**376,119,791**	**2,733,101**	**-**	**426,002,749**	**434,157,990**
Due to the Government of the Republic of Kazakhstan	-	-	-	-	15,488	15,488	15,488
Deposits and balances from banks and other financial institutions	-	-	-	-	17,761,043	17,761,043	17,761,043
Current accounts and deposits from customers	-	-	-	-	342,742,366	342,742,366	347,099,541
Debt securities issued	-	-	-	-	8,549,009	8,549,009	7,115,019
Subordinated debt	-	-	-	-	16,201,225	16,201,225	14,584,524
Amounts payable under repurchase agreements	-	-	-	-	18,589,041	18,589,041	18,589,041
Other financial liabilities	-	-	-	-	356,033	356,033	356,033
	-	**-**	**-**	**-**	**404,214,205**	**404,214,205**	**405,520,689**

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

(a) Accounting classifications and fair values, continued

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain securities for which there is no active market.

As disclosed in Note 18, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 20,843 thousand (2011: KZT 20,944 thousand) cannot be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 8.7% – 10.3% and 11.4% – 21.2% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- discount rates of 1.4% – 2.4% and 5.6% – 8.2% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively
- quoted market prices are used for determination of fair value of debt securities issued.

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

(b) Fair value hierarchy

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered as less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

(b) Fair value hierarchy, continued

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

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss	1,918,324	29,174,520	31,092,844
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	1,803,605	1,803,605
- Equity investments	-	3,775,892	3,775,892
	1,918,324	**34,754,017**	**36,672,341**

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2012, are classified as level 2 in the fair value hierarchy. As at 31 December 2012 financial instruments categorised to Level 2 category include government securities of KZT 24,523,531 thousand.

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

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss	3,427,121	38,059,946	41,487,067
Available-for-sale financial assets			
- Debt and other fixed income instruments	269,567	753,849	1,023,416
- Equity investments	-	1,688,741	1,688,741
	3,696,688	**40,502,536**	**44,199,224**

Securities, which are listed on the KASE but which have a less than active market as at 31 December 2011, are classified as level 2 in the fair value hierarchy. As at 31 December 2011 financial instruments categorised to Level 2 category include government securities of KZT 34,979,565 thousand.

39 Acquisition of subsidiary under common control

On 11 November 2011 the Group acquired an additional 18.86% of the shares in the associated company Tsesna Capital JSC for KZT 267,050 thousand, which was settled in cash, from the Parent company.

The main activities of Tsesna Capital JSC are brokerage and dealing activities.

As at 31 December 2011 the share of ownership of the Group in Tsesna Capital JSC comprises 67.86% of share capital.

The transaction was under common control (the owner of the remaining shares of Tsesna Capital JSC is the Parent company of the Group). Therefore, the difference between net identifiable assets and consideration paid was recognised directly in equity as additional paid-in capital.

As a result of the purchase of the subsidiary the net profit for the year reduced by KZT 4,930 thousand.

39 Acquisition of subsidiary under common control, continued

The amounts of assets and liabilities of the acquired subsidiary recognised in the Group's consolidated financial statements were as follows at the date of acquisition:

KZT'000	Recognised amounts on acquisition
ASSETS	
Cash and cash equivalents	348,674
Financial instruments at fair value through profit or loss	261,053
Available-for-sale financial assets	34,068
Deposits and balances to banks and other financial institutions	48,015
Held-to-maturity investments	43,226
Current tax asset	276
Property, equipment and intangible assets	29,419
Deferred tax asset	442
Other assets	4,179
LIABILITIES	
Other liabilities	(931)
Net identifiable assets and liabilities	**768,421**
Consideration paid	(267,050)
Carrying value of investment in associate 49%	(228,631)
Non-controlling interest	(246,971)
Additional paid-in-capital	**25,769**
Cash acquired	348,674
Net cash inflow	**81,624**

40 Events after the reporting period

On 25 December 2012, the Board of Directors of the Bank approved acquisition of 55% shares of Accumulated Pension Fund "Respublika" JSC (the "Pension Fund") for KZT 5,628,330 thousand. As at 31 December 2012, the Group held 9.2% of shares of Pension Fund, the remaining portion of shares will be acquired subject to regulatory approval.

In March 2013, the Group established a 100% subsidiary, OUSA Tsesna LLC with paid in share capital of KZT 150,000 thousand.