

Agrarian Credit Corporation JSC
Financial Statements

Year ended 31 December 2012
Together with Independent Auditors' Report

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Independent auditors' report

To the Shareholder and Board of Directors of Agrarian Credit Corporation JSC -

We have audited the accompanying financial statements of Agrarian Credit Corporation JSC, which comprise the statement of financial position as at 31 December 2012, and the income statement, statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Agrarian Credit Corporation JSC 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.

Ernst & Young LLP



Evgeny Zhemaletdinov
Auditor / General Director
Ernst and Young LLP

State license on auditing of the Republic of
Kazakhstan: Number 0000003, type MFU - 2, given
by the Ministry of Finance of the Republic of
Kazakhstan dated 15 July 2005

Qualification certificate № 0000553
dated 24 December 2003.

26 March 2013

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(in thousands of tenge)

	<i>Notes</i>	<i>2012</i>	<i>2011</i>
Assets			
Cash and cash equivalents	5	2,172,664	5,123,360
Derivative financial instruments	6	245,796	348,963
Loans to customers	7	82,061,146	80,622,405
Assets held for sale	8	89,812	167,666
Investment property	9	86,628	–
Property and equipment	9	171,010	232,920
Intangible assets	10	252,564	283,726
Current income tax assets	15	359,787	271,429
Deferred income tax assets	15	819,780	943,017
Other assets	11	223,763	51,600
Total assets		86,482,950	88,045,086
Liabilities			
Amounts due to a credit institution	12	2,369,301	6,776,149
Amounts due to a Shareholder	13	15,111,020	14,807,777
Debt securities issued	14	3,913,890	5,506,297
Amounts due to government-related entities		111,988	134,852
Other liabilities		165,570	150,014
Total liabilities		21,671,769	27,375,089
Equity			
Share capital	16	69,349,371	65,349,371
Additional paid-in capital		4,190,171	3,904,973
Reserve capital		702,348	533,203
Deemed distribution reserve		(5,186,531)	(4,655,348)
Accumulated deficit		(4,244,178)	(4,462,202)
Total equity		64,811,181	60,669,997
Total liabilities and equity		86,482,950	88,045,086

Signed and authorised for release on behalf of the Management Board of the Corporation:

Malelov Nurlybek Tulebayevich

Chairman of the Board

Zaitullayeva Irina Nikolayevna

Chief Accountant



26 March 2013

The accompanying notes on pages 6 to 34 are an integral part of these financial statements.

INCOME STATEMENT**For the year ended 31 December 2012***(in thousands of tenge)*

	<i>Notes</i>	<i>2012</i>	<i>2011</i>
Interest income			
Loans to customers		5,671,013	6,649,895
Cash and cash equivalents		504,806	503,158
		<u>6,175,819</u>	<u>7,153,053</u>
Interest expenses			
Amounts due to a shareholder		(1,071,792)	(878,155)
Amounts due to a credit institution		(605,415)	(1,254,409)
Debt securities issued		(254,359)	(462,279)
Amounts due to government-related entities		(9,394)	(7,503)
Amounts due to the Government of the Republic of Kazakhstan		-	(1,637)
		<u>(1,940,960)</u>	<u>(2,603,983)</u>
Net interest income		4,234,859	4,549,070
Loan impairment charge	7	(2,409,077)	(2,764,349)
Net interest income after loan impairment charge		<u>1,825,782</u>	<u>1,784,721</u>
Net gains on derivative financial instruments	6	647,401	243,570
Net translation losses from foreign currencies		(41,702)	(46,218)
Other income		18,399	21,253
		<u>624,098</u>	<u>218,605</u>
Non-interest income			
Personnel expenses	18	(1,219,289)	(1,010,970)
Other operating expenses	18	(653,389)	(520,490)
Impairment of assets held for sale	8	(5,300)	(2,293)
		<u>(1,877,978)</u>	<u>(1,533,753)</u>
Non-interest expenses			
Profit before income tax expense		571,902	469,573
Income tax expense	15	(184,733)	(300,428)
Profit for the year		<u>387,169</u>	<u>169,145</u>
Basic and diluted earnings per share in KZT	19	5.75	3.21

Signed and authorised for release on behalf of the Management Board of the Corporation:

Malelov Nurlybek Tulebayevich

Chairman of the Board

Zaitullayeva Irina Nikolayevna

Chief Accountant



26 March 2013

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(in thousands of tenge)

	<i>Notes</i>	<i>2012</i>	<i>2011</i>
Profit for the year		<u>387,169</u>	<u>169,145</u>
Other comprehensive income/(loss)			
Deemed distribution reserve	16	(663,979)	(2,920,188)
Initial recognition of income on loans acquired below market rates	16	356,498	1,319,740
Income tax relating to components of other comprehensive income/(loss)	15	<u>61,496</u>	<u>320,090</u>
Other comprehensive loss, net of taxes		<u>(245,985)</u>	<u>(1,280,358)</u>
Total comprehensive income/(loss) for the year		<u><u>141,184</u></u>	<u><u>(1,111,213)</u></u>

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Malelov Nurlybek Tulebayevich



Chairman of the Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

26 March 2013

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

<i>(in thousands of tenge)</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Reserve capital</i>	<i>Deemed distribution reserve</i>	<i>Accumulated losses</i>	<i>Total</i>
At 31 December 2010	48,649,371	2,849,181	481,883	(2,319,198)	(4,580,027)	45,081,210
Total comprehensive loss for the year	–	1,055,792	–	(2,336,150)	169,145	(1,111,213)
Issue of share capital <i>(Note 16)</i>	16,700,000	–	–	–	–	16,700,000
Increase in reserve capital <i>(Note 16)</i>	–	–	51,320	–	(51,320)	–
At 31 December 2011	65,349,371	3,904,973	533,203	(4,655,348)	(4,462,202)	60,669,997
Total comprehensive loss for the year	–	285,198	–	(531,183)	387,169	141,184
Issue of share capital <i>(Note 16)</i>	4,000,000	–	–	–	–	4,000,000
Increase in reserve capital <i>(Note 16)</i>	–	–	169,145	–	(169,145)	–
At 31 December 2012	69,349,371	4,190,171	702,348	(5,186,531)	(4,244,178)	64,811,181

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Malelov Nurlybek Tulebayevich



Chairman of the Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

26 March 2013

STATEMENT OF CASH FLOWS**For the year ended 31 December 2012***(in thousands of tenge)*

	<i>Notes</i>	<i>2012</i>	<i>2011</i>
Cash flows from operating activities			
Interest received		5,463,913	4,299,013
Interest paid		(1,215,303)	(1,581,946)
Realized gain on derivative financial instruments	6	464,566	145,047
Realized losses from translation with foreign currencies		(7,527)	(40,000)
Personnel expenses paid		(1,195,269)	(1,000,668)
Operating expenses paid		(532,824)	(435,697)
Cash flows from operating activities before changes in operating assets and liabilities		2,977,556	1,385,749
<i>Net decrease/ (increase) in operating assets</i>			
Loans to customers		(3,513,891)	(20,515,084)
Other assets		(172,163)	7,338
<i>Net increase/ (decrease) in operating liabilities</i>			
Amounts due to the government-related entities		(31,140)	(104,239)
Amounts due to the Government of the Republic of Kazakhstan		-	(341,266)
Other liabilities		(31,309)	45,447
Net cash flows used in operating activities before income tax		(770,947)	(19,522,055)
Income tax paid		-	-
Net cash used in operating activities		(770,947)	(19,522,055)
Cash flows from investing activities			
Proceeds from disposal of assets held for sale	8	72,554	150,020
Purchase of property and equipment	9	(60,142)	(52,897)
Purchase of intangible assets	10	(12,732)	(4,846)
Net cash (used in)/from investing activities		(320)	92,277
Cash flows from financing activities			
Proceeds from issue of share capital	16	4,000,000	16,700,000
Redemption of amounts due to a credit institution		(4,486,175)	(5,895,200)
Proceeds from amounts due to a Shareholder		31,829,697	25,728,357
Redemption of amounts due to a Shareholder		(31,988,364)	(22,136,565)
Proceeds from debt securities issued	14	3,840,405	2,580,319
Redemption of debt securities issued		(5,374,992)	(1,927,206)
Net cash (used in)/from financing activities		(2,179,429)	15,049,705
Net decrease in cash and cash equivalents		(2,950,696)	(4,380,073)
Cash and cash equivalents, beginning	5	5,123,360	9,503,433
Cash and cash equivalents, ending	5	2,172,664	5,123,360
Non-cash transactions:			
Net off of debt securities issued against loans to customers		-	72,928

Signed and authorised for release on behalf of the Management Board of the Corporation:

Malelov Nurlybek Tulebayevich

Chairman of the Board

Zaitullayeva Irina Nikolayevna

Chief Accountant



26 March 2013

The accompanying notes on pages 6 to 34 are an integral part of these financial statements.

(In thousands of tenge unless otherwise indicated)

1. Principal activities

Agrarian Credit Corporation JSC (the “Corporation”) was established by the Decree of the Government of the Republic of Kazakhstan No. 137 dated 25 January 2001 “On certain agricultural issues” in the form of a joint stock company in accordance with the legislation of the Republic of Kazakhstan. The Corporation performs its activities on the basis of a license issued by the Committee on Regulation and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan (the “Committee”) for conducting operations specified by the banking legislation of the Republic of Kazakhstan No. 24 dated 3 February 2006. Additionally, the Corporation has a status of a financial agency assigned by the resolution of the Management Board of the Committee of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations dated 30 July 2005 No. 274.

The Corporation’s principal activities are:

- participation in the development and implementation of state programs of lending and providing financial support to agricultural producers;
- attraction of domestic and foreign investments for realization of projects in agricultural sector;
- development and realization of projects in agricultural sector;
- realization of collateral and agricultural products received for repayment of loans originated;
- performing bank borrowing operations based on appropriate license;
- leasing activities.

The address of the Corporation’s registered office is: 11 Imanov Str., Astana, Republic of Kazakhstan.

The sole shareholder of the Corporation is JSC National Management Holding “KazAgro” (“KazAgro” or “Shareholder”). The ultimate controlling party is the Government of the Republic of Kazakhstan.

As at 31 December 2012 and 2011 the Corporation has 13 registered branches throughout the Republic of Kazakhstan.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These financial statements have been prepared under the historical cost convention except for those discussed in section “Summary of significant accounting policies”. For example: derivative financial instruments are carried at fair value, assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell.

These financial statements are presented in thousands of Kazakhstani Tenge (“Tenge” or “KZT”), except per share amounts and unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

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

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Corporation financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Corporation financial position or performance.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 7 Financial Instruments: Disclosures (continued)

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Corporation:

- IAS 12 *Income Taxes (Amendment)* – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment)* – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

Financial assets

Initial recognition

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

Date of recognition

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

Day 1' profit

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

Loans to customers

Loans to customers represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for assets that are classified into other categories of financial instruments.

Loans provided by the Corporation are initially recorded at fair value plus transaction costs. When the Corporation accepts a credit commitment to provide loans to customers at below market rates, a liability at fair value of these credit commitments is recorded in other liabilities in the statement of financial position together with reversing entry, which is included in income statement if the decision to undertake the obligation was adopted by the Corporation's management; or as deemed distribution to the controlling Shareholder, if the decision was adopted in accordance with controlling Shareholder's instructions. Subsequently, credit commitment is adjusted to fair value through profit and loss before granting a loan, when credit commitment is reduced by consideration paid, and remaining balance is recorded as loans issued to customers in the statement of financial position. As a result, loans to customers are initially recognized at fair value in the statement of financial position, and subsequently these loans are recorded at amortized cost, using the effective interest rate. Loans to customers are carried net of any allowance for impairment.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents include cash not restricted in use on current and term deposit accounts with maturity not more than 90 days as the day of the asset origination.

Derivative financial instruments

In the normal course of business, the Corporation enters into various derivative financial instruments, including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their risks and economic characteristics are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the statement of comprehensive income.

Borrowings

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

Operating – Corporation as lessee

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

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Corporation first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

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

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Corporation seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

*(In thousands of tenge unless otherwise indicated)***3. Summary of accounting policies (continued)****Taxation**

The current income tax expense is calculated in accordance with the tax regulations of the Republic of Kazakhstan.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Corporation performs offsetting of deferred tax assets and deferred tax liabilities and records them in the statement of financial position on a net basis, when:

- ▶ The Corporation has a legally enforced right to offset current tax assets against current tax liabilities; and
- ▶ Deferred tax assets and deferred tax liabilities refer to income tax charged by the same tax body from the same tax payer.

The Corporation performs its activities in the Republic of Kazakhstan, and it is required to accrue and pay different taxes that are applied to the Corporation's activities. These taxes are included in the statement of income as a component of operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The current values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the current value may not be recoverable.

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

Buildings	4.5%
Computers and office equipment	10%-20%
Motor vehicles	10%
Other	7%-10%

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Investment property

Investment property is intended to earn rentals or capital appreciation, and which is not used by the Corporation as fixed assets.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost, less accumulated depreciation. Investment property is depreciated on a straight-line basis over the period of useful life.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of retirement or disposal.

(In thousands of tenge unless otherwise indicated)

3. Summary of accounting policies (continued)

Investment property (continued)

Transfers to and from investment property are made when, and only when, there is a change in use. For a transfer from investment property to owner occupied property, the carrying amount is not changed because the Corporation uses the model of cost accounting for both categories: investment property and owner occupied property.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite and amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Intangible assets	10%-15%
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Assets classified as held for sale

The Corporation classifies non-current assets as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current assets must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Corporation's management is committed to a plan to sell the non-current asset. An active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Corporation measures assets classified as held for sale at the lower of its current amount and fair value less costs to sell. The Corporation recognises an impairment loss for any initial or subsequent write-down of the assets to fair value less costs to sell if events or changes in circumstance indicate that their current amount may be impaired.

Charter capital

Contributions to share capital are recognized at historic cost, less direct issuance costs.

Dividends

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

Deemed distribution reserve

When the Corporation enters into a loan agreement at below market rates on behalf of its Shareholder, the fair value of credit commitment is recognized as allowance for notional distribution as deemed payment to Shareholder.

Additional paid-in capital

When the Corporation receives loans or other financial support from its Shareholder at below market rates, the difference between received cash consideration and fair value of loans or other financial support is recorded as additional capital.

*(In thousands of tenge unless otherwise indicated)***3. Summary of accounting policies (continued)****Provisions**

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Contingencies

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

Fee and commission income

The Corporation earns fee and commission income from a diverse range of services it provides to its customers.

Loan commitment fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. If there is a possibility that due to loan commitment a credit arrangement will be signed, loan commitment fee is included in deferred income (together with corresponding direct costs), and subsequently is reflected as an adjustment of actual proceeds from a loan. When the probability to enter into credit arrangement under loan commitments is remote, loan commitment fees are recognised in the income statement during the remaining validity period of loan commitment. Upon expiration of loan commitment validity period, which is not resulted in loan issuance, loan commitment fees are recognised in the income statement on its expiration date. Fees for loan servicing are recognized upon rendering of services. Loan syndication fees are recognized in the income statement when such services have been provided. Other commissions are recognized upon rendering of services.

Foreign currency translation

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

The difference between the contractual exchange rate of a transaction in a foreign currency and the official rate at Kazakhstan Stock Exchange at the date of the transaction are included in gains less losses from dealing in foreign currencies. Below are the exchange rates used by the Corporation in preparation of these financial statements:

	<i>31 December</i>	
	<i>2012</i>	<i>2011</i>
KZT/USD	150.74	148.40
KZT/EURO	199.22	191.72
KZT / RUR	4.96	4.61

(In thousands of tenge unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements*. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Corporation evaluates possible effect of the adoption of IFRS 10 on its financial position and performance. The standard will have no impact on the Corporation financial position or performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Corporation expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Corporation will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Corporation financial position or performance.

IFRS 13 Fair Value Measurement

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

IAS 27 Separate Financial Statements (Revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The standard will have no impact on the Corporation financial position or performance.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The standard will have no impact on Corporation financial position or performance.

Amendment to IAS 19 Employee Benefits

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

Amendment to IAS 1 Change in the Presentation of items of Other Comprehensive Income

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

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

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

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

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

These amendments become effective for annual periods beginning on or after 1 January 2014.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendment to IFRS 1 – Government loans

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

Improvements to IFRS

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

IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Corporation's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

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

*(In thousands of tenge unless otherwise indicated)***4. Significant accounting judgements and estimates (continued)****Estimation uncertainty (continued)***Allowance for loan impairment*

The Corporation regularly reviews its loans and receivables to assess impairment. The Corporation uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Corporation estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Corporation uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Assessment of collateral

The management monitors collateral on a regular basis using experienced judgements or independent estimate in order to adjust the cost of collateral considering the current market situation.

Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Corporation may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. The review may cover longer periods under certain circumstances. As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Corporation's tax, currency and customs positions will be sustained.

Recovery of deferred income tax assets

Judgement is required in determining whether deferred income tax assets are recognised in the statement of financial position. Deferred income tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Corporation will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred income tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (interest income, interest expense, allowance expenses) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realise the net deferred income tax assets could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Corporation operates could limit the ability of the Corporation to obtain tax deductions in future periods.

5. Cash and cash equivalents

Cash and cash equivalents comprise the following positions:

	<i>2012</i>	<i>2011</i>
Cash on hand	5	72
Cash on current account	2,163,276	5,123,288
Time deposit with credit institutions up to 90 days	9,383	–
Cash and cash equivalents	2,172,664	5,123,360

As at 31 December 2012, the Corporation had concentration of cash balances in banks represented by KZT 1,700,011 thousand or 79% due from one local bank (31 December 2011 – KZT 3,552,116 thousand or 69%).

*(In thousands of tenge unless otherwise indicated)***6. Derivative financial instruments**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts:

	2012			2011		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Options	1,259,279	245,796	-	2,304,335	348,963	-

Options are contractual agreements that convey the right, but not the obligation, for a buyer either to buy or sell a specific amount of financial instrument at a fixed price at a specified date in future or at any time during a specified period.

As at 31 December 2012 and 2011, the Corporation had certain loans that are foreign currency linked debt instruments with a floor feature, i.e. when interest and principal payments are linked to foreign currencies, so that the Corporation has the right to demand a higher payments if the foreign currency specified in the contract will be increased in relation to a certain threshold (the threshold is usually set at the level of spot rates prevailing on the loans issue date). At the same time, if the foreign exchange rate falls below the threshold, the payments of principal and interest will remain at the original level.

The Corporation believes that the above feature represent an embedded foreign exchange option, which in turn acts as an embedded derivative to be separated from the host contract and accounted for in financial statements as a separate financial instrument measured at fair value through profit or loss.

Net gains on derivative financial instruments include the following positions:

	2012	2011
Realized gains on derivative financial instruments	464,566	145,047
Unrealized gain on derivative financial instruments	182,835	98,523
Net gains on derivative financial instrument	647,401	243,570

7. Loans to customers

Loans to customers are comprised of:

	2012	2011
Loans to legal entities in agricultural sector	82,286,406	84,045,313
Loans to individuals in agricultural sector	11,366,410	7,165,328
Total loans to customers	93,652,816	91,210,641
Less – allowance for impairment	(11,591,670)	(10,588,236)
Loans to customers	82,061,146	80,622,405

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

	2012	2011
As at 1 January	10,588,236	7,602,401
Charge for the year	2,409,077	2,764,349
Write-off	(1,405,643)	-
Recoveries	-	221,486
As at 31 December	11,591,670	10,588,236
Individual impairment	5,821,751	8,501,283
Collective impairment	5,769,919	2,086,953
	11,591,670	10,588,236
Gross amount of loans, individually determined to be impaired, before deducting impairment allowance	7,529,259	13,882,603

The difference between the cost at initial recognition of loans to customers, and fair value of loans to customers in 2012 of KZT 663,979 thousand (2011: KZT 2,920,188 thousand) is recognized as a deemed distribution reserve.

*(In thousands of tenge unless otherwise indicated)***7. Loans to customers (continued)****Loans individually determined to be impaired**

The fair value of collateral that the Corporation holds relating to loans individually determined to be impaired at 31 December 2012 amounts to KZT 1,707,508 thousand. (2011: KZT 8,346,262 thousand).

Collateral and other credit enhancements

The amount and type of collateral required by the Corporation depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for loans to customers – collateral of real estate properties, agricultural equipment, inventory and accounts receivable, guarantees and securities;
- for loans to individuals – collateral of residential properties and other assets.

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

Concentration of loans to customers

As at 31 December 2012, the Corporation had a concentration of loans represented by KZT 23,093,151 thousand due from ten largest borrowers that comprised 24% of the total gross loan portfolio (31 December 2011 – KZT 29,773,210 thousand and 34% of the total gross loan portfolio).

Interest income on loans for which individual impairment have been recognized, for the year ended 31 December 2012, comprised KZT 1,257,590 thousand (2011: KZT 4,653,406 thousand).

8. Assets held for sale

As at 31 December 2009 the Corporation decided to sell investments in associates which represent equity interest in Credit LLPs. These partnerships provide financing to the agricultural clients located in rural areas of the Republic of Kazakhstan using funds from the Corporation. During 2012 and 2011, the Corporation developed the plan to sell investments in associates and initiated the program to determine customers and finalise the plan. The Corporation started to actively market for sale at a price that is reasonable in relation to the investments' current fair value. As a result of this the investments in associates were reclassified as assets held for sale.

The table below represents the movement of investment accounts at 31 December:

	<i>2012</i>	<i>2011</i>
Carrying value at 1 January	167,666	319,979
Sale of assets held for sale	(72,554)	(150,020)
Impairment charge for assets held for sale	(5,300)	(2,293)
Carrying value at 31 December	<u>89,812</u>	<u>167,666</u>

The movement of allowance for impairment of assets held for sale is as follows:

	<i>2012</i>	<i>2011</i>
1 January	(2,293)	(12,354)
Charge for the year	(5,300)	(2,293)
Write-off	2,293	12,354
31 December	<u>(5,300)</u>	<u>(2,293)</u>

*(In thousands of tenge unless otherwise indicated)***9. Property and equipment**

	<i>Buildings and Land constructions</i>	<i>Computers and office equipment</i>	<i>Vehicles</i>	<i>Other</i>	<i>Total</i>	
Cost:						
31 December 2010	5,397	133,668	81,298	32,855	45,494	298,712
Additions	–	–	39,729	3,809	9,359	52,897
Disposal	–	–	(637)	–	(161)	(798)
31 December 2011	5,397	133,668	120,390	36,664	54,692	350,811
Additions	–	–	17,034	34,750	8,358	60,142
Transfer to investment property	–	(133,668)	–	–	–	(133,668)
Disposal	–	–	(1,913)	(6,725)	(247)	(8,885)
31 December 2012	5,397	–	135,511	64,689	62,803	268,400
Accumulated depreciation:						
31 December 2010	–	35,009	29,220	10,563	17,950	92,742
Charge for the year	–	6,015	12,273	3,053	4,497	25,838
Written-off on disposal	–	–	(566)	–	(123)	(689)
31 December 2011	–	41,024	40,927	13,616	22,324	117,891
Charge for the year	–	4,512	16,460	5,113	5,377	31,462
Transfer to investment property	–	(45,536)	–	–	–	(45,536)
Disposal	–	–	(1,901)	(4,385)	(141)	(6,427)
31 December 2012	–	–	55,486	14,344	27,560	97,390
Net book value:						
31 December 2010	5,397	98,659	52,078	22,292	27,544	205,970
31 December 2011	5,397	92,644	79,463	23,048	32,368	232,920
31 December 2012	5,397	–	80,025	50,345	35,243	171,010

In 2012 the Corporation made a decision to transfer the building with net book value at the date of transfer previously occupied by the administrative personnel into operating lease. According to IAS 40, property held to earn rentals but not to be used for administrative purposes meets the definition of investment property. Due to change in the method of using, reclassification from property and equipment to investment property is possible.

Investment property

	<i>Buildings</i>
Cost:	
31 December 2011	–
Transfer from property and equipment	133,668
31 December 2012	133,668
Accumulated depreciation	
31 December 2011	–
Transfer from property and equipment	45,536
Charge for the year	1,504
31 December 2012	47,040
Net book value	
31 December 2012	86,628

Income from leasing of investment property amounted to KZT 14,188 thousand in 2012 (2011: zero).

*(In thousands of tenge unless otherwise indicated)***10. Intangible assets**

The movement in intangible assets is as follows:

	<i>Software</i>
Cost:	
31 December 2010	397,666
Additions	4,846
31 December 2011	402,512
Additions	12,732
31 December 2012	415,244
Accumulated amortization:	
31 December 2010	76,062
Charge for the year	42,724
31 December 2011	118,786
Charge for the year	43,894
31 December 2012	162,680
Net book value:	
31 December 2010	321,604
31 December 2011	283,726
31 December 2012	252,564

11. Other assets

	<i>2012</i>	<i>2011</i>
Repossessed land from borrowers	168,482	-
Other assets	55,281	51,600
Balance at 31 December	223,763	51,600

Repossessed collaterals comprise the cost of the plots of land and rights for plots of land use.

12. Amounts due to a credit institution

Foreign currency denominated loan from a credit institution is comprised of:

Bank	Currency	Maturity	Interest rate	2012	2011
Commerz Bank AG	US Dollars	25.02.2013	10.33%	2,369,301	6,776,149

Financial covenants

In accordance with the terms of the foreign bank loan agreement, the Corporation is required to comply with certain financial covenants under this facility. As at 31 December 2012 and 2011 the Corporation complied with the requirements of these covenants.

As at 21 December 2009 the Corporation's sole Shareholder provided a guarantee for the face value of the loan. The fair value of the guarantee amounting to KZT 429,177 thousand is recognized as additional paid-in capital.

*(In thousands of tenge unless otherwise indicated)***13. Amounts due to a Shareholder***Investment loan*

The difference between the cost at initial recognition of loans from the Shareholder, and fair value of loans received in 2012 of KZT 356,498 thousand (2011: KZT 1,319,740 thousand) is recognized as a Shareholders' contribution as a part of additional paid in capital.

In 2009 the Corporation entered into Master Lending Agreement with KazAgro. In accordance with this Agreement, the Corporation obtains an investment loan to develop, expand and modify material production in agricultural sector. The investment loan matures on 30 December 2023, the undrawn amount as at 31 December 2012 under the Agreement is KZT 16,906,440 thousand, and interest is accrued at nominal rate of 1.02% per annum and effective interest rate is 6% at the date of issue.

On 10 December 2012, the Corporation entered into second Master Lending Agreement with the KazAgro. The amount of the loan under the agreement is KZT 2,000,000 thousand. Interest is accrued on the rate of 1%. The loan matures in 2019. The loan may be used to: meet liquidity needs sufficient to cover the liabilities; support agricultural complex of entities; acquire, repair and upgrade property and equipment and other purposes in accordance with the legislation. The nominal value and the carrying amount of cash under this master lending agreement as at 31 December 2012 amounted to KZT 1,000,329 thousand.

As at 31 December 2012, the carrying amount of loans under both facilities was KZT 15,111,020 thousand (2011: KZT 14,807,777 thousand).

As at 31 December 2012 and 2011 the Corporation had no financial covenants under amounts due to the Shareholder.

14. Debt securities issued

	<i>Maturity</i>	<i>Rate %</i>	<i>Currency</i>	<i>2012</i>	<i>2011</i>
Fixed income debt securities, 2nd issue	05.12.2015	7%	Tenge	2,331,832	–
Fixed income debt securities, 1st issue	29.06.2014	8%	Tenge	1,582,058	2,497,070
Indexed debt securities	10.08.2012	6-9%	Tenge	–	2,973,443
Fixed income debt securities	30.12.2014	11%	Tenge	–	35,784
				3,913,890	5,506,297

Indexed debt securities represent debt securities issued with coupon payments linked to the change in inflation measured by CPI (Consumer Price Index), floored at 6%, capped at 9%. The Corporation treated floor and cap as embedded interest rate derivatives which are closely related to the host contract and not separated from the debt instrument.

In 2012 the nominal amount of bonds in the amount of KZT 2,938,886 thousand was repaid with respect to indexed debt securities. In 2012 the Corporation earlier repaid fixed income debt securities in the amount of KZT 35,784 thousand.

In 2012 the Corporation placed debt securities on the first and second issues totalling 3,897,600.

15. Taxation

A reconciliation of the corporate income tax ("CIT") expense applicable to income before taxation at the statutory corporate income tax rate, for the years ended 31 December is set out below:

	<i>2012</i>	<i>2011</i>
Current income tax expense	–	–
Deferred tax: origination and reversal of temporary differences	123,237	(19,662)
Less: Deferred tax benefit recognized in other comprehensive expense	61,496	320,090
Income tax expense	184,733	300,428

As at 31 December 2012 current CIT assets amounted to KZT 359,787 thousand (2011: KZT 271,429 thousand).

*(In thousands of tenge unless otherwise indicated)***15. Taxation (continued)**

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

	<u>2012</u>	<u>2011</u>
On assets	132,796	584,038
On liabilities	(71,300)	(263,948)
Income tax benefit recognized in other comprehensive loss	61,496	320,090
	<u>2012</u>	<u>2011</u>
Profit before income tax expense	571,902	469,573
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	114,380	93,915
Non-deductible tax expenses	70,353	206,513
Income tax expense	184,733	300,428

Deferred tax assets and liabilities at 31 December and their movement for the respective years comprise the following:

	<u>Origination and reversal of temporary differences</u>		<u>Origination and reversal of temporary differences</u>				
	<u>2010</u>	<u>In the income statement</u>	<u>In other comprehen sive loss</u>	<u>2011</u>			<u>In the income statement</u>
Tax effect of deductible temporary differences:							
Tax loss carried forward	2,280,533	(976,634)	–	1,303,899	189,650	–	1,493,549
Loans to customers	455,820	2,172	584,038	1,042,030	(480,902)	132,796	693,924
Vacation accrual	13,841	1,883	–	15,724	4,929	–	20,653
Deferred tax assets	2,750,194	(972,579)	584,038	2,361,653	(286,323)	132,796	2,208,126
Tax effect of non taxable temporary differences:							
Impairment charge	(1,385,097)	923,642	–	(461,455)	461,455	–	–
Dynamic reserves	–	–	–	–	(698,375)	–	(698,375)
Derivative financial instruments	180,425	(250,217)	–	(69,792)	(36,567)	–	(106,359)
Assets held for sale	(2,205)	13,432	–	11,227	(5,902)	–	5,325
Amounts due to Shareholder	(597,174)	–	(263,948)	(861,122)	370,661	(71,300)	(561,761)
Property and equipment and intangible assets	(22,788)	(14,706)	–	(37,494)	10,318	–	(27,176)
Deferred tax liabilities	(1,826,839)	672,151	(263,948)	(1,418,636)	101,590	(71,300)	(1,388,346)
Deferred tax assets / (liabilities)	923,355	(300,428)	320,090	943,017	(184,733)	61,496	819,780

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In the Republic of Kazakhstan tax losses carried forward expire for tax purposes ten years as of the date they are incurred (2011: ten years). Tax losses carried forward recognised as at 31 December 2012 in the amount of KZT 1, 493,549 matures in 2019-2022 (As at 31 December 2011: KZT 1,303,899 thousand matures in 2019-2021).

*(In thousands of tenge unless otherwise indicated)***16. Equity**

Below is information on movement of issued and fully paid shares:

	<i>Placement price per share (KZT)</i>	<i>Number of shares</i>	<i>Total (thousands of Tenge)</i>
At 31 December 2010		48,649,371	48,649,371
Increase in share capital	1,000	16,700,000	16,700,000
At 31 December 2011		65,349,371	65,349,371
Increase in share capital	1,000	4,000,000	4,000,000
At 31 December 2012		69,349,371	69,349,371

As at 31 December 2012 and 2011, total number of authorized common shares was 69,349,371. As at 31 December 2012, 69,349,371 shares were fully paid (2011: 65,349,371). On the basis of decision of the sole Shareholder in 2011, the authorized number of shares was increased by 20,700 thousand of common shares, of which 4,000 thousand of shares with the placement value of KZT 1,000 in 2012 were obtained from the sole Shareholder as a cash contribution to share capital (2011: 16,700 thousand of shares with the placement value of KZT 1,000).

As at 31 December 2012 and 2011 the owner of a common share has the right for one vote and an equal right for dividends. Distributable income is determined on the basis of income recorded in the Corporation's financial statements.

For the year ended 31 December 2012, the Corporation did not declare dividends.

In accordance with the Regulation of the Corporation, reserve capital is made for general financial institutions' risks including future losses and other unforeseen risks and obligations. Reserve capital is subject to allocation based on the decision of shareholders at the general meeting.

Based on the decision of the sole Shareholder dated 30 May 2012 the reserve capital was increased by KZT 169,145 thousand (2011: KZT 51,320 thousand) using the accumulated deficit.

The movements in other reserves were as follows:

	<i>Reserve capital</i>	<i>Additional paid-in capital</i>	<i>Deemed distribution reserve</i>	<i>Total</i>
As at 31 December 2010	481,883	2,849,181	(2,319,198)	1,011,866
Deemed distribution reserve (<i>Note 7</i>)	-	-	(2,920,188)	(2,920,188)
Tax effect on deemed distribution reserve (<i>Note 15</i>)	-	-	584,038	584,038
Initial recognition of income on loans acquired below market rates (<i>Note 13</i>)	-	1,319,740	-	1,319,740
Tax effect on initial recognition of income on loans acquired below market rates (<i>Note 15</i>)	-	(263,948)	-	(263,948)
Increase in reserve capital	51,320	-	-	51,320
At 31 December 2011	533,203	3,904,973	(4,655,348)	(217,172)
Deemed distribution reserve (<i>Note 7</i>)	-	-	(663,979)	(663,979)
Tax effect on deemed distribution reserve (<i>Note 15</i>)	-	-	132,796	132,796
Initial recognition of income on loans acquired below market rates (<i>Note 13</i>)	-	356,498	-	356,498
Tax effect on initial recognition of income on loans acquired below market rates (<i>Note 15</i>)	-	(71,300)	-	(71,300)
Increase in reserve capital	169,145	-	-	169,145
As at 31 December 2012	702,348	4,190,171	(5,186,531)	(294,012)

*(In thousands of tenge unless otherwise indicated)***17. Commitments and contingencies****Legal issues**

In the ordinary course of business, the Corporation 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 position or results of operations of the Corporation in future.

Taxation

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The applicable taxes include value added tax, corporate income tax, social tax, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Corporation is in substantial compliance with the tax laws regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to controversial tax issues.

Undrawn credit lines

As at 31 December the Corporation's commitments and contingencies comprised the following:

	<u>2012</u>	<u>2011</u>
Undrawn credit lines – loans to customers	27,464,144	17,850,497

As at 31 December 2012, concentration of undrawn credit lines to 10 largest independent parties totalled KZT 6,249,320 thousand. (23% of the amount of undrawn credit lines), (2011: KZT 4,203,092 thousand (25% of the undrawn credit lines)).

18. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<u>2012</u>	<u>2011</u>
Salaries and bonuses	(1,112,412)	(920,830)
Social security costs	(106,877)	(90,140)
Personnel expenses	(1,219,289)	(1,010,970)
Rent	(119,898)	(83,559)
Legal and consultancy services	(106,862)	(65,731)
Depreciation and amortization	(76,861)	(68,562)
Advertising expenses	(76,018)	(75,401)
State duty	(53,608)	(68,799)
Business trip	(51,962)	(36,498)
Communication	(31,357)	(23,254)
Repair and maintenance	(28,995)	(27,680)
Sponsorship	(17,763)	(22,985)
Bank commissions	(15,847)	(10,069)
Insurance	(9,578)	(5,578)
Office supplies	(8,567)	(6,317)
Training of personnel	(6,503)	(1,992)
Taxes other than income tax	(2,258)	(1,855)
Utilities	(1,036)	(1,411)
Other expenses	(46,276)	(20,799)
Other operating expenses	(653,389)	(520,490)

(In thousands of tenge unless otherwise indicated)

19. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended 31 December:

	<u>2012</u>	<u>2011</u>
Net income attributable to common shareholders for basic and diluted earnings per share (in KZT thousands)	387,169	169,145
Weighted average number of common shares for basic and diluted earnings per share	67,368,552	52,727,044
Basic and diluted income per share (in tenge)	5.75	3.21

No dilutive instruments were outstanding as of 31 December 2012 and 2011.

20. Risk management

Introduction

Risk is inherent in the Corporation's activities. The Corporation manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Corporation's continuing profitability and each individual within the Corporation is accountable for the risk exposures relating to his or her responsibilities. The Corporation is exposed to credit risk, liquidity risk, market risk and prepayment risk. It is also subject to operating risks.

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk management department

The Risk Management department is responsible for introduction and implementation of risk management related procedures in order to ensure an independent control process as well as compliance with principles, risk management policies and risk limits across the Corporation. The Risk Management department consists of two structural subdivisions: Financial Risk department and Credit risk department.

Treasury department

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

(In thousands of tenge unless otherwise indicated)

20. Risk management (continued)

Introduction (continued)

Internal Audit Function

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

Risk measurement and reporting systems

The Corporation's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

Monitoring and controlling risks is primarily performed based on limits established by KazAgro for the Corporation. These limits reflect the business strategy and market environment of the Corporation.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Management Board, the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks take place. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Corporation.

Excessive risk concentration

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

Credit risk

Credit risk is the risk that the Corporation will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Corporation manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits. Thus, the limit of not more than 25% of the Corporation's own equity has been established in order to avoid concentration of credit risk at one or a group of affiliated companies. Bank-counterparty limits are established by KazAgro for interbank transactions.

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

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the influence of risk mitigation through the use of master netting agreements and collateral agreements is most accurately reflected by their carrying amounts.

For additional information on the maximum credit exposure for each class of financial instruments see *Notes 5-7,21*.

*(In thousands of tenge unless otherwise indicated)***20. Risk management (continued)****Credit risk (continued)***Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Corporation's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Corporation's credit rating system. Loans to borrowers with good financial position and no overdue payments are defined as standard. If there is a temporary decline in financial standing of the borrower and/or insufficient collateral without overdue payments, these loans are defined as substandard.

	<i>Standard grade</i>	<i>Substandard</i>	<i>Individually impaired</i>	<i>Total</i>
Loans to customers:				
2012	64,547,881	15,805,757	1,707,508	82,061,146
2011	62,193,107	13,047,978	5,381,320	80,622,405

It is the Corporation's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products.

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

	<i>Less than 30 days</i>	<i>31 - 60 days</i>	<i>61 - 90 days</i>	<i>Over 90 days</i>	<i>Total</i>
Loans to customers:					
2012	1,687,858	431,718	51,983	13,634,198	15,805,757
2011	1,336,371	1,258,528	417,989	10,035,090	13,047,978

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Corporation addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Collective assessment

Allowances are assessed collectively for impairment of loans that are not individually significant and provisions for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

Liquidity risk and funding management

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management of the Corporation has arranged diversified funding sources. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

*(In thousands of tenge unless otherwise indicated)***20. Risk management (continued)****Analysis of financial liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Corporation's financial liabilities at 31 December 2012 and 2011, based on contractual undiscounted repayment obligations:

Financial liabilities As at 31 December 2012:	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to a credit institution	2,374,009	–	–	–	2,374,009
Amounts due to Shareholder	186,957	3,072,542	10,680,116	4,720,998	18,660,613
Debt securities issued	–	82,858	4,483,624	–	4,566,482
Amounts due to government-related entities	11,373	20,602	94,670	–	126,645
Total undiscounted financial liabilities	2,572,339	3,176,002	15,258,410	4,720,998	25,727,749

Financial liabilities As at 31 December 2011:	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Amounts due to a credit institution	2,360,227	2,397,300	2,586,911	–	7,344,438
Amounts due to Shareholder	15,099	1,422,360	8,799,006	8,727,518	18,963,983
Debt securities issued	199,110	3,200,447	2,927,160	–	6,326,717
Amounts due to government-related entities	–	23,834	64,927	20,818	109,579
Total undiscounted financial liabilities	2,574,436	7,043,941	14,378,004	8,748,336	32,744,717

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest rates on assets and liabilities (except for indexed issued debt securities) of the Corporation are fixed. The Corporation regularly monitors inflation risks arising from indexed debt securities. The Corporation has the right to consider repurchasing of these instruments at the open market in the event of the significant increase of debt service expenses linked to the change in inflation index.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

Currency	<i>Change in currency rate in % 2012</i>	<i>Effect on profit before tax 2012</i>	<i>Change in currency rate in % 2011</i>	<i>Effect on profit before tax 2011</i>
USD	+/- 1.57	-/+ 37,883	+/- 10.72	-/+ 501,202

Prepayment risk

Prepayment risk is the risk that the Corporation will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

*(In thousands of tenge unless otherwise indicated)***20. Risk management (continued)***Operational risk*

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

21. Fair value of financial instruments

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

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

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

<i>31 December 2012</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Embedded derivative financial instruments	–	245,796	–	245,796
<i>31 December 2011</i>				
Financial assets				
Embedded derivative financial instruments	–	348,963	–	348,963

The change in the fair value of derivative financial instrument as at 31 December 2012 as compared to 31 December 2011 is linked to expiration of contracts for indexed loans.

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Corporation's estimate of assumptions that a market participant would make when valuing the instruments.

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison of the carrying amounts and fair values of the Corporation's financial instruments. The table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 December 2012	<i>Current value</i>	<i>Fair value</i>	<i>Unrecognised gain/(loss)</i>
Financial assets			
Cash and cash equivalents	2,172,664	2,172,664	–
Loans to customers	82,061,146	77,878,869	(4,182,277)
Financial liabilities			
Amounts due to a credit institution	2,369,301	2,369,301	–
Amounts due to Shareholder	15,111,020	15,838,412	(727,392)
Debt securities issued	3,913,890	3,844,125	69,765
Amounts due to government-related entities	111,988	111,748	240
Total unrecognised change in unrealized fair value			(4,839,664)

*(In thousands of tenge unless otherwise indicated)***21. Fair value of financial instruments (continued)****Financial instruments recorded at fair value (continued)***Financial instruments not carried at fair value in the statement of financial position (continued)*

As at 31 December 2011	<i>Current value</i>	<i>Fair value</i>	<i>Unrecognised gain/(loss)</i>
Financial assets			
Cash and cash equivalents	5,123,360	5,123,360	-
Loans to customers	80,622,405	78,778,610	(1,843,795)
Financial liabilities			
Amounts due to a credit institution	6,776,149	6,915,882	(139,733)
Amounts due to Shareholder	14,807,777	14,339,265	468,512
Debt securities issued	5,506,297	5,386,732	119,565
Amounts due to government-related entities	134,852	99,205	35,647
Total unrecognised change in unrealized fair value			<u>(1,359,804)</u>

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

*(In thousands of tenge unless otherwise indicated)***22. Maturity analysis of assets and liabilities**

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

	2012			2011		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Financial assets						
Cash and cash equivalents	2,172,664	–	2,172,664	5,123,360	–	5,123,360
Derivative financial instruments	245,796	–	245,796	348,963	–	348,963
Loans to customers	41,197,913	40,863,233	82,061,146	7,734,865	72,887,540	80,622,405
	<u>43,616,373</u>	<u>40,863,233</u>	<u>84,479,606</u>	<u>13,207,188</u>	<u>72,887,540</u>	<u>86,094,728</u>
Financial liabilities						
Amounts due to a credit institution	2,369,301	–	2,369,301	4,645,643	2,130,506	6,776,149
Amounts due to Shareholder	2,805,633	12,305,387	15,111,020	1,305,139	13,502,638	14,807,777
Debt securities issued	73,481	3,840,409	3,913,890	3,137,671	2,368,626	5,506,297
Amounts due to the Government of the Republic of Kazakhstan	–	–	–	–	–	–
Amounts due to government-related entities	27,201	84,787	111,988	28,108	106,744	134,852
Total	<u>5,275,616</u>	<u>16,230,583</u>	<u>21,506,199</u>	<u>9,116,561</u>	<u>18,108,514</u>	<u>27,225,075</u>
Net position	<u>38,340,757</u>	<u>24,632,650</u>	<u>62,973,407</u>	<u>4,090,627</u>	<u>54,779,026</u>	<u>58,869,653</u>

23. Related party transactions

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

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

*(In thousands of tenge unless otherwise indicated)***23. Related party disclosures (continued)**

The volumes of related party transactions, outstanding balances at year-end and related expense and income for the year are as follows:

	2012				2011			
	Entities under common control		Due to the Associates government		Entities under common control		Due to the Associates government	
	Parent				Parent			
Loans to customers as at 1 January	-	3,324,052	-	-	-	5,001,295	-	-
Loans to customers issued	-	5,601,226	-	-	-	2,992,612	-	-
Loans to customers repaid	-	(2,659,386)	-	-	-	(4,669,855)	-	-
Loans to customers as at 31 December	-	6,265,892	-	-	-	3,324,052	-	-
Interest income during the year	-	196,473	-	-	-	175,458	-	-
Amounts due to as at 1 January	14,807,777	165,741	16,508	134,852	11,898,612	154,818	468,779	582,891
Amounts received during the year	31,829,697	-	-	-	25,728,357	10,923	-	-
Amounts repaid during the year	(31,988,364)	(165,741)	(16,508)	(22,864)	(22,136,565)	-	(452,271)	(448,039)
Unwinding of discount	461,910	-	-	-	(682,627)	-	-	-
Amounts due to outstanding as at 31 December	15,111,020	-	-	111,988	14,807,777	165,741	16,508	134,852
Interest expenses during the year	239,132	8,396	1,443	942	243,676	14,283	25,425	9,141

Key management personnel totalled to 5 persons in 2012 (2011: 7 persons). Compensation of key management personnel was comprised of the following:

	2012	2011
Salaries and other short-term benefits	52,353	50,182
Social security costs	5,143	5,018
Total key management personnel compensation	57,496	55,200
	2012	2011
Undrawn credit lines – loans to associates	1,908,029	2,420,324
Guaranty issued by the Shareholder (Note 12)	2,369,301	6,776,149

24. Capital adequacy

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

The primary objectives of the Corporation's capital management are to ensure that the Corporation complies with externally imposed capital requirements and that the Corporation maintains strong credit ratings and capital adequacy ratios in order to support its business and to maximise shareholders' value. During 2012, the Corporation had complied in full with all its externally imposed capital requirements by the legislation.

*(In thousands of tenge unless otherwise indicated)***24. Capital adequacy (continued)***Capital adequacy ratio established by the Committee*

The Committee requires companies engaged in certain types of banking activities to maintain a minimum k1 and k1-2 capital adequacy ratio of 6% of assets and minimum k1-3 total capital adequacy ratio of 12% of risk-weighted assets. In 2012 and 2011 the risk-weighted assets, calculated under Committee requirements were obtained on the basis of Corporation's separate financial statements prepared in accordance with Kazakhstani Accounting Standards. As at 31 December, the Corporation's capital adequacy ratio on this basis was as follows:

	<i>2012</i>	<i>2011</i>
Tier 1 capital	64,390,184	60,471,332
Tier 2 capital	387,169	169,145
Assets held for sale	(89,812)	(167,666)
Total regulatory capital	64,687,541	60,472,811
Risk weighted assets	84,074,380	87,469,936
Commitments and contingencies	13,732,072	8,925,249
Operational risk	1,855,808	1,648,621
Capital adequacy ratio (k1)	74.4%	68.7%
Capital adequacy ratio (k1-2)	65.8%	62.7%
Capital adequacy ratio (k1-3)	64.9%	61.7%

25. Event after the reporting period

On 25 February 2013, the Corporation repaid a loan to Commerz Bank AG (*Note 12*).