THE READER SHOULD BEAR IN MIND, THAT:

1) THESE CONSOLIDATED FINANCIAL STATEMENTS OF JSC ALLIANCE BANK FOR THE YEAR ENDED 31 DECEMBER 2012 ARE NOT OFFICIAL PUBLICATION IN ACCORDANCE WITH THE LEGISLATION OF THE REPUBLIC OF KAZAKHSTAN, AND ARE PROVIDED FOR INFORMATION ONLY

2) THESE CONSOLIDATED FINANCIAL STATEMENTS OF JSC ALLIANCE BANK FOR THE YEAR ENDED 31 DECEMBER 2012 ARE SUBJECT TO THE APPROVAL OF THE ANNUAL SHAREHOLDERS' MEETING OF JSC ALLIANCE BANK, HENCE, THE READER BEARS ON HIS/HER OWN ALL RISKS RELATED TO THE USAGE OF THESE UNAPPROVED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3) THESE CONSOLIDATED FINANCIAL STATEMENTS OF JSC ALLIANCE BANK FOR THE YEAR ENDED 31 DECEMBER 2012 WERE PRELIMINARILY APPROVED BY THE BOARD OF DIRECTORS OF JSC ALLIANCE BANK AND JSC ALLIANCE BANK PERFORMS ALL NECESSARY PROCEDURES FOR THE APPROVAL OF THE FINANCIAL STATEMENTS AT THE ANNUAL SHAREHOLDERS' MEETING

Alliance Bank JSC

Consolidated Financial Statements

for the year ended 31 December 2012

Contents

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Independent Auditors' Report

To the Board of Directors of Alliance Bank JSC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Irmatov R.I.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No MF-0000053 of 6 January 2012

KPMG Audit LLC

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

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

20 March 2013

	Note	2012 In million tenge	2011 In million tenge
Interest income	4	52,083	49,554
Interest expense	4	(45,736)	(39,248)
Net interest income		**6,347**	**10,306**
Fee and commission income	5	6,092	4,625
Fee and commission expense	6	(511)	(348)
Net fee and commission income		**5,581**	**4,277**
Net gain on financial instruments at fair value through profit or loss	7	498	829
Net foreign exchange gain/(loss)	8	1,199	(294)
Net (loss)/gain from recovery notes		(923)	1,713
Net gain on repurchase of liabilities	21	3,085	3,785
Other operating income	9	578	7,082
Operating income		**16,365**	**27,698**
Recovery of impairment losses	10	2,773	13,573
General administrative expenses	11	(18,540)	(20,228)
Profit before income tax		**598**	**21,043**
Income tax benefit	12	42	18,844
Profit for the year		**640**	**39,887**
Other comprehensive income			
Revaluation reserve for available-for-sale assets:			
-Net change in fair value of available-for-sale assets, net of tax		(8,373)	5,963
-Impairment transferred to profit or loss		-	1,243
Other comprehensive income, net of tax		**(8,373)**	**7,206**
Total comprehensive (loss)/income		**(7,733)**	**47,093**
Earnings per share	26		
Basic, tenge		47	2,925
Diluted, tenge		47	2,470

The consolidated financial statements as set out on pages 5 to 77 were approved by the Management Board on 20 March 2013:

РЕСПУБЛИКАСЫ АЛМАТЫ ҚАЛАСЫ
АЛЬЯНС БАНК
АКЦИОНЕРНОЕ ОБЩЕСТВО "АЛЬЯНС БАНК"
РЕСПУБЛИКА КАЗАХСТАН ГОРОД АЛМАТЫ

Kabashev Maksat Rakhimzhanovich
Chairman of the Management Board

Esbayeva Sholpan Amangeldinovna
Chief Accountant

	Note	2012 In million tenge	2011 In million tenge
ASSETS			
Cash and cash equivalents	13	17,143	16,493
Placements with banks		329	184
Financial instruments at fair value through profit or loss	14	14,695	20,101
Loans to customers	15	388,930	328,784
Available-for-sale assets	16	121,222	115,803
Property, equipment and intangible assets	17	21,150	22,233
Current tax receivable		81	68
Deferred tax asset	12	17,954	17,912
Other assets	18	8,505	8,310
Total assets		**590,009**	**529,888**
LIABILITIES			
Current accounts and deposits from customers	19	337,238	294,237
Loans from the Government of the Republic of Kazakhstan	20	19,001	22,389
Loans from banks		1,234	2,114
Debt securities issued	21	111,768	128,048
Subordinated debt	22	21,800	20,695
Amounts payable under repurchase agreements	23	85,830	56,888
Financial instruments at fair value through profit or loss	14	-	454
Other liabilities	24	1,991	4,031
Total liabilities		**578,862**	**528,856**
EQUITY			
Share capital	25	273,090	273,090
Restructuring reserve		(25,981)	(25,981)
Additional paid-in-capital		19,070	1,222
Revaluation surplus for property		1,739	1,931
Revaluation reserve for available-for-sale assets		(7,028)	1,345
Accumulated losses		(249,743)	(250,575)
Total equity		**11,147**	**1,032**
Total liabilities and equity		**590,009**	**529,888**

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

	2012 In million tenge	2011 In million tenge
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	49,284	53,086
Interest payments	(42,268)	(30,877)
Fee and commission receipts	5,984	5,102
Fee and commission payments	(509)	(371)
Net receipts from financial instruments at fair value through profit or loss	58	829
Net receipts from foreign exchange	1,187	1,099
Other receipts/(payments)	578	(2,780)
General administrative payments	(16,273)	(17,849)
(Increase)/decrease in operating assets		
Placements with banks	(123)	531
Financial instruments at fair value through profit or loss	5,832	1,487
Loans to customers	(52,040)	(65,817)
Other assets	(778)	(768)
Increase/(decrease) in operating liabilities		
Current accounts and deposits from customers	42,436	84,864
Loans from the Government of the Republic of Kazakhstan	(3,396)	3,667
Loans from banks	(896)	(899)
Amounts payable under repurchase agreements	30,475	(5,056)
Financial instruments at fair value through profit or loss	(454)	120
Other liabilities	(1,577)	(4,438)
Net cash from operating activities before income tax paid	**17,520**	**21,930**
Income tax (paid)/refunded	(13)	1,987
Cash flows from operations	**17,507**	**23,917**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale assets	3,736	-
Purchases of available-for-sale assets	-	(7,837)
Purchases of property, equipment and intangible assets	(1,433)	(1,639)
Sales of property, equipment and intangible assets	249	127
Cash flows from/(used in) investing activities	**2,552**	**(9,349)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt securities issued	(2,857)	(3,513)
Repurchase of debt securities issued	(16,567)	(13,413)
Repurchase of subordinated debt	(182)	(108)
Cash flows used in financing activities	**(19,606)**	**(17,034)**
Net increase/(decrease) in cash and cash equivalents	**453**	**(2,466)**
Effect of changes in exchange rates on cash and cash equivalents	197	(32)
Cash and cash equivalents as at the beginning of the year	16,493	18,991
Cash and cash equivalents as at the end of the year (Note 13)	**17,143**	**16,493**

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

	Share capital	Restructuring reserve	Additional paid-in-capital	Revaluation surplus for property	Revaluation reserve for available-for-sale assets	Accumulated losses	Total equity
	In million tenge	**In million tenge**	**In million tenge**	**In million tenge**	**In million tenge**	**In million tenge**	**In million tenge**
Balance as at 1 January 2012	**273,090**	**(25,981)**	**1,222**	**1,931**	**1,345**	**(250,575)**	**1,032**
Total comprehensive income							
Profit for the year	-	-	-	-	-	640	640
Other comprehensive income							
Net change in fair value of available-for-sale assets, net of tax	-	-	-	-	(8,373)	-	(8,373)
Total other comprehensive loss	-	-	-	-	(8,373)	-	(8,373)
Total comprehensive loss	**-**	**-**	**-**	**-**	**(8,373)**	**640**	**(7,733)**
Transfer of revaluation surplus as a result of depreciation and disposals	-	-	-	(192)	-	192	-
Transactions with owners, recorded directly in equity							
Effect of modification of terms of the Parent company's bonds (Note 16)	-	-	17,848	-	-	-	17,848
Balance as at 31 December 2012	**273,090**	**(25,981)**	**19,070**	**1,739**	**(7,028)**	**(249,743)**	**11,147**

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

	Share capital	**Restructuring reserve**	**Additional paid-in-capital**	**Revaluation surplus for property**	**Revaluation reserve for available-for-sale assets**	**Accumulated losses**	**Total equity**
	In million tenge	**In million tenge**	**In million tenge**	**In million tenge**	**In million tenge**	**In million tenge**	**In million tenge**
Balance as at 1 January 2011	**273,090**	**(84,955)**	**1,222**	**2,039**	**(5,861)**	**(290,570)**	**(105,035)**
Total comprehensive income							
Profit for the year	-	-	-	-	-	39,887	39,887
Other comprehensive income							
Net change in fair value of available-for-sale assets, net of tax	-	-	-	-	5,963	-	5,963
Impairment transferred to profit or loss	-	-	-	-	1,243	-	1,243
Total other comprehensive income	-	-	-	-	7,206	-	7,206
Total comprehensive income	**-**	**-**	**-**	**-**	**7,206**	**39,887**	**47,093**
Transfer of revaluation surplus as a result of depreciation and disposals	-	-	-	(108)	-	108	-
Transactions with owners, recorded directly in equity							
Decrease in liability component of preference shares (Note 22)	-	58,974	-	-	-	-	58,974
Balance as at 31 December 2011	**273,090**	**(25,981)**	**1,222**	**1,931**	**1,345**	**(250,575)**	**1,032**

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

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of Joint Stock Company Alliance Bank (the "Bank") and its subsidiaries, ALB Finance B.V. and Alliance Finance LLC (together referred to as "the Group").

The Bank was incorporated in the Republic of Kazakhstan in 1999 under the name of Open Joint Stock Company ("OJSC") IrtyshBusinessBank as a result of a merger of OJSC Semipalatinsk Municipal Joint Stock Bank and OJSC Irtyshbusinessbank. In accordance with a decision made by the shareholders, the name of the Bank was changed from Irtyshbusinessbank to Alliance Bank on 30 November 2001 with subsequent registration on 13 March 2002 as Open Joint Stock Company Alliance Bank. On 13 March 2004 Alliance Bank was re-registered as Alliance Bank JSC.

The registered address of the Bank's Head Office is 50, Furmanov Str., 050004, Almaty, the Republic of Kazakhstan. The Bank's activity is regulated by the National Bank of the Republic of Kazakhstan (the "NBRK") and the Committee of the Republic of Kazakhstan on regulation and supervision of financial market and financial organisations (the "FMSC"). The Bank conducts its business under the licence No. 250 issued by the FMSC on 26 December 2007 for performing banking and other operations and activity on the security market stipulated by the banking legislation.

The Bank's primary business is related to commercial banking activities, granting of loans and guarantees, accepting deposits, exchanging foreign currencies, dealing with securities, transferring cash payments, as well as providing other banking services.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF"). The primary goal of the KDIF is to protect interests of depositors in the event of forcible liquidation of a member-bank. Depositors can receive limited insurance coverage for deposits up to a maximum of KZT 5 million per deposit, depending on the amount of the deposit.

As at 31 December 2012 the Group includes Alliance Finance LLC, 100% owned by the Bank since June 2007, that operates under the laws of the Russian Federation.

The subsidiary ALB Finance B.V. was liquidated on 29 March 2012 in accordance with the Commercial Register Extract from Chamber of Commerce Rotterdam.

(b) Shareholders

As at 31 December 2012 Sovereign Wealth Fund Samruk Kazyna (the "Parent Company") owns 67% of the shares of the Bank (31 December 2011: 67%). The rest of the shares are held by other shareholders, none of which owns more than 5% of the shares.

The ultimate controlling party of the Parent Company is the Government of the Republic of Kazakhstan. Related party transactions are detailed in Note 33.

1 Background, continued

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

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

- Note 12 – deferred tax assets
- Note 15 – loan impairment estimates
- Note 16 – available-for-sale assets
- Note 27 (g) – expected maturity assumptions
- Note 35 – fair value of financial instruments.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions

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

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances (nostro accounts) held with the NBRK and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

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

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss

- the Group designates as available-for-sale or,

- meet the definition of loans and receivables.

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

(ii) Recognition

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method

- held-to-maturity investments that are measured at amortised cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

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

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(iv) Fair value measurement principles

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iv) Fair value measurement principles, continued

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

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

(v) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

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

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

(vi) Derecognition

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vi) Derecognition, continued

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

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

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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

(viii) Derivative financial instruments

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

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

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(ix) Placements with banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Placements with banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Placements with are carried net of any allowance for impairment losses, if any.

(x) Offsetting

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

(e) Property and equipment

(i) Owned assets

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

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

(ii) Revaluation

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

(iii) Depreciation

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

- Buildings 30 to 40 years;
- Computers 3 to 4 years;
- Vehicles 5 to 7 years;
- Other 2 to 15 years.

3 Significant accounting policies, continued

(f) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 8 years.

(g) Impairment

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale assets

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

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

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

(iv) Non financial assets

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

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

3 Significant accounting policies, continued

(h) Provisions

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

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

(i) Credit related commitments

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

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

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

(j) Share capital

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

(k) Preference shares

Preference share capital that carries mandatory dividends represent compounded financial instruments and is classified into separate financial liability and equity components.

3 Significant accounting policies, continued

(l) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

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

(m) Income and expense recognition

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

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

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

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

(n) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(o) New standards and interpretations not yet adopted

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

3 Significant accounting policies, continued

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

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 In million tenge	2011 In million tenge
Interest income		
Loans to customers	46,393	43,178
Available-for-sale assets	4,966	5,424
Financial instruments at fair value through profit or loss	691	917
Placements with banks	26	26
Amounts receivable under reverse repurchase agreements	7	9
	52,083	**49,554**
Interest expense		
Current accounts and deposits from customers	(26,495)	(19,991)
Debt securities issued	(11,769)	(11,059)
Amounts payable under repurchase agreements	(3,276)	(3,956)
Subordinated debt	(2,643)	(2,735)
Loans from the Government of the Republic of Kazakhstan	(1,459)	(1,379)
Loans from banks	(94)	(128)
	(45,736)	**(39,248)**
Net interest income	**6,347**	**10,306**

Included within various line items under interest income for the year ended 31 December 2012 is KZT 8,086 million (2011: KZT 7,393 million) accrued on impaired financial assets.

5 Fee and commission income

	2012 In million tenge	2011 In million tenge
Settlement	5,246	3,834
Letters of credit and guarantees	319	307
Foreign exchange and securities operations	274	251
Trust, custodian and other fiduciary services	65	66
Other	188	167
	6,092	**4,625**

6 Fee and commission expense

	2012 In million tenge	2011 In million tenge
Maintenance of card accounts	198	144
Settlement	121	100
Foreign currency and security operations	51	23
Customer accounts services by financial agents	39	18
Other	102	63
	511	**348**

7 Net gain on financial instruments at fair value through profit or loss

	2012 In million tenge	2011 In million tenge
Unrealised gain/(loss) on trading operations	549	(45)
Realised gain on trading operations	69	887
Realised loss on operations with derivative financial instruments	(118)	(4)
Unrealised loss on operations with derivative financial instruments	(2)	(9)
	498	**829**

8 Net foreign exchange gain/(loss)

	2012 In million tenge	2011 In million tenge
Dealing, net	1,187	1,099
Translation differences, net	12	(1,393)
	1,199	**(294)**

9 Other operating income

	2012 In million tenge	2011 In million tenge
Reversal of dividends on preference shares accrued in prior period	-	6,349
Other	578	733
	578	**7,082**

There was a guaranteed dividend on preference shares of KZT 6,349 million accrued in 2010. On 25 August 2011, the shareholders approved a reduction in the minimum guaranteed dividend on preference shares from KZT 2,680 per share to KZT 100 per share.

Based on official responses from the authorities on inquires made by the Bank in respect of future obligations of the Bank to pay the 2010 dividend on preference shares when IFRS equity becomes positive and a decision of the shareholders not to declare dividends, during 2011 management reversed accrued dividends in the amount of KZT 6,349 million.

10 Recovery of impairment losses

	2012 In million tenge	2011 In million tenge
Loans to customers	3,086	15,389
Guarantees and letters of credit	677	145
Available-for-sale assets	(153)	(1,243)
Other assets	(837)	(718)
	2,773	**13,573**

11 General administrative expenses

	2012 In million tenge	2011 In million tenge
Payroll and related taxes	8,527	8,733
Depreciation and amortisation	2,267	2,379
Taxes other than on income tax	1,174	1,493
Legal services	1,148	507
Advertising and marketing	687	840
Collectors fees	648	2,272
Repairs and maintenance	569	568
Communications and information services	499	430
Rent	472	426
Professional services	431	523
Security	415	488
Buildings maintenance	378	356
Cash collection services	317	294
Travel expenses	128	186
Insurance	123	94
Transportation services	116	112
Office supplies	72	83
Charity and sponsorship	59	9
Representative expenses	12	33
Other	498	402
	18,540	**20,228**

12 Income tax benefit

	2012 In million tenge	2011 In million tenge
Current tax benefit		
Income tax overprovided in prior periods	-	932
	-	**932**
Deferred tax benefit		
Deferred taxation movement due to origination and reversal of temporary difference and movement in recognised deferred tax assets	42	17,912
	42	**18,844**

In 2012 the applicable tax rate for current and deferred tax is 20% (2011: 20%) and is used in the calculation of deferred tax assets and liabilities as at 31 December 2012.

12 Income tax benefit, continued

Reconciliation of effective tax rate:

	2012 In million tenge	%	2011 In million tenge	%
Profit before tax	**598**	**100**	**21,043**	**100**
Income tax at the applicable tax rate	(120)	(20)	(4,209)	(20)
Non-taxable interest income	659	110	983	5
Other non-deductible expenses	(539)	(90)	-	-
Non-taxable recoveries on related party loans and other assets	-	-	1,811	9
Tax loss carry-forwards utilised	-	-	1,415	7
Income tax underprovided in prior periods	-	-	932	4
Change in unrecognised deferred tax assets	42	7	17,912	85
	42	**7**	**18,844**	**90**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2012 and 2011. These deferred tax assets are not fully recognised in these consolidated financial statements.

The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods. These future tax benefits are not fully recognised due to uncertainties concerning their realisation.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2019.

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

In million tenge	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Available-for-sale assets	2,758	(2,758)	-
Loans to customers	10,138	(2,196)	7,942
Accrued interest on loans to customers, written-off	1,844	-	1,844
Property, equipment and intangible assets	(1,101)	221	(880)
Other assets	3,934	(3,934)	-
Other liabilities	23	(12)	11
Loss on derivatives	8,267	-	8,267
Tax loss carry-forwards	51,879	5,484	57,363
	77,742	**(3,195)**	**74,547**
Unrecognised deferred tax asset	**(59,830)**	**3,237**	**(56,593)**
Recognised deferred tax asset	**17,912**	**42**	**17,954**

12 Income tax benefit, continued

Deferred tax asset and liability, continued

In million tenge	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
Available-for-sale assets	3,575	-	(817)	2,758
Loans to customers	10,345	(207)	-	10,138
Accrued interest on loans to customers, written-off	1,844	-	-	1,844
Property, equipment and intangible assets	(1,003)	(98)	-	(1,101)
Other assets	3,876	58	-	3,934
Other liabilities	-	23	-	23
Loss on derivatives	8,267	-	-	8,267
Tax loss carry-forwards	53,294	(1,415)	-	51,879
	80,198	**(1,639)**	**(817)**	**77,742**
Unrecognised deferred tax asset	**(80,198)**	**19,551**	**817**	**(59,830)**
Recognised deferred tax asset	**-**	**17,912**	**-**	**17,912**

During 2012 management assessed the recoverability of deferred tax assets. Based on the business plans prepared, management concluded that it is appropriate to recognise a deferred tax asset amounting to KZT 17,954 million.

The significant assumptions used by management in estimating the amount of deferred tax asset to be recognised include the following:

- growth in loans between 6% and 20% per annum;
- growth in customer deposits between 3% and 20% per annum.

Changes in the assumptions used could affect the deferred tax asset, as follows:

- an increase in deposits growth rate by 2.5% increases the amount of deferred tax asset to KZT 18,609 million;
- a decrease in deposits growth rate by 2.5% decreases the amount of deferred tax asset to KZT 17,299 million.

13 Cash and cash equivalents

	2012 In million tenge	2011 In million tenge
Cash at current bank accounts		
National Bank of the Republic of Kazakhstan	1,945	2,100
Other banks		
Rated from AA- to AA+	1	3,214
Rated from A- to A+	3,240	7
Rated from BBB- to BBB+	486	27
Rated below B+	269	46
Not rated	128	535
Total cash at current bank accounts	**6,069**	**5,929**
Cash on hand	11,074	10,564
	17,143	**16,493**

Ratings are based on Standard & Poor's rating system.

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. These requirements are complied with by keeping certain minimum balance of cash on hand and on a current account with the NBRK. As at 31 December 2012 the minimum reserve is KZT 6,849 million (31 December 2011: KZT 13,143 million).

Concentration of cash and cash equivalents

As at 31 December 2012 the Group has current bank accounts with two banks (31 December 2011: one bank) whose balances exceed 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2012 and 2011 are KZT 4,239 million and KZT 2,100 million, respectively.

14 Financial instruments at fair value through profit or loss

	2012 In million tenge	2011 In million tenge
ASSETS		
Debt and other fixed-income instruments		
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan - rated BBB+	13,646	14,500
Total government bonds	**13,646**	**14,500**
Corporate bonds		
Rated from B- to B+	126	121
Not rated	702	28
Total corporate bonds	**828**	**149**
Bank bonds		
Rated from AA- to AA+	-	2,971
Rated from A- to A+	-	1,442
Rated from BBB- to BBB+	171	580
Rated from B- to B+	13	14
Total bank bonds	**184**	**5,007**
Equity investments		
Shares of Kazakhstan Stock Exchange JSC	37	**-**
Total equity investments	**37**	**-**
Derivative financial instruments – assets		
Foreign currency contracts	-	445
	14,695	**20,101**
LIABILITIES		
Derivative financial instruments – liabilities		
Foreign currency contracts	**-**	(454)
	-	**(454)**

Ratings are based on Standard & Poor's rating system.

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

The Group has transactions to sell securities under agreements to repurchase. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may not be repledged or resold by counterparties in the absence of default by the Group. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them.

As at 31 December 2012 and 2011, the Group pledged Government bonds with carrying amount of KZT 10,439 million and KZT 4,178 million, respectively, as collateral under repurchase agreements. Carrying amount of associated liabilities, presented in Note 23, is KZT 9,758 million and KZT 4,054 million, respectively. The Group also pledged certain available-for-sale assets (Note 16).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as intermediary.

15 Loans to customers

	2012 In million tenge	2011 In million tenge
Corporate loans that are individually significant		
Loans to large corporates	322,513	323,221
Total corporate loans that are individually significant	**322,513**	**323,221**
Corporate loans that are not individually significant and loans to individuals		
Corporate loans that are not individually significant	45,564	46,940
Mortgage loans	78,240	77,701
Consumer loans	135,363	81,497
Auto loans	3,163	3,651
Credit card loans	1,380	1,552
Other loans	86,013	88,246
Total corporate loans that are not individually significant and loans to individuals	**349,723**	**299,587**
Gross loans to customers	**672,236**	**622,808**
Impairment allowance	(283,306)	(294,024)
Net loans to customers	**388,930**	**328,784**

Movements in the loan impairment allowance for the years ended 31 December are as follows:

	2012 In million tenge	2011 In million tenge
Balance at the beginning of the year	(294,024)	(370,411)
Net recoveries	3,086	15,389
Write-offs	10,512	62,020
Effect of foreign currency translation	(2,880)	(1,022)
Balance at the end of the year	**(283,306)**	**(294,024)**

15 Loans to customers, continued

(a) Credit quality of corporate loans that are individually significant

The following table provides information on the credit quality of the corporate loans that are individually significant as at 31 December 2012:

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Corporate loans that are individually significant				
Loans without individual signs of impairment	85,587	(479)	85,108	0.56
Impaired loans:				
- not overdue	25,666	(11,593)	14,073	45.17
- overdue less than 90 days	1,166	(863)	303	74.01
- overdue more than 90 days and less than 1 year	20,224	(14,394)	5,830	71.17
- overdue more than 1 year	189,870	(167,209)	22,661	88.06
Total impaired loans	236,926	(194,059)	42,867	81.91
Total corporate loans that are individually significant	**322,513**	**(194,538)**	**127,975**	**60.32**

The following table provides information on the credit quality of the corporate loans that are individually significant as at 31 December 2011:

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Corporate loans that are individually significant				
Loans without individual signs of impairment	76,984	(470)	76,514	0.61
Impaired loans:				
- not overdue	31,710	(19,145)	12,565	60.38
- overdue less than 90 days	6,160	(3,555)	2,605	57.71
- overdue more than 90 days and less than 1 year	4,394	(1,417)	2,977	32.25
- overdue more than 1 year	203,973	(182,869)	21,104	89.65
Total impaired loans	246,237	(206,986)	39,251	84.06
Total corporate loans that are individually significant	**323,221**	**(207,456)**	**115,765**	**64.18**

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

15 Loans to customers, continued

(a) Credit quality of corporate loans that are individually significant, continued

The objective indicators of loan impairment include the following:

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

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

In determining the impairment allowance for corporate loans that are individually significant, management makes the following key assumptions:

- annual loss rate of 0.56% which has been adjusted for changes in underwriting criteria post restructuring adopted as a result of changes in shareholders and management
- a discount of between 25% and 50% to the appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment allowance for corporate loans that are individually significant as at 31 December 2012 would be KZT 1,280 million lower/higher (31 December 2011: KZT 1,158 million).

(i) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for corporate loans that are individually significant for the years ended 31 December are as follows:

	2012 In million tenge	2011 In million tenge
Balance at the beginning of the year	(207,456)	(231,027)
Net recovery	6,102	94
Write-offs	8,851	24,188
Effect of foreign currency translation	(2,035)	(711)
Balance at the end of the year	**(194,538)**	**(207,456)**

(ii) Analysis of collateral

The following table provides the analysis of gross amount of corporate loans that are individually significant, by types of collateral as at 31 December:

	2012 In million tenge	2011 In million tenge
Real estate	113,197	122,552
Mixed	124,374	108,912
Deposits	875	802
Transport	22	21
No collateral	84,045	90,934
	322,513	**323,221**

15 Loans to customers, continued

(a) Credit quality of corporate loans that are individually significant, continued

(ii) Analysis of collateral, continued

As at 31 December 2012 and 2011 in determining the allowance for impaired or overdue loans with gross values of KZT 236,926 million and KZT 246,237 million, respectively, the Group uses collateral values of KZT 46,218 million and KZT 55,349 million, respectively.

Loans to corporate customers that are neither past due nor impaired

As at 31 December 2012 included in loans to corporate customers are loans with a net carrying amount of KZT 19,181 million (31 December 2011: KZT 7,593 million), which are secured by collateral with a fair value of less than the carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 9,273 million (31 December 2011: KZT 2,864 million).

For the loans to corporate customers with a net carrying amount of KZT 560 million (31 December 2011: KZT 1,502 million), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

As at 31 December 2012, for loans to corporate customers with a carrying amount of KZT 65,927 million (31 December 2011: KZT 68,921 million) management estimates that the fair value of collateral is at least equal to their carrying amounts.

Collateral obtained

During the year ended 31 December 2012, the Group obtained real estate by taking possession of collateral for loans to corporate customers. As at 31 December 2012, the carrying amount of such real estate was KZT 3,032 million (31 December 2011: KZT 3,890 million). The Group’s policy is to sell these assets as soon as it is practicable.

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals

The following table provides information on the credit quality of corporate loans that are not individually significant and loans to individuals collectively assessed for impairment as at 31 December 2012:

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Corporate loans that are not individually significant				
- Not past due	20,354	(928)	19,426	4.56
- Overdue less than 30 days	827	(141)	686	17.05
- Overdue 30-89 days	482	(165)	317	34.23
- Overdue 90-179 days	548	(263)	285	47.99
- Overdue 180-360 days	1,198	(808)	390	67.45
- Overdue more than 360 days	22,155	(14,964)	7,191	67.54
Total corporate loans that are not individually significant	**45,564**	**(17,269)**	**28,295**	**37.90**
Mortgage loans				
- Not past due	32,908	(5,399)	27,509	16.41
- Overdue less than 30 days	3,492	(866)	2,626	24.80
- Overdue 30-89 days	2,469	(743)	1,726	30.09
- Overdue 90-179 days	1,184	(390)	794	32.94
- Overdue 180-360 days	2,424	(1,621)	803	66.87
- Overdue more than 360 days	35,763	(22,653)	13,110	63.34
Total mortgage loans	**78,240**	**(31,672)**	**46,568**	**40.48**
Consumer loans				
- Not past due	110,277	(1,200)	109,077	1.09
- Overdue less than 30 days	7,333	(1,104)	6,229	15.06
- Overdue 30-89 days	5,127	(2,306)	2,821	44.98
- Overdue 90-179 days	3,204	(2,170)	1,034	67.73
- Overdue 180-360 days	4,701	(3,726)	975	79.26
- Overdue more than 360 days	4,721	(3,741)	980	79.24
Total consumer loans	**135,363**	**(14,247)**	**121,116**	**10.53**
Auto loans				
- Not past due	137	-	137	-
- Overdue less than 30 days	11	-	11	-
- Overdue 30-89 days	21	-	21	-
- Overdue 90-179 days	2	-	2	-
- Overdue 180-360 days	19	(3)	16	15.79
- Overdue more than 360 days	2,973	(712)	2,261	23.95
Total auto loans	**3,163**	**(715)**	**2,448**	**22.61**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Credit cards				
- Not past due	31	(1)	30	3.23
- Overdue less than 30 days	4	-	4	-
- Overdue 30-89 days	2	(1)	1	50.00
- Overdue 90-179 days	5	(3)	2	60.00
- Overdue 180-360 days	1	(1)	-	100.00
- Overdue more than 360 days	1,337	(1,320)	17	98.73
Total credit cards	**1,380**	**(1,326)**	**54**	**96.09**
Other loans to individuals				
- Not past due	37,375	(2,299)	35,076	6.15
- Overdue less than 30 days	4,286	(369)	3,917	8.61
- Overdue 30-89 days	3,246	(443)	2,803	13.65
- Overdue 90-179 days	1,419	(311)	1,108	21.92
- Overdue 180 - 360 days	3,453	(1,562)	1,891	45.24
- Overdue more than 360 days	36,234	(18,555)	17,679	51.21
Total other loans to individuals	**86,013**	**(23,539)**	**62,474**	**27.37**
Total corporate loans that are not individually significant and loans to individuals	**349,723**	**(88,768)**	**260,955**	**25.38**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

The following table provides information on the credit quality of corporate loans that are not individually significant and loans to individuals collectively assessed for impairment as at 31 December 2011:

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Corporate loans that are not individually significant				
- Not past due	20,307	(972)	19,335	4.79
- Overdue less than 30 days	515	(62)	453	12.04
- Overdue 30-89 days	1,168	(445)	723	38.10
- Overdue 90-179 days	604	(344)	260	56.95
- Overdue 180-360 days	1,578	(1,056)	522	66.92
- Overdue more than 360 days	22,768	(15,831)	6,937	69.53
Total corporate loans that are not individually significant	**46,940**	**(18,710)**	**28,230**	**39.86**
Mortgage loans				
- Not past due	22,438	(155)	22,283	0.69
- Overdue less than 30 days	2,206	(232)	1,974	10.52
- Overdue 30-89 days	2,600	(861)	1,739	33.12
- Overdue 90-179 days	2,179	(877)	1,302	40.25
- Overdue 180-360 days	6,123	(4,378)	1,745	71.50
- Overdue more than 360 days	42,155	(27,540)	14,615	65.33
Total mortgage loans	**77,701**	**(34,043)**	**43,658**	**43.81**
Consumer loans				
- Not past due	71,495	(1,036)	70,459	1.45
- Overdue less than 30 days	4,055	(871)	3,184	21.48
- Overdue 30-89 days	2,359	(1,464)	895	62.06
- Overdue 90-179 days	1,360	(1,212)	148	89.12
- Overdue 180-360 days	1,803	(1,784)	19	98.95
- Overdue more than 360 days	425	(421)	4	99.06
Total consumer loans	**81,497**	**(6,788)**	**74,709**	**8.33**
Auto loans				
- Not past due	275	(1)	274	0.36
- Overdue less than 30 days	28	(1)	27	3.57
- Overdue 30-89 days	34	(2)	32	5.88
- Overdue 90-179 days	23	(1)	22	4.35
- Overdue 180-360 days	61	(6)	55	9.84
- Overdue more than 360 days	3,230	(835)	2,395	25.85
Total auto loans	**3,651**	**(846)**	**2,805**	**23.17**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Credit card loans				
- Not past due	36	-	36	-
- Overdue less than 30 days	3	-	3	-
- Overdue 30-89 days	7	(3)	4	42.86
- Overdue 90-179 days	2	(2)	-	100.00
- Overdue 180-360 days	6	(6)	-	100.00
- Overdue more than 360 days	1,498	(1,472)	26	98.26
Total credit card loans	**1,552**	**(1,483)**	**69**	**95.55**
Other loans to individuals				
- Not past due	31,424	(110)	31,314	0.35
- Overdue less than 30 days	3,492	(136)	3,356	3.89
- Overdue 30-89 days	2,336	(275)	2,061	11.77
- Overdue 90-179 days	4,466	(1,533)	2,933	34.33
- Overdue 180 - 360 days	5,603	(2,238)	3,365	39.94
- Overdue more than 360 days	40,925	(20,406)	20,519	49.86
Total other loans to individuals	**88,246**	**(24,698)**	**63,548**	**27.99**
Total corporate loans that are not individually significant and loans to individuals	**299,587**	**(86,568)**	**213,019**	**28.90**

As at 31 December 2012 there are certain loans that were restructured and are presented in accordance with their modified terms but continue to be assessed for impairment as if no modification of payment schedules has been done until certain probation period is successfully passed.

Such loans comprise mortgage loans included in the "not past due" category in the amount of KZT 13,300 million with the impairment allowance of KZT 5,160 million, in "overdue less than 30 days" category in the amount of KZT 2,043 million with impairment allowance of KZT 848 million and the remaining amount of KZT 1,151 million with the impairment allowance of KZT 666 million presented in categories of more than 30 days overdue.

Such loans also comprise other loans to individuals included in the "not past due" category in the amount of KZT 11,454 million with the impairment allowance of KZT 2,254 million, in "overdue less than 30 days" category in the amount of KZT 1,600 million with impairment allowance of KZT 347 million and the remaining amount of KZT 1,051 million with the impairment allowance of KZT 361 million presented in categories of more than 30 days overdue.

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the impairment losses for corporate loans that are not individually significant and loans to individuals include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

- restructured loans have a probation period of 6 months. During this period restructured loans are considered as overdue loans. If after 6 months the loans are performing in accordance with the restructured terms, they are treated as performing in the migration models
- in respect of auto loans, a delay of 12 months in obtaining proceeds from the foreclosure of collateral
- in respect of mortgage loans and other loans to individuals, a delay of 24 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment on corporate loans that are not individually significant and loans to individuals as at 31 December 2012 would be KZT 7,829 million lower/higher (31 December 2011: KZT 6,391 million).

(i) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of corporate loans that are not individually significant and loans to individuals for the year ended 31 December 2012 are as follows:

In million tenge	Corporate loans that are not individually significant	Mortgage loans	Consumer loans	Auto loans	Credit cards	Other loans	Total
Balance at the beginning of the year	(18,710)	(34,043)	(6,788)	(846)	(1,483)	(24,698)	(86,568)
Net recoveries/ (charge)	589	2,522	(7,466)	130	168	1,041	(3,016)
Write-offs	981	219	7	8	-	446	1,661
Effect of foreign currency translation	(129)	(370)	-	(7)	(11)	(328)	(845)
Balance at the end of the year	**(17,269)**	**(31,672)**	**(14,247)**	**(715)**	**(1,326)**	**(23,539)**	**(88,768)**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

(i) Analysis of movements in the impairment allowance, continued

Movements in the loan impairment allowance by classes of corporate loans that are not individually significant and loans to individuals for the year ended 31 December 2011 are as follows:

In million tenge	Corporate loans that are not individually significant	Mortgage loans	Consumer loans	Auto loans	Credit cards	Other loans	Total
Balance at the beginning of the year	(24,342)	(33,000)	(53,004)	(941)	(1,684)	(26,413)	(139,384)
Net recoveries/ (charge)	4,145	(1,131)	10,418	91	198	1,574	15,295
Write-offs	1,540	253	35,798	7	-	234	37,832
Effect of foreign currency translation	(53)	(165)	-	(3)	3	(93)	(311)
Balance at the end of the year	**(18,710)**	**(34,043)**	**(6,788)**	**(846)**	**(1,483)**	**(24,698)**	**(86,568)**

(ii) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Corporate loans that are not individually significant and other loans to individuals are secured by the housing real estate, transport and other property. Credit card overdrafts and consumer loans are not secured.

Corporate loans that are not individually significant

Included in corporate loans that are not individually significant are loans with a net carrying amount of KZT 7,581 million (31 December 2011: KZT 8,619 million), which are secured by collateral with a fair value of less than the carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 7,581 million (31 December 2011: KZT 8,611 million).

For corporate loans that are not individually significant with a net carrying amount of KZT 20,714 million (31 December 2011: KZT 19,611 million) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

Of these, for loans with a net carrying amount of KZT 1,927 million (31 December 2011: KZT 1,150 million) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

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

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

(ii) Analysis of collateral, continued

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 35,113 million (31 December 2011: KZT 33,726 million), which are secured by collateral with a fair value of less than the carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 26,066 million (31 December 2011: KZT 24,792 million).

For mortgage loans with a net carrying amount of KZT 11,455 million (31 December 2011: KZT 9,932 million) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

Of these, for loans with a net carrying amount of KZT 2,790 million (31 December 2011: KZT 6,933 million) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

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

Auto loans

Included in auto loans are loans with a net carrying amount of KZT 1,261 million (31 December 2011: KZT 1,488 million) which are secured by collateral with a fair value of less than the carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 1,254 million (31 December 2011: KZT 1,429 million).

For auto loans with a net carrying amount of KZT 1,187 million (31 December 2011: KZT 1,317 million) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

Of these, loans with a net carrying amount of KZT 54 million (31 December 2011: KZT 56 million) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

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

Other loans to individuals

Included in other loans to individuals are loans with a net carrying amount of KZT 36,986 million (31 December 2011: KZT 36,665 million), which are secured by collateral with a fair value of less than the carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 28,056 million (31 December 2011: KZT 26,258 million).

For other loans to individuals with a net carrying amount of KZT 25,488 million (31 December 2011: KZT 26,883 million) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

(ii) Analysis of collateral, continued

Other loans to individuals, continued

Of these, for loans with a net carrying amount of KZT 4,503 million (31 December 2011: KZT 3,939 million) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

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

Collateral obtained

During the year ended 31 December 2012, the Group obtained no assets by taking possession of collateral for loans to individuals.

(c) Industry and geographical analysis of loans

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

	2012 In million tenge	2011 In million tenge
Loans to individuals	304,159	252,647
Construction	76,941	81,160
Production of crude oil and natural gas	61,264	59,870
Wholesale	56,379	56,023
Services provided by small and medium entities	49,335	52,588
Real estate operations	41,623	34,328
Agriculture	16,847	16,262
Transportation	11,531	9,751
Retail services	10,822	13,365
Financial services	9,863	17,716
Food	5,298	3,813
Chemical industry	3,789	4,284
Production of metal goods	3,780	1,181
Manufacturing	5,199	5,228
Machinery production	3,894	825
Textile production	1,333	1,438
Finance lease	1,216	1,367
Metallurgy industry	983	766
Post and communications	381	702
Other	7,599	9,494
	672,236	**622,808**
Impairment allowance	(283,306)	(294,024)
	388,930	**328,784**

(d) Significant credit exposures

As at 31 December 2012 and 2011 the Group has no borrowers or groups of connected borrowers, respectively, whose loan balances exceed 10% of loans to customers.

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 27, which shows the remaining period from the reporting date to the contractual maturity of the loans.

16 Available-for-sale assets

	2012 In million tenge	2011 In million tenge
Debt instruments		
Bonds of the Parent Company - rated BBB+	107,327	97,069
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan - rated BBB+	13,787	18,030
Corporate bonds - rated from BB- to BB+	18	36
Bank bonds - rated from BB- to BB+	-	400
Total debt investments	**121,132**	**115,535**
Equity investments		
Corporate shares	2,344	2,369
Impairment allowance	(2,254)	(2,101)
Total equity investments	**90**	**268**
	121,222	**115,803**

Ratings are based on Standard & Poor's rating system.

As at 31 December 2012 and 31 December 2011 the Group pledged as collateral under repurchase agreements (refer to Note 23) the following available-for-sale assets:

	2012 In million tenge	2011 In million tenge
Bonds of the Parent Company	72,267	42,575
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	9,108	11,882
	81,375	**54,457**

As at 31 December 2012 and 2011 carrying amount of associated liabilities, presented in Note 23, is KZT 76,072 million and KZT 52,834 million, respectively.

Non-quoted debt securities

Included in available-for-sale assets are non-quoted debt securities as follows:

	2012 In million tenge	2011 In million tenge
Debt and other fixed-income instruments		
Bonds of the Parent Company	107,327	97,069

The fair value of the bonds of the Parent Company as at 31 December 2012 was determined using a market rate of 5.88% (31 December 2011: 4.93%) determined with reference to government securities having similar terms and credit risk.

On 14 December 2012, the Parent Company increased the coupon rate on its bonds from 4% to 6%, as a result the fair value of these bonds increased by KZT 17,848 million, which have been recognised as additional paid-in-capital.

Non-quoted equity securities

Equity investments included in available-for-sale assets are non-quoted equity securities carried at cost with total carrying value of KZT 40 million (31 December 2011: KZT 40 million), the fair value of which cannot be reliably determined. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

Analysis of movements in the impairment allowance:

Movements in the impairment allowance are as follows:

	2012 In million tenge	2011 In million tenge
Balance at the beginning of the year	2,101	858
Net charge	153	1,243
Balance as at the end of the year	**2,254**	**2,101**

17 Property, equipment and intangible assets

In million tenge	Land and buildings	Computers	Vehicles	Construction in progress	Other	Intangible assets	Total
Cost/revalued amount							
At 1 January 2011	14,428	2,610	370	1,994	10,764	2,351	32,517
Additions	13	96	37	156	832	505	1,639
Transfers	-	(9)	-	-	9	-	-
Disposals	-	(7)	-	(34)	(126)	(65)	(232)
At 31 December 2011	14,441	2,690	407	2,116	11,479	2,791	33,924
Additions	109	358	39	148	348	431	1,433
Transfers	-	7	-	-	(7)	-	-
Disposals	(5)	(4)	(15)	(238)	(14)	-	(276)
As at 31 December 2012	**14,545**	**3,051**	**431**	**2,026**	**11,806**	**3,222**	**35,081**
Depreciation/amortisation							
At 1 January 2011	401	1,991	210	-	5,652	1,163	9,417
Depreciation and amortisation charge	409	327	40	-	1,300	303	2,379
Disposals	-	(5)	-	-	(76)	(24)	(105)
At 31 December 2011	810	2,313	250	-	6,876	1,442	11,691
Depreciation and amortisation charge	407	286	32	-	1,170	372	2,267
Disposals	-	(4)	(13)	-	(10)	-	(27)
At 31 December 2012	**1,217**	**2,595**	**269**	**-**	**8,036**	**1,814**	**13,931**
Net book value							
At 1 January 2011	14,027	619	160	1,994	5,112	1,188	23,100
At 31 December 2011	13,631	377	157	2,116	4,603	1,349	22,233
At 31 December 2012	**13,328**	**456**	**162**	**2,026**	**3,770**	**1,408**	**21,150**

17 Property, equipment and intangible assets, continued

Revalued assets

At 31 December 2012 management performed an analysis of movements in real estate prices and concluded that there were no significant changes during the year. Accordingly, no adjustments were made to land and buildings and management believes there are no significant differences between the carrying amounts and fair values of land and buildings as at 31 December 2012.

The carrying value of land and buildings as at 31 December 2012, had they been carried under the cost model, would have been KZT 17,845 million (31 December 2011: KZT 17,774 million).

At 31 December 2009 land and buildings were revalued based on the results of an independent appraisal performed by Sert LLC. The basis used for the appraisal was the market approach. The revaluation resulted in a decrease in land and buildings of KZT 6,562 million.

18 Other assets

	2012 In million tenge	2011 In million tenge
Receivables from collection agencies	18,041	20,632
Prepayments and other debtors	6,514	4,145
Inventory	5,957	4,228
Tax settlements, other than income tax	134	406
Other services provided	260	196
Debtors for capital investments	142	397
Other transit accounts	130	170
Other	902	787
Total other assets	**32,080**	**30,961**
Impairment allowance	(23,575)	(22,651)
	8,505	**8,310**

Analysis of movements in the impairment allowance:

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

	2012 In million tenge	2011 In million tenge
Balance at the beginning of the year	(22,651)	(22,165)
Net charge	(837)	(718)
Write-offs	35	232
Effect of foreign currency translation	(122)	-
Balance as at the end of the year	**(23,575)**	**(22,651)**

As at 31 December 2012, included in other assets are receivables of KZT 647 million (2011: KZT 593 million) overdue for more than 90 days but less than one year.

19 Current accounts and deposits from customers

	2012 In million tenge	2011 In million tenge
Current accounts and demand deposits		
- Retail	11,502	8,712
- Corporate	42,830	47,135
Term deposits		
- Retail	142,728	102,055
- Corporate	136,957	130,949
Guarantee deposits		
- Retail	2,296	2,105
- Corporate	925	3,281
	337,238	**294,237**

Concentrations of current accounts and deposits from customers

As at 31 December 2012 the Group had one customer, the Parent Company, whose balances exceed 10% of total customer accounts (31 December 2011: one). These balances as at 31 December 2012 were KZT 71,825 million (31 December 2011: KZT 69,306 million).

20 Loans from the Government of the Republic of Kazakhstan

	2012 In million tenge	2011 In million tenge
Loans from the Government of the Republic of Kazakhstan	18,997	22,382
Other loans	4	7
	19,001	**22,389**

As at 31 December 2012 loans from the Government of the Republic of Kazakhstan included KZT 18,997 million (31 December 2011: KZT 22,382 million) received from the Entrepreneurship development fund "Damu" JSC under the Government program for support of small and medium enterprises by the banking sector. The loans are denominated in KZT, bear interest rates of 5.5-9.3% and mature in 2013-2017.

21 Debt securities issued

The carrying value of debt securities issued as at 31 December 2012 and 2011 is as follows:

	2012 In million tenge	2011 In million tenge
Discount bonds denominated in USD	70,130	86,528
Discount bonds denominated in KZT	564	573
Par notes denominated in USD	17,847	18,668
Par notes denominated in KZT	1,239	1,148
Recovery notes	21,988	21,131
	111,768	**128,048**

21 Debt securities issued, continued

Discount bonds denominated in KZT mature in 2017 and have a coupon of 14.5% per annum, paid semiannually. The bonds are redeemed in six equal semi-annual instalments beginning on 25 September 2014.

Discount bonds denominated in USD have terms and maturities similar to KZT discount bonds but pay a coupon at a rate of 10.5% per annum.

Par notes denominated in KZT mature in 2020 and have a coupon comprised of two components - 4.25% per annum, paid semiannually and 4.75% per annum capitalised and repaid on 25 September 2017. The bonds and capitalised interest are redeemed in six equal semiannual installments beginning on 25 September 2017. During the redemption period, the coupon rate increases to 12.5% per annum paid semiannually. Par notes denominated in USD have terms similar to KZT par notes but the coupon during the grace period consists of 2.0% per annum paid semiannually and 2.7% per annum capitalised. During the redemption period the coupon rate is 6 months LIBOR plus 8.5% per annum, paid semiannually. This coupon rate changes to 6.5% per annum if and for so long as the Bank has an investment grade rating from at least two internationally recognised rating agencies.

The recovery notes have a nominal value of USD 1 each, representing the minimum guaranteed redemption value of recovery notes and mature in 2020. The Group also pays to recovery note-holders quarterly payments being a specified percentage of actual cash recoveries received from a pool of identified assets that consists of possible litigation recoveries and a specified pool of Corporate and SME loans (the "Assets Pool").

During the year 2012, the Group repurchased debt securities issued in amount of KZT 16,567 million (2011: KZT 13,413 million). The carrying amount of the repurchased debt was KZT 19,652 million (2011: KZT 17,198 million). The resulting gain from repurchase of own liabilities is KZT 3,085 million (2011: KZT 3,785 million).

22 Subordinated debt

The carrying value of subordinated debt as at 31 December 2012 and 2011 is as follows:

	2012 **In million tenge**	**2011** **In million tenge**
Subordinated debt notes	19,496	18,387
Liability component of preference shares	2,304	2,308
	21,800	**20,695**

The liability component of preference shares was recognised at fair value at initial recognition and arose due to preference shares having a minimum guaranteed dividend of KZT 2,680 per share.

On 25 August 2011, the shareholders approved a reduction in the minimum guaranteed dividend of preferred shares from KZT 2,680 per share to KZT 100 per share.

Accordingly, the liability component was remeasured at the discounted net present value of the revised minimum guaranteed dividends of KZT 100 per share at the effective interest rate of the instrument. The change in the liability component amounting to KZT 58,974 million is recorded as an increase in equity (restructuring reserve).

Subordinated debt notes are denominated in KZT with a 20 year maturity period and a coupon rate of 9.5% per annum until 25 September 2020 and 12.0% per annum thereafter. Of the total coupon of 9.5% per annum, 5.0% per annum is capitalised and 4.5% per annum is paid semiannually. The coupon of 12.0% per annum is paid semiannually. Principal and accumulated capitalised coupon are due in equal quarterly installments starting from 25 September 2020 until 25 March 2030.

23 Amounts payable under repurchase agreements

The amounts payable under repurchase agreements are collateralised as follows:

	2012 In million tenge	2011 In million tenge
Bonds of the Parent Company	68,000	32,377
Bonds of the Ministry of Finance of the Republic of Kazakhstan	17,830	24,511
	85,830	**56,888**

24 Other liabilities

	2012 In million tenge	2011 In million tenge
Taxes payable, other than income tax	698	1,227
Other provisions	261	650
Other transit accounts	232	679
Creditors for finance lease	120	192
Other	680	1,283
	1,991	**4,031**

25 Share capital

The number of authorised and issued and outstanding common and preference shares, their par value and share capital as at 31 December 2012 and 2011 are as follows:

	Authorised shares	Issued and outstanding	In million tenge
Common shares			
Shares with a par value of KZT 10,000	15,000,000	9,637,563	96,375
Shares with a par value of KZT 6,000	5,000,000	4,000,000	24,000
Total	**20,000,000**	**13,637,563**	**120,375**
Preference shares			
Shares with a par value of KZT 10,000	400,000	400,000	4,000
Shares with a par value of KZT 67,000	2,600,000	2,219,626	148,715
Total	**3,000,000**	**2,619,626**	**152,715**
Total share capital			**273,090**

26 Earnings per share

	2012	2011
Basic earnings per share, tenge	47	2,925
Diluted earnings per share, tenge	47	2,470

Basic earnings per share

	2012	2011
Net profit attributable to common shareholders, million tenge	640	39,887
Issued common shares as at 1 January, shares	13,637,563	13,637,563
Weighted average number of common shares for the year ended 31 December, shares	**13,637,563**	**13,637,563**

Diluted earnings per share

	2012	2011
Net profit attributable to common shareholders (basic), million tenge	640	39,887
Dividends on convertible preference shares, million tenge	-	266
Net profit attributable to common shareholders (diluted), million tenge	**640**	**40,153**
Weighted average number of common shares (basic), shares	13,637,563	13,637,563
Effect of conversion of preference shares, shares	-	2,619,626
Weighted average number of common shares (diluted) for the year ended 31 December, shares	**13,637,563**	**16,257,189**

The calculation of diluted earnings per share does not assume conversion of preference shares that would have an antidilutive effect on earnings per share.

27 Risk management

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

(a) Risk management policies and procedures

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

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

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

27 Risk management, continued

(a) Risk management policies and procedures, continued

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

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors other financial and operational risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chief Financial Officer. Market risk limits are approved by ALCO based on recommendations of the Risk Department’s Market Risk Management Division and subsequently agreed by the Board of Directors.

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

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

27 Risk management, continued

(b) Market risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. As the majority of the financial instruments bear fixed interest rates the interest gap analysis is similar to the maturity analysis.

Average interest rates

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

	2012 Average effective interest rate, %			2011 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Placements with banks	-	-	-	-	-	-
Financial instruments at fair value through profit or loss	4.28	-	-	4.22	2.28	-
Loans to customers	14.17	13.77	14.06	14.63	14.25	16.58
Available-for-sale assets	5.82	-	-	4.94	-	-
Interest bearing liabilities						
Current accounts and deposits from customers	7.35	6.06	5.06	9.06	6.34	6.21
Loans from the Government of the Republic of Kazakhstan	7.36	-	-	7.45	-	-
Loans from banks	-	2.33	-	-	2.97	-
Debt securities issued	12.74	10.40	-	12.72	10.26	-
Subordinated debt	13.26	-	-	13.26	-	-
Amounts payable under repurchase agreements	5.30	-	-	5.53	-	-

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

27 Risk management, continued

(b) Market risk, continued

Average interest rates, continued

An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss In million tenge	Equity In million tenge	Profit or loss In million tenge	Equity In million tenge
100 bp parallel fall	1,059	1,059	952	952
100 bp parallel rise	(1,059)	(1,059)	(952)	(952)

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

	2012		2011	
	Profit or loss In million tenge	Equity In million tenge	Profit or loss In million tenge	Equity In million tenge
100 bp parallel fall	194	10,194	272	11,042
100 bp parallel rise	(184)	(9,186)	(265)	(9,854)

(c) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk at year end refer to Note 36.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 10% change in USD, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2012		2011	
	Profit or loss In million tenge	Equity In million tenge	Profit or loss In million tenge	Equity In million tenge
10% appreciation of USD against KZT	(2,689)	(2,689)	(2,508)	(2,508)
10% appreciation of Euro against KZT	9	9	(66)	(66)
10% appreciation of other currencies against KZT	120	120	34	34

The effects resulting from a depreciation of USD, Euro and other currencies against KZT is the inverse of what is shown above.

27 Risk management, continued

(d) Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

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

	2012		2011	
	Profit or loss In million tenge	Equity In million tenge	Profit or loss In million tenge	Equity In million tenge
10% increase in securities prices	-	9	-	18

(e) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Financing Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

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

27 Risk management, continued

(e) Credit risk, continued

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

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

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

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

	2012 In million tenge	2011 In million tenge
ASSETS		
Cash at current bank accounts	6,069	5,929
Placements with banks	329	184
Financial instruments at fair value through profit or loss	14,695	20,101
Loans to customers	388,930	328,784
Available-for-sale assets	121,222	115,803
Total maximum exposure	**531,245**	**470,801**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 15.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

(f) Liquidity risk

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

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

27 Risk management, continued

(f) Liquidity risk, continued

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

The liquidity management policy requires:

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

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

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

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the NBRK. The Bank was in compliance with these ratios as at 31 December 2012 and 2011.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liabilities. The expected cash flows on these financial liabilities can vary significantly from this analysis.

27 Risk management, continued

(f) Liquidity risk, continued

The liquidity position as at 31 December 2012 is as follows:

In million tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total	Carrying amount
Non-derivative financial liabilities								
Current accounts and deposits from customers	66,486	51,759	145,211	60,411	82,962	-	406,829	337,238
Loans from Government of the Republic of Kazakhstan	411	1,637	2,521	17,457	-	-	22,026	19,001
Loans from banks	146	212	395	509	-	-	1,262	1,234
Debt securities issued	2,403	3,764	4,535	114,027	26,362	-	151,091	111,768
Subordinated debt	262	533	547	4,896	59,552	2,042	67,832	21,800
Amounts payable under repurchase agreements	75,278	-	10,874	-	-	-	86,152	85,830
Other financial liabilities	560	-	-	-	-	-	560	560
Total non-derivative financial liabilities	**145,546**	**57,905**	**164,083**	**197,300**	**168,876**	**2,042**	**735,752**	**577,431**
Commitments	67,768	-	-	-	-	-	67,768	

In accordance with Kazakhstan legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band as of 31 December 2012, is as follows:

- from 1 to 3 months: KZT 37,532 million (31 December 2011: KZT 6,158 million)
- from 3 to 12 months: KZT 86,592 million (31 December 2011: KZT 68,329 million)
- from 1 to 5 years: KZT 17,328 million (31 December 2011: KZT 34,716 million)
- more than 5 years: KZT 3 million (31 December 2011: KZT 2 million).

Management believes that diversification of these deposits by number and type of depositors, financial disincentives to early withdrawal in the form of loss of a portion of accrued interest and past experience of the Group indicate that these deposits provide a long-term and stable source of funding.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

27 Risk management, continued

(f) Liquidity risk, continued

The liquidity position as at 31 December 2011 is as follows:

In million tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total	Carrying amount
Non-derivative financial liabilities								
Current accounts and deposits from customers	130,010	13,833	92,356	72,931	256	-	309,386	294,237
Loans from Government of the Republic of Kazakhstan	1,680	-	4,608	16,882	12	-	23,182	22,389
Loans from banks	5	26	201	2,008	-	-	2,240	2,114
Debt securities issued	1,162	6,083	7,441	120,292	52,634		187,612	128,048
Subordinated debt	266	521	531	4,756	62,122	2,042	70,238	20,695
Amounts payable under repurchase agreements	16,918	-	32,246	10,096	-	-	59,260	56,888
Financial liabilities at fair value through profit or loss	454	-	-	-	-	-	454	454
Other financial liabilities	1,586	-	-	-	-	-	1,586	1,586
Total non-derivative financial liabilities	**152,081**	**20,463**	**137,383**	**226,965**	**115,024**	**2,042**	**653,958**	**526,411**
Commitments	63,097	-	-	-	-	-	63,097	

27 Risk management, continued

(g) Maturity analysis

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2012:

	Less than 1 month In million tenge	1 to 3 months In million tenge	3 to 12 months In million tenge	1 to 5 years In million tenge	More than 5 years In million tenge	No maturity In million tenge	Overdue In million tenge	Total In million tenge
ASSETS								
Cash and cash equivalents	17,143	-	-	-	-	-	-	17,143
Placements with banks	66	-	113	150	-	-	-	329
Financial instruments at fair value through profit or loss	-	120	10,071	3,765	660	37	42	14,695
Loans to customers	28,782	26,080	95,318	146,593	64,397	-	27,760	388,930
Available-for-sale assets	15	1,343	1,345	9,478	108,951	90	-	121,222
Other financial assets	1,334	-	6	29	12	-	647	2,028
Total financial assets	**47,340**	**27,543**	**106,853**	**160,015**	**174,020**	**127**	**28,449**	**544,347**
LIABILITIES								
Current accounts and deposits from customers	65,100	48,360	135,484	40,930	47,364	-	-	337,238
Loans from the Government of the Republic of Kazakhstan	411	1,597	1,742	15,251	-	-	-	19,001
Loans from banks	146	205	510	373	-	-	-	1,234
Debt securities issued	2,403	3,685	4,198	87,176	14,306	-	-	111,768
Subordinated debt	262	518	499	3,379	15,100	2,042	-	21,800
Amounts payable under repurchase agreements	75,134	-	10,696	-	-	-	-	85,830
Other financial liabilities	560	-	-	-	-	-	-	560
Total financial liabilities	**144,016**	**54,365**	**153,129**	**147,109**	**76,770**	**2,042**	**-**	**577,431**
Net position as at 31 December 2012	**(96,676)**	**(26,822)**	**(46,276)**	**12,906**	**97,250**	**(1,915)**	**28,449**	**(33,084)**
Cumulative net position as at 31 December 2012	**(96,676)**	**(123,498)**	**(169,774)**	**(156,868)**	**(59,618)**	**(61,533)**	**(33,084)**	

27 Risk management, continued

(g) Maturity analysis, continued

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2011:

ASSETS	Less than 1 month In million tenge	1 to 3 months In million tenge	3 to 12 months In million tenge	1 to 5 years In million tenge	More than 5 years In million tenge	No maturity In million tenge	Overdue In million tenge	Total In million tenge
Cash and cash equivalents	16,493	-	-	-	-	-	-	16,493
Placements with banks	-	-	-	184	-	-	-	184
Financial instruments at fair value through profit or loss	445	3,032	2,798	13,739	59	-	28	20,101
Loans to customers	3,393	12,286	42,553	130,190	120,905	-	19,457	328,784
Available-for-sale assets	15	2,553	1,148	9,507	102,312	268	-	115,803
Other financial assets	3,673	1	3	18	210	-	-	3,905
Total financial assets	**24,019**	**17,872**	**46,502**	**153,638**	**223,486**	**268**	**19,485**	**485,270**
LIABILITIES								
Current accounts and deposits from customers	128,768	10,378	83,961	70,887	243	-	-	294,237
Loans from the Government of the Republic of Kazakhstan	1,680	7	-	20,690	12	-	-	22,389
Loans from banks	-	10	-	2,104	-	-	-	2,114
Debt securities issued	1,162	4,229	2,849	85,514	34,294	-	-	128,048
Subordinated debt	266	573	-	1,067	16,585	2,204	-	20,695
Amounts payable under repurchase agreements	16,917	-	29,996	9,975	-	-	-	56,888
Financial instruments at fair value through profit or loss	454	-	-	-	-	-	-	454
Other financial liabilities	1,586	-	-	-	-	-	-	1,586
Total financial liabilities	**150,833**	**15,197**	**116,806**	**190,237**	**51,134**	**2,204**	**-**	**526,411**
Net position as at 31 December 2011	**(126,814)**	**2,675**	**(70,304)**	**(36,599)**	**172,352**	**(1,936)**	**19,485**	**(41,141)**
Cumulative net position as at 31 December 2011	**(126,814)**	**(124,139)**	**(194,443)**	**(231,042)**	**(58,690)**	**(60,626)**	**(41,141)**	

The amounts in these tables represent the carrying amounts of financial assets and liabilities as at the reporting date and do not include future interest payments. Overdue amounts of loans to customers include only the portion of loans that are contractually overdue.

27 Risk management, continued

(g) Maturity analysis, continued

For purpose of managing liquidity, management relies on liquidity reporting which is based on expected maturities of assets and liabilities.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

In this regard management has adjusted for the following in the table below:

- A substantial portion of customers accounts are on demand, however diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding. Management has estimated that KZT 50,000 million of such deposits will be available for the forthcoming year. Management also expects that majority of term deposits contractually falling due in one year or less will be either rolled over or replaced by new deposits as the Group plans to maintain competitive interest rates on those deposits. This fact was not taken into account when forming management’s expectations on maturities of deposits.
- The Group has government bonds with contractual maturity of more than 5 years, amounting to KZT 15,819 million, for which it has the intention and ability to sell the instruments and replace them with short term government bonds and accordingly, these are classified as less than one year maturity in the tables below.
- As at 31 December 2012 KZT 85,830 million of the amounts payable under repurchase agreements secured by bonds of the Parent Company and government bonds are classified as from more than one year maturity as these liabilities provide a long-term and stable source of funding.
- As at 31 December 2012, of total term deposits contractually falling due in one year or less a further KZT 19,992 million relates to liabilities due to the Parent Company, other state companies and organisations or fellow subsidiaries (31 December 2011: KZT 13,482 million). As the ultimate controlling party of the Bank is the Government of the Republic of Kazakhstan, management is of the view that these amounts are likely to have their tenors extended on maturity.

Uncollateralised portion of the bonds of the Parent Company with a carrying value of KZT 35,060 million (Note 16) can be used as a collateral for repurchase transactions, if required.

Management expects that the deficit of financial assets will be eliminated as undiscounted cash inflow on assets exceeds undiscounted cash outflow on liabilities due to higher yields of the former.

27 Risk management, continued

(g) Maturity analysis, continued

The following table shows financial assets and liabilities by expected maturity dates as at 31 December 2012.

ASSETS	Less than 1 month In million tenge	1 to 3 months In million tenge	3 to 12 months In million tenge	1 to 5 years In million tenge	More than 5 years In million tenge	No maturity In million tenge	Overdue In million tenge	Total In million tenge
Cash and cash equivalents	17,143	-	-	-	-	-	-	17,143
Placements with banks	66	-	113	150	-	-	-	329
Financial instruments at fair value through profit or loss	-	120	13,528	308	660	37	42	14,695
Loans to customers	28,782	26,080	95,318	146,593	64,397	-	27,760	388,930
Available-for-sale assets	15	1,343	13,707	-	106,067	90	-	121,222
Other financial assets	1,334	-	6	29	12	-	647	2,028
Total financial assets	**47,340**	**27,543**	**122,672**	**147,080**	**171,136**	**127**	**28,449**	**544,347**
LIABILITIES								
Current accounts and deposits from customers	12,487	48,360	118,105	110,922	47,364	-	-	337,238
Loans from the Government of the Republic of Kazakhstan	411	1,597	1,742	15,251	-	-	-	19,001
Loans from banks	146	205	510	373	-	-	-	1,234
Debt securities issued	2,403	3,685	4,198	87,176	14,306	-	-	111,768
Subordinated debt	262	518	499	3,379	15,100	2,042	-	21,800
Amounts payable under repurchase agreements	-	-	-	85,830	-	-	-	85,830
Other financial liabilities	560	-	-	-	-	-	-	560
Total financial liabilities	**16,269**	**54,365**	**125,054**	**302,931**	**76,770**	**2,042**	**-**	**577,431**
Net position as at 31 December 2012	**31,071**	**(26,822)**	**(2,382)**	**(155,851)**	**94,366**	**(1,915)**	**28,449**	**(33,084)**
Cumulative net position as at 31 December 2012	**31,071**	**4,249**	**1,867**	**(153,984)**	**(59,618)**	**(61,533)**	**(33,084)**	
Cumulative net position as at 31 December 2011	(13,105)	(10,430)	(21,808)	(224,552)	(60,894)	(60,626)	(41,141)	

28 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSC banks have to maintain a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2012 and 2011, this minimum level of tier 1 capital to total assets is 5% and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 10%. As at 31 December 2012 and 2011 the Bank was in compliance with the statutory capital ratios.

The following table shows the composition of the capital position calculated in accordance with the requirements of the FMSC, as at 31 December:

	2012 In million tenge (Unaudited)	2011 In million tenge (Unaudited)
Tier 1 capital		
Share capital – common shares	120,380	120,380
Share capital – preference shares	153,573	153,573
Statutory accumulated losses of prior periods	(287,865)	(297,576)
Statutory reserves formed from retained earnings	71,489	67,500
Less intangible assets excluding software	-	(5)
Total tier 1 capital	**57,577**	**43,872**
Tier 2 capital		
Net statutory income for the year	7,647	10,946
Statutory revaluation reserve for available-for-sale assets and property	1,920	(10,885)
Statutory subordinated debt (unamortised portion)	23,698	22,847
Total tier 2 capital	**33,265**	**22,908**
Total statutory capital	**90,842**	**66,780**
Risk-weighted statutory assets, contingent liabilities, operational and market risk		
Risk weighted statutory assets	458,940	403,791
Risk weighted statutory contingent liabilities	16,033	16,497
Risk weighted statutory derivative financial instruments	13	2
Less specific interest risk	-	9
Operational risk	-	41,018
Market risk	6,605	9,862
Total risk weighted statutory assets	**481,591**	**471,179**
Total statutory assets	**629,304**	**565,186**
Tier 1 capital to total statutory assets	**9.1%**	**7.8%**
Tier 1 capital to risk weighted statutory assets, contingent liabilities, operational and market risks	**12.0%**	**9.3%**
Total capital to risk weighted statutory assets, contingent liabilities, operational and market risks	**18.9%**	**14.2%**

Statutory capital differs from the equity calculated in accordance with IFRS mainly due to recognition of the liability on recovery notes under IFRS and differences in the loan loss allowances.

29 Commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

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

	2012 In million tenge	2011 In million tenge
Contracted amount		
Commitments on loans and unused credit lines	53,153	48,226
Guarantees issued and similar commitments	14,523	14,818
Letters of credit and other transaction related contingent obligations	92	53
	67,768	**63,097**

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

30 Operating leases

Leases as lessee

Operating lease rentals as at 31 December are payable as follows:

	2012 In million tenge	2011 In million tenge
Less than 1 year	21	19
Between 1 and 5 years	15	38
More than 5 years	-	6
	36	**63**

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

During 2012 KZT 472 million is recognised as an expense in profit or loss in respect of operating leases (2011: KZT 426 million).

31 Contingencies

(a) Insurance

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

(b) Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

(c) Taxation contingencies

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

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

32 Funds management, trust and custody activities

(a) Funds management and trust activities

The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

(b) Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

33 Related party transactions

(a) Control relationships

The Bank's parent company is the Sovereign Wealth Fund "Samruk-Kazyna" JSC. The party with ultimate control over the Bank is the Government of the Republic of Kazakhstan.

Publicly available financial statements are produced by the Parent Company, however, no publicly available financial statements are produced by the ultimate controlling party.

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

Total remuneration included in personnel expenses (refer to Note 11) for the years ended 31 December:

	2012 In million tenge	2011 In million tenge
Members of the Board of Directors	80	59
Members of the Management Board	157	161
	237	**220**

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

33 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include the Parent Company and other state companies and organisations. The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows:

	Parent company		Other state companies and organisations		Fellow subsidiaries		Other related parties		Total
	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge
Statement of financial position									
ASSETS									
Cash and cash equivalents	-	-	1,945	-	10	-	-	-	1,955
Financial instruments at fair value through profit or loss	-	-	13,646	4.15	702	15.24	-	-	14,348
Available-for-sale assets	107,327	5.88	13,787	4.85	90	-	-	-	121,204
Loans to customers									
- Principal balance	-	-	-	-	-	-	79	13.68	79
- Allowance for impairment	-	-	-	-	-	-	(3)	-	(3)
LIABILITIES									
Current accounts and deposits from customers	71,825	8.33	-	-	14,748	4.80	447	5.20	87,020
Loans from the Government of the Republic of Kazakhstan	-	-	4	-	18,997	7.36	-	-	19,001
Amounts payable under repurchase agreements	-	-	57,304	5.49	10,696	5.60	-	-	68,000
Subordinated debt - liability component of preference shares	1,544	12.83	-	-	-	-	-	-	1,544
Other liabilities	-	-	698	-	-	-	-	-	698
Unrecognised exposures									
Guarantees	-	-	-	-	7,457	-	-	-	7,457

33 Related party transactions, continued

(c) Transactions with other related parties, continued

	Parent company In million tenge	Other state companies and organisations In million tenge	Fellow subsidiaries In million tenge	Other related parties In million tenge	Total In million tenge
Profit/(loss)					
Interest income	4,219	1,204	78	-	5,501
Interest expense	(6,158)	(949)	(3,538)	(52)	(10,697)
Fee and commission expense	-	-	(15)	-	(15)
Net gain/(loss) on financial instruments at fair value through profit or loss	-	(155)	660	-	505
Impairment losses	-	-	(153)	-	(153)
General administrative expenses	(176)	(2)	-	-	(178)

33 Related party transactions, continued

(c) Transactions with other related parties, continued

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

	Parent company		Other state companies and organisations		Fellow subsidiaries		Other related parties		Total
	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge
Statement of financial position									
ASSETS									
Cash and cash equivalents	-	-	2,100	-	-	-	-	-	2,100
Financial instruments at fair value through profit or loss	-	-	14,500	4.96	166	4.96	-	-	14,666
Available-for-sale assets	97,069	4.00	18,030	5.27	228	-	40	-	115,367
Loans to customers			-						
- Principal balance	-	-	-	-	-	-	203	15.06	203
- Allowance for impairment	-	-	-	-	-	-	(5)	-	(5)
LIABILITIES									
Current accounts and deposits from customers	69,306	9.18	-	-	19,858	7.43	1,260	9.05	90,424
Loans from the Government of the Republic of Kazakhstan	-	-	7	3.89	22,382	7.36	-	-	22,389
Amounts payable under repurchase agreements	-	-	-	-	42,342	7.50	-	-	42,342
Subordinated debt - liability component of preference shares	1,547	12.83	-						1,547
Other liabilities	-	-	1,232	-	-	-	-	-	1,232
Unrecognised exposures		-							
Guarantees	-	-	-	-	56	-	-	-	56

33 Related party transactions, continued

(c) Transactions with other related parties, continued

	Parent company In million tenge	Other state companies and organisations In million tenge	Fellow subsidiaries In million tenge	Other related parties In million tenge	Total In million tenge
Profit/(loss)					
Interest income	4,204	1,475	107	381	6,167
Interest expense	(5,767)	(899)	(2,371)	(89)	(9,126)
Fee and commission expense	-	-	(9)	-	(9)
Net loss on financial instruments at fair value through profit or loss	-	(927)	(671)	-	(1,598)
Impairment losses	-	-	(1,758)	-	(1,758)
General administrative expenses	-	(1,761)	-	-	(1,761)

34 Segment reporting

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- retail banking – includes loans, deposits and other transactions with retail customers and SME
- corporate banking – includes loans, deposits and other transactions with corporate customers
- financial institutions – includes trading and corporate finance activities
- treasury – undertakes the Group's funding and central risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purposes and investing in liquid securities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are based on statutory financial information and that are reviewed by the Chairman of the Management Board, the Chief Operating Decision Maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

ASSETS	31 December 2012 In million tenge	31 December 2011 In million tenge
Corporate banking	162,645	174,220
Retail banking	235,144	159,409
Financial institutions	15,272	20,094
Treasury	137,964	149,105
Unallocated assets	47,485	27,248
Total assets	**598,510**	**530,076**
LIABILITIES		
Corporate banking	154,564	197,014
Retail banking	166,451	123,204
Financial institutions	264	455
Treasury	238,097	198,623
Unallocated liabilities	2,784	1,904
Total liabilities	**562,160**	**521,200**

For management reporting purposes in 2012 the Group changed the classification of the deposit from the Parent Company of KZT 36,461 million from Corporate banking to the Treasury segment. Comparative amounts were not amended.

Reconciliations of reportable segment total assets and net total assets:

	31 December 2012 In million tenge	31 December 2011 In million tenge
Reportable segment total assets	**598,510**	**530,076**
Fair value adjustments	454	(9,178)
Difference in measurement of loans	(8,928)	(560)
Netting against liabilities	(657)	(7,116)
Recognition of deferred tax asset	42	17,912
Other adjustments	588	(1,246)
Total assets	**590,009**	**529,888**
Reportable segment total liabilities	**562,160**	**521,200**
Fair value adjustments	16,999	15,354
Netting against assets	(657)	(7,116)
Other adjustments	360	(582)
Total liabilities	**578,862**	**528,856**

Fair value adjustments. These adjustments represent differences between IFRS and statutory accounts in respect of fair values of assets available-for-sale, and the initially recognized amounts of debt securities issued and subordinated debt.

Difference in measurement of loans. These adjustments represent difference between IFRS and statutory loan loss allowance and the difference in measurement of discount on loans at recognition.

34 Segment reporting, continued

Segment information for the main reportable segments for the year ended 31 December 2012 is set below:

In million tenge	**Corporate banking**	**Retail banking**	**Financial institutions**	**Treasury**	**Unallocated**	**Total**
Interest income	13,225	37,498	814	5,654	**-**	57,191
Interest expense	(9,444)	(12,957)	-	(17,617)	-	(40,018)
Interest income before provision	**3,781**	**24,541**	**814**	**(11,963)**	**-**	**17,173**
Impairment recoveries on loans to customers	(2,835)	4,256	-	-	-	1,421
Net interest income/(loss)	**946**	**28,797**	**814**	**(11,963)**	**-**	**18,594**
Net non-interest income/(expense)	2,330	673	4,087	575	(539)	7,126
Operational income/(loss)	**3,276**	**29,470**	**4,901**	**(11,388)**	**(539)**	**25,720**
Other operational expenses	(6,151)	(11,739)	(845)	-	102	(18,633)
Impairment recoveries/(losses) on other non-banking activities	6,971	155	(736)	-	(13)	6,377
Loss on recovery notes	(2,857)	-	-	-	-	(2,857)
Income tax expense	-	-	-	-	(14)	(14)
Segment result	**1,239**	**17,886**	**3,320**	**(11,388)**	**(464)**	**10,593**

34 Segment reporting, continued

Segment information for the main reportable segments for the year ended 31 December 2011 is set below:

In million tenge	**Corporate banking**	**Retail banking**	**Financial institutions**	**Treasury**	**Unallocated**	**Total**
Interest income	14,551	29,589	1,039	5,098	-	50,277
Interest expense	(10,778)	(9,136)	-	(17,451)	-	(37,365)
Interest income before provision	**3,773**	**20,453**	**1,039**	**(12,353)**	**-**	**12,912**
Impairment recoveries on loans to customers	15,412	11,405	-	-	-	26,817
Net interest income/ (loss)	**19,185**	**31,858**	**1,039**	**(12,353)**	**-**	**39,729**
Net non-interest income/(expense)	1,700	(2,896)	5,887	(217)	362	4,836
Operational income/(loss)	**20,885**	**28,962**	**6,926**	**(12,570)**	**362**	**44,565**
Other operational expenses	(10,498)	(12,741)	(770)	(23)	(2)	(24,034)
Impairment recoveries/(losses) on other non-banking activities	(5,608)	7	2,385	-	(265)	(3,481)
Loss on recovery notes	(3,513)	-	-	-	-	(3,513)
Segment result	**1,266**	**16,228**	**8,541**	**(12,593)**	**95**	**13,537**

34 Segment reporting, continued

Reconciliation of reportable segment revenues and profit or loss

	2012 In million tenge	2011 In million tenge
Net interest income per statutory accounts	**17,173**	**12,912**
Reclassifications	(2,086)	(726)
IFRS adjustments	(8,740)	(1,880)
Net consolidated interest income per IFRS accounts	**6,347**	**10,306**
Net profit per statutory accounts	**10,593**	**13,537**
Difference between IFRS and statutory impairment losses	(3,792)	3,816
Adjustment of carrying amount of recovery notes	(1,592)	5,226
Unamortised commission on issued loans	(3,983)	-
Other IFRS adjustments	(628)	(604)
Adjustment for recognition of deferred tax assets	42	17,912
Consolidated profit per IFRS accounts	**640**	**39,887**

35 Fair value of financial instruments

(a) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(d) *(iv)*. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Valuation of financial instruments

The Bank classifies financial assets and liabilities carried at fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered as less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

35 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

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

	Note	Level 2 In million tenge	Level 3 In million tenge	Total In million tenge
Assets				
Financial instruments at fair value through profit or loss	14	13,993	702	14,695
Available-for-sale assets	16	13,895	107,327	121,222
		27,888	**108,029**	**135,917**

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

	Note	Level 2 In million tenge	Level 3 In million tenge	Total In million tenge
Assets				
Financial instruments at fair value through profit or loss	14	15,688	4,413	20,101
Available-for-sale assets	16	18,734	97,069	115,803
Liabilities				
Financial instruments at fair value through profit or loss	14	454	-	454
		34,876	**101,482**	**136,358**

The available-for-sale assets with fair values determined using valuation techniques that use observable inputs are classified into Level 2. Observable inputs include transaction prices in markets that are active for similar, but not identical, instruments and transaction prices in markets that are not active for identical instruments. Although all the instruments are listed on the Kazakhstan stock exchange, management believes that the market for these identical instruments is not active.

Certain available-for-sale assets that do not have observable market prices and cannot be valued based on observable market inputs are also valued by applying discounted cash flow methodologies. Cash flow projections for these securities were derived from contractual payment schedules. Assumptions regarding discount rates were made based on quoted prices in active markets of similar instruments of an issuer.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for the year ended 31 December 2012:

	Available-for-sale assets In million tenge	Financial instruments at fair value through profit or loss In million tenge
Balance as at 1 January	97,069	4,413
Profit or loss:		
- in interest income	4,219	79
- net loss on financial instruments at fair value through profit or loss	-	660
- in other comprehensive income	(7,609)	-
Coupon received	(4,200)	-
Sales	-	(4,452)
Increase in fair value through additional paid-in-capital	17,848	-
Effect of foreign currency translation	-	2
Balance at 31 December	**107,327**	**702**

35 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for the year ended 31 December 2011:

	Available-for-sale assets In million tenge	Financial instruments at fair value through profit or loss In million tenge
Balance as at 1 January	90,693	5,703
Profit or loss:		-
- in interest income	4,204	100
- net loss on financial instruments at fair value through profit or loss	-	(50)
- in other comprehensive income	6,378	-
Coupon received	(4,206)	(154)
Sales	-	(1,213)
Effect of foreign currency translation	-	27
Balance at 31 December	**97,069**	**4,413**

Sensitivity analysis

Although management believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 as at 31 December 2012, changing assumed discount rates by 100 basis points would have the following effects:

	Effect on profit or loss		Effect on other comprehensive income	
In million tenge	**Favorable**	**(Unfavorable)**	**Favorable**	**(Unfavorable)**
Available-for-sale assets	-	-	9,485	(8,518)
Financial instruments at fair value through profit or loss	62	(55)	-	-

For fair value measurements in Level 3 as at 31 December 2011, changing assumed discount rates by 100 basis points would have the following effects:

	Effect on profit or loss		Effect on other comprehensive income	
In million tenge	**Favorable**	**(Unfavorable)**	**Favorable**	**(Unfavorable)**
Available-for-sale assets	-	-	10,019	(8,886)
Financial instruments at fair value through profit or loss	7	(7)	-	-

(c) Accounting classifications and fair values

The fair values of financial assets and financial liabilities traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair value using valuation techniques.

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

- discount rate of 15.00% is used to calculate expected future cash flows from loans to corporate customers
- discount rates ranging from 8.00% to 17.00% are used to calculate expected future cash flows from loans to retail customers
- discount rates ranging from 9.18% to 15.60% are used for discounting future cash outflows of debt securities issued
- discount rate of 18.31% is used for discounting future cash outflows of subordinated debt.

35 Fair value of financial instruments, continued

(c) Accounting classifications and fair values, continued

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

In million tenge	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	17,143	-	-	17,143	17,143
Placements with banks	-	329	-	-	329	329
Financial instruments at fair value through profit or loss	14,695	-	-	-	14,695	14,695
Loans to customers	-	388,930	-	-	388,930	372,584
Available-for-sale assets	-	-	121,222	-	121,222	121,222
Other financial assets	-	2,028	-	-	2,028	2,028
	14,695	**408,430**	**121,222**	**-**	**544,347**	**528,001**
Current accounts and deposits from customers	-	-	-	337,238	337,238	337,238
Loans from the Government of the Republic of Kazakhstan	-	-	-	19,001	19,001	19,001
Loans from banks	-	-	-	1,234	1,234	1,234
Debt securities issued	-	-	-	111,768	111,768	106,764
Subordinated debt	-	-	-	21,800	21,800	16,459
Amounts payable under repurchase agreements	-	-	-	85,830	85,830	85,830
Other financial liabilities	-	-	-	560	560	560
	-	**-**	**-**	**577,431**	**577,431**	**567,086**

35 Fair value of financial instruments, continued

(c) Accounting classifications and fair values, continued

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

In million tenge	Trading	Designated at fair value	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	16,493	-	-	16,493	16,493
Placements with banks	-	-	184	-	-	184	184
Financial instruments at fair value through profit or loss	20,101	-	-	-	-	20,101	20,101
Loans to customers	-	-	328,784	-	-	328,784	304,571
Available-for-sale assets	-	-	-	115,803	-	115,803	115,803
Other financial assets	-	-	3,905	-	-	3,905	3,905
	20,101	**-**	**349,366**	**115,803**	**-**	**485,270**	**461,057**
Current accounts and deposits from customers	-	-	-	-	294,237	294,237	294,237
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	22,389	22,389	22,389
Loans from banks	-	-	-	-	2,114	2,114	2,114
Debt securities issued	-	-	-	-	128,048	128,048	119,745
Subordinated debt	-	-	-	-	20,695	20,695	20,517
Amounts payable under repurchase agreements	-	-	-	-	56,888	56,888	56,888
Financial instruments at fair value through profit or loss	-	454	-	-	-	454	454
Other financial liabilities	-	-	-	-	1,586	1,586	1,586
	-	**454**	**-**	**-**	**525,957**	**526,411**	**517,930**

36 Currency analysis

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

	KZT In million tenge	USD In million tenge	EUR In million tenge	Other currencies In million tenge	Total In million tenge
ASSETS					
Cash and cash equivalents	9,452	3,180	3,284	1,227	17,143
Placements with banks	-	329	-	-	329
Financial instruments at fair value through profit or loss	14,695	-	-	-	14,695
Loans to customers	299,126	88,251	686	867	388,930
Available-for-sale assets	121,222	-	-	-	121,222
Other financial assets	1,405	338	4	281	2,028
Total financial assets	**445,900**	**92,098**	**3,974**	**2,375**	**544,347**
LIABILITIES					
Current accounts and deposits from customers	296,015	36,505	3,852	866	337,238
Loans from the Government of the Republic of Kazakhstan	19,001	-	-	-	19,001
Loans from banks	10	1,224	-	-	1,234
Debt securities issued	23,791	87,977	-	-	111,768
Subordinated debt	21,800	-	-	-	21,800
Amounts payable under repurchase agreements	85,830	-	-	-	85,830
Other financial liabilities	552	1	4	3	560
Total financial liabilities	**446,999**	**125,707**	**3,856**	**869**	**577,431**
Net recognised positions as at 31 December 2012	**(1,099)**	**(33,609)**	**118**	**1,506**	**(33,084)**
Net recognised positions as at 31 December 2011	(9,389)	(31,348)	(825)	421	(41,141)

37 Subsequent events

During December 2012 - January 2013 the NBRK notified commercial banks of upcoming changes in the banking regulation removing the requirement to assess loan impairment allowance under separate rules for statutory purposes. It was conceived that, effective from 1 January 2013, loan loss impairment will be assessed under IFRS requirements for statutory and tax purposes. Previously accumulated differences between statutory and IFRS impairment allowances would form the basis for the opening balance of a newly introduced “dynamic reserve” caption in equity.

These changes have not yet been enacted as at date of issue of these consolidated financial statements.

As at 31 December 2012 the Bank has a negative accumulated difference between statutory and IFRS impairment allowances that indicates that the difference cannot be used to create a positive reserve account. Drafts of regulations currently available in the public domain do not specify the application of the proposed changes to the Bank’s specific circumstances. Having carried out consultations with the NBRK, management was assured that there will be specific guidance provided to the Bank regarding application of the changes. In the event that its application results in a breach of prudential requirements, management is satisfied, based on discussions with the NBRK, that there will be an agreement signed between the NBRK and the Bank setting up special arrangements regarding compliance with prudential requirements.

If such arrangements are made, management expects them to remain in force at least until the Bank is sold to a non-state owner with which the regulator would expect to agree a comprehensive recapitalisation plan prior to any sale being concluded.

АЛЬЯНС БАНК

Alliance Bank JSC

Book value per share calculation as of December 31, 2012

Almaty, 2013

1. Book value per share calculation

Approved by the decision of Exchange Board of Kazakhstan Stock Exchange JSC (Minutes of meeting dated October 4, 2010 # 22).

In this Annex for the purposes of book value calculation:

1) Preferred shares are conditionally divided into two groups:

- Preferred shares of the first group – preference shares which in accordance with the accounting policy of the issuer are recorded in its financial statements as equity;

- Preferred shares of the second group – preference shares which in accordance with the accounting policy of the issuer are recorded in its financial statement as liabilities;

2) The number of common or preferred shares – the number of outstanding shares (issued and outstanding) as at the date of calculation. Shares repurchased by the issuer are not included in the calculation.

The last day of the period for which the report on the financial position of the shares' issuer is prepared should be considered as the date of calculation.

Book value per share as at the date of the statement of financial position of the shares' issuer is calculated in accordance with this Annex and reflected in this report.

Book value per common share is calculated using the formula:

$$BV_{CS} = NAV / NO_{CS}, \text{ where}$$

BV_{CS} – (book value per common share) the book value per common share as at the date of calculation;

NAV – (net asset value) net assets for common shares as at the date of calculation;

NO_{CS} – (number of outstanding common shares) the number of common shares as at the date of calculation.

Net assets for common shares is calculated as follows:

$$NAV = (TA - IA) - TL - PS, \text{ where}$$

TA – (total assets) assets in the statement of financial position of the shares' issuer as at the date of calculation;

IA – (intangible assets) intangible assets in the statement of financial position of the shares' issuer as at the date of calculation;

TL – (total liabilities) liabilities in the statement of financial position of the shares' issuer as at the date of calculation;

PS – (preferred stock) balance of "charter capital, preference shares" account in the statement of financial position of the shares' issuer as at the date of calculation.

Book value per one preferred share of the first group is calculated using the formula:

$$BV_{PS1} = (EPC + DC_{PS1}) / NO_{PS1}, \text{ where}$$

BV_{PS1} – (book value per preferred share of the fist group) the book value per preferred share of the fist group as at the date of calculation;

NO_{PS1} – (number of outstanding preferred shares of the first group) the number of preferred shares of the first group as at the date of calculation;

EPC – (equity with prior claims) capital, attributable to holders of preferred shares of the first group as at the date of calculation;

DC_{PS1} – (debt component of preferred shares) debt component of preferred shares of the first group recorded as liabilities.

Capital, attributable to holders of preferred shares of the first group, is calculated as follows:

$$EPC = TD_{PS1} + PS, \text{ where:}$$

TD_{PS1} – (total dividends) amount of accrued but not paid dividends on the preferred shares of the first group (the balance of "payables to shareholders (dividends)" account) as at the date of calculation. Dividends on the preferred shares of the first group which are not paid due to the absence of updated information and details on the holders of the shares are not taken into account in the calculation.

Book value per one preferred share of the second group is calculated as follows:

$$BV_{PS2} = L_{PS} / NO_{PS2}, \text{ where}$$

BV_{PS2} – (book value per preferred share of the second group) the book value per preferred share of the second group as at the date of calculation;

NO_{PS2} – (number of outstanding preferred shares of the second group) the number of preferred shares of the second group as at the date of calculation;

L_{PS} – (liabilities) account balance on preferred shares, which accounted as a liability in the statement of financial position of the shares' issuer as at the date of calculation.

Book value per common share is calculated using the formula:

$$BV_{CS} = NAV / NO_{CS}, \text{ where}$$

BV_{CS} – (book value per common share) the book value per common share as at the date of calculation;

NAV – (net asset value) net assets for the common shares as at the date of calculation;

NO_{CS} – (number of outstanding common shares) the number of common shares as at the date of calculation.

NAV = (TA - IA) - TL - PS = (590,009 - 1,408) - 578,862 = 9,739 mln tenge

BV_{CS} = NAV / NO_{CS} = 9,739 million tenge / 13,637,563 = 714.13 tenge

Book value per preferred share of the second group is calculated as follows:

$$BV_{PS2} = L_{PS} / NO_{PS2}, \text{ where}$$

BV_{PS2} - (book value per preferred share of the second group) the book value per preferred share of the second group as at the date of calculation;

NO_{PS2} - (number of outstanding preferred shares of the second group) the number of preferred shares of the second group as at the date of calculation;

L_{PS} - (liabilities) balance of preferred shares account, which are accounted as a liability in the statement of financial position of the shares' issuer as at the date of calculation.

BV_{PS2} = L_{PS} / NO_{PS2} = 2,304 million tenge / 2,619,626 = 879.51 tenge

Financial Director (CFO) – Member of Management Board	**Chief Accountant**
I.Y. Maylibayev	**Sh.A. Esbayeva**

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