JOINT STOCK COMPANY KAZKOMMERTSBANK

Consolidated Financial Statements
For the Years Ended 31 December 2012, 2011 and 2010

JOINT STOCK COMPANY KAZKOMMERTSBANK

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JOINT STOCK COMPANY KAZKOMMERTSBANK

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Kazkommertsbank ("the Bank") and its subsidiaries ("the Group") as at 31 December 2012, 2011 and 2010, the consolidated results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining accounting records in compliance with legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2012, 2011 and 2010 were authorized for issue on 8 April 2013 by the Management Board of JSC Kazkommertsbank.

On behalf of the Management Board of the Bank:

Zhussupova N.A.	**Shoinbekova G.K.**
Chairman of the Board	**Chief Accountant**
8 April 2013	8 April 2013
Almaty	Almaty

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Kazkommertsbank:

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazkommertsbank ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2012, 2011 and 2010, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Group 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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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 Joint Stock Company Kazkommertsbank and its subsidiaries as at 31 December 2012, 2011 and 2010, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Mark Smith
Engagement partner
Chartered Accountant
Institute of Chartered
Accountants of Scotland
License № M21857
Glasgow, Scotland

Deloitte, LLP
State license on auditing
in the Republic of Kazakhstan
№ 0000015, type MFU-2, issued by
the Ministry of Finance of the
Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate № 0082
dated 13 June 1994
General Director
Deloitte, LLP

8 April 2013
Almaty, Kazakhstan

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Notes	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Interest income	5, 32	232,061	246,853	291,515
Interest expense	5, 32	(107,723)	(133,531)	(152,091)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		124,338	113,322	139,424
Provision for impairment losses on interest bearing assets	6, 32	(286,325)	(66,095)	(95,555)
NET INTEREST (EXPENSE)/INCOME		(161,987)	47,227	43,869
Net loss on financial assets and liabilities at fair value through profit or loss	7	(326)	(5,232)	(5,947)
Net gain on foreign exchange and precious metals operations	8	3,610	986	2,562
Fee and commission income	9	27,470	23,946	20,974
Fee and commission expense	9	(8,584)	(7,247)	(5,729)
Net realized (loss)/gain on investments available-for-sale		(649)	102	69
Dividend income	10	8,508	210	181
Other income	11	4,748	5,791	5,377
NET NON-INTEREST INCOME		34,777	18,556	17,487
OPERATING EXPENSES	12, 32	(33,890)	(34,128)	(32,730)
(LOSS)/PROFIT BEFORE OTHER OPERATING PROVISIONS		(161,100)	31,655	28,626
Provision for impairment losses on other transactions	6, 32	(2,577)	(1,865)	(3,679)
(Provision)/recovery of provision for guarantees and other contingencies	6, 32	(109)	1,387	3,261
(LOSS)/PROFIT BEFORE INCOME TAX		(163,786)	31,177	28,208
Income tax benefit/(expense)	13	32,854	(7,657)	(7,419)
NET (LOSS)/PROFIT FROM CONTINUING OPERATIONS		(130,932)	23,520	20,789
Profit from discontinued operations, net of tax		-	-	1,199
NET (LOSS)/PROFIT		(130,932)	23,520	21,988
Attributable to:				
Ordinary shareholders of the Parent		(130,353)	20,877	19,494
Preference shareholders of the Parent		(778)	2,603	2,385
Non-controlling interest		199	40	109
		(130,932)	23,520	21,988
(LOSS)/EARNINGS PER SHARE				
Basic and diluted (KZT)	14	(168.56)	26.82	25.04

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

8 April 2013
Almaty

Shoinbekova G.K.
Chief Accountant

8 April 2013
Almaty

The notes on pages 12-103 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
NET (LOSS)/PROFIT	(130,932)	23,520	21,988
Property and equipment:			
Revaluation of property and equipment	376	67	771
	376	67	771
Investments available-for-sale:			
Unrealized gain/(loss) on revaluation of investments available-for-sale	10	(1,459)	609
Loss/(gain) transferred to income statement on sale of investments available-for-sale	649	(102)	(69)
	659	(1,561)	540
Cash flow hedges:			
Plus: net gain on hedging reserve transferred to earnings	236	731	941
	236	731	941
Exchange differences on translation of foreign operations	1,399	227	158
Deferred income tax:			
Deferred income tax recognized on revaluation of property and equipment	-	3	(125)
Deferred income tax recognized on (loss)/gain on investments available-for-sale	(136)	154	55
Deferred income tax recognized on loss on cash flow hedges	(47)	(147)	(188)
	(183)	10	(258)
TOTAL COMPREHENSIVE (LOSS)/INCOME	(128,445)	22,994	24,140
Attributable to:			
Ordinary shareholders of the Parent	(130,644)	19,795	19,694
Preference shareholders of the Parent	1,996	3,161	3,149
Non-controlling interest	203	38	1,297
TOTAL COMPREHENSIVE (LOSS)/INCOME	(128,445)	22,994	24,140

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

8 April 2013
Almaty

Shoinbekova G.K.
Chief Accountant

8 April 2013
Almaty

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JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Notes	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
ASSETS:				
Cash and balances with national (central) banks	15	106,497	105,067	61,216
Precious metals		3,823	3,280	1,345
Financial assets at fair value through profit or loss	16	118,822	188,313	223,231
Loans and advances to banks and other financial institutions	17	146,703	53,968	146,331
Loans to customers	18, 32	1,917,692	2,079,661	2,174,760
Investments available-for-sale	19	15,682	15,419	16,822
Investments held to maturity	20	6,937	4,026	1,996
Goodwill	21	2,405	2,405	2,405
Property, equipment and intangible assets	22	32,520	33,028	31,857
Deferred income tax assets	13	4,220	-	-
Other assets	23	89,511	80,522	28,145
TOTAL ASSETS		2,444,812	2,565,689	2,688,108
LIABILITIES AND EQUITY				
LIABILITIES:				
Loans and advances from banks and other financial institutions	24	110,477	92,215	147,139
Customer accounts	25, 32	1,553,576	1,463,077	1,506,800
Financial liabilities at fair value through profit or loss	16	8,877	37,771	36,047
Debt securities issued	26	297,247	324,087	375,199
Other borrowed funds	27	18,631	26,359	23,943
Provisions	6	15,549	10,724	10,190
Deferred income tax liabilities	13	-	29,131	30,035
Dividends payable		40	6	4
Other liabilities	28	10,296	7,647	7,868
		2,014,693	1,991,017	2,137,225
Subordinated debt	29	122,150	138,040	137,137
Total liabilities		2,136,843	2,129,057	2,274,362
EQUITY:				
Equity attributable to equity holders of the Parent:				
Issued and outstanding share capital	30	9,008	9,023	9,031
Share premium reserve		194,721	194,924	195,024
Property and equipment revaluation reserve		5,808	5,488	5,508
Other reserves		97,117	226,085	203,109
Total equity attributable to equity holders of the Parent		306,654	435,520	412,672
Non-controlling interest		1,315	1,112	1,074
Total equity		307,969	436,632	413,746
TOTAL LIABILITIES AND EQUITY		2,444,812	2,565,689	2,688,108

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

8 April 2013
Almaty

Shoinbekova G.K.
Chief Accountant

8 April 2013
Almaty

The notes on pages 12-103 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Share capital (KZT million)	Treasury shares (KZT million)	Share premium reserve (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value reserve[1] (KZT million)	Cumulative translation reserve[1] (KZT million)	Hedging reserve[1] (KZT million)	Retained earnings[1] (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2009	9,044	(13)	195,006	4,935	191	(472)	(935)	182,055	389,811	(223)	389,588
Net profit	-	-	-	-	-	-	-	21,879	21,879	109	21,988
Other comprehensive income	-	-	-	653	595	(1,030)	753	(7)	964	1,188	2,152
Total comprehensive income	-	-	-	653	595	(1,030)	753	21,872	22,843	1,297	24,140
Sale of treasury shares	-	-	18	-	-	-	-	-	18	-	18
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(80)	-	-	-	80	-	-	-
31 December 2010	9,044	(13)	195,024	5,508	786	(1,502)	(182)	204,007	412,672	1,074	413,746

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Share capital (KZT million)	Treasury shares (KZT million)	Share premium reserve (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value reserve/(deficit)[1] (KZT million)	Cumulative translation reserve[1] (KZT million)	Hedging reserve[1] (KZT million)	Statutory reserves (KZT million)	Retained earnings[1] (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2010	9,044	(13)	195,024	5,508	786	(1,502)	(182)	-	204,007	412,672	1,074	413,746
Net profit	-	-	-	-	-	-	-	-	23,480	23,480	40	23,520
Other comprehensive income	-	-	-	68	(1,407)	229	584	-	2	(524)	(2)	(526)
Total comprehensive income	-	-	-	68	(1,407)	229	584	-	23,482	22,956	38	22,994
Transfer to statutory reserve	-	-	-	-	-	-	-	172,009	(172,009)	-	-	-
Repurchase of treasury shares	-	(8)	(100)	-	-	-	-	-	-	(108)	-	(108)
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(88)	-	-	-	-	88	-	-	-
31 December 2011	9,044	(21)	194,924	5,488	(621)	(1,273)	402	172,009	55,568	435,520	1,112	436,632

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

	Share capital (KZT million)	Treasury shares (KZT million)	Share premium reserve (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value (deficit)/ reserve[1] (KZT million)	Cumulative translation reserve[1] (KZT million)	Hedging reserve[1] (KZT million)	Statutory reserves[1] (KZT million)	Retained earnings[1] (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2011	9,044	(21)	194,924	5,488	(621)	(1,273)	402	172,009	55,568	435,520	1,112	436,632
Net profit	-	-	-	-	-	-	-	-	(131,131)	(131,131)	199	(130,932)
Other comprehensive income	-	-	-	376	523	1,395	189	-	-	2,483	4	2,487
Total comprehensive income	-	-	-	376	523	1,395	189	-	(131,131)	(128,648)	203	(128,445)
Transfer from statutory reserve	-	-	-	-	-	-	-	(171,207)	171,207	-	-	-
Repurchase of treasury shares	-	(15)	(203)	-	-	-	-	-	-	(218)	-	(218)
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(56)	-	-	-	-	56	-	-	-
31 December 2012	9,044	(36)	194,721	5,808	(98)	122	591	802	95,700	306,654	1,315	307,969

[1]The amounts included within the Investments available-for-sale fair value reserve/(deficit), Cumulative translation reserve, Hedging reserve, Statutory reserves and Retained earnings, in the above table, are included within "Other reserves" in the consolidated statement of financial position.

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

8 April 2013
Almaty

Shoinbekova G.K.
Chief Accountant

8 April 2013
Almaty

The notes on pages 12-103 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Notes	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received from financial assets at fair value through profit or loss		6,425	5,264	1,773
Interest received on loans and advances to banks and other financial institutions		2,293	3,428	5,501
Interest received from loans to customers		166,576	181,506	204,235
Interest received from investments available-for-sale		808	698	788
Interest received from investments held to maturity		336	20	46
Interest paid on loans and advances from banks and other financial institutions		(3,996)	(5,668)	(8,514)
Interest paid on customer accounts		(65,379)	(90,020)	(99,173)
Interest paid on debt securities issued		(27,590)	(32,508)	(39,464)
Interest paid on other borrowed funds		(1,344)	(1,205)	(1,646)
Interest paid on subordinated debt		(9,485)	(10,348)	(7,841)
Fee and commission received		27,201	24,087	20,798
Fee and commission paid		(8,614)	(7,258)	(5,718)
Other income received		4,662	5,490	5,654
Operating expenses paid		(30,741)	(30,614)	(30,576)
Cash inflow from operating activities before changes in operating assets and liabilities		61,152	42,872	45,863
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets:				
Funds deposited with National Bank of the Republic of Kazakhstan		16,847	(18,960)	(153)
Funds deposited with Central Bank of Russian Federation		(58)	(538)	(1,429)
Funds deposited with National Bank of the Kyrgyz Republic		(7)	(16)	94
Funds deposited with National Bank of Tajikistan		7	(40)	(19)
Precious metals		(543)	(1,935)	(137)
Financial assets at fair value through profit or loss		41,643	32,144	(110,380)
Loans and advances to banks and other financial institutions		(9,263)	27,524	10,664
Loans to customers		(76,814)	35,716	(56,016)
Other assets		7,298	(3,528)	(11,508)
Increase/(decrease) in operating liabilities:				
Loans and advances from banks and other financial institutions		17,637	(54,827)	(59,560)
Customer accounts		79,662	(38,683)	242,124
Other liabilities		2,626	(6,953)	(2,647)
Cash inflow from operating activities before taxation		140,187	12,776	56,896
Income tax paid		(680)	(2,104)	(102)
Net cash inflow from operating activities		139,507	10,672	56,794

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Notes	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, equipment and intangible assets		(2,245)	(4,786)	(4,883)
Proceeds on sale of property and equipment		80	49	5,015
Dividends received		8,508	210	181
Proceeds on sale of investments available-for-sale		3,332	2,975	3,510
Purchase of investments available-for-sale		(3,791)	(2,576)	(4,489)
Proceeds on maturity of investments held to maturity		1,144	-	13
Purchase of investments held to maturity		(3,297)	(1,323)	(1,093)
Proceeds on disposal of subsidiary		-	-	1,149
Net cash inflow/(outflow) from investing activities		3,731	(5,451)	(597)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Purchase of treasury shares		(218)	(108)	-
Proceeds on sale of treasury shares		-	-	18
Proceeds from debt securities issued		6,626	44,533	2,095
Repurchase and repayment of debt securities issued		(41,346)	(91,648)	(71,144)
Proceeds from subordinated debt		-	-	1,000
Proceeds from other borrowed funds		-	7,400	-
Repayment of other borrowed funds		(7,620)	(5,053)	(7,054)
Dividends paid on preference shares		(744)	(729)	(741)
Net cash outflow from financing activities		(43,302)	(45,605)	(75,826)
Effect of exchange changes on the balance of cash held in foreign currencies		245	225	(944)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		100,181	(40,159)	(20,573)
CASH AND CASH EQUIVALENTS, beginning of period	15	78,064	118,223	138,796
CASH AND CASH EQUIVALENTS, end of period	15	178,245	78,064	118,223

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

8 April 2013
Almaty

Shoinbekova G.K.
Chief Accountant

8 April 2013
Almaty

The notes on pages 12-103 form an integral part of these consolidated financial statements.

1. ORGANISATION

Joint Stock Company ("JSC") Kazkommertsbank ("the Bank", or "Kazkommertsbank") is a Joint Stock Company and has operated in the Republic of Kazakhstan since 1990. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") and by the Committee for control and supervision of financial market and financial organizations of the NBRK ("the FMSC") in accordance with the license № 48 dated 27 December 2007. The Bank's primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 135Zh, Gagarin str., Almaty 050060, Republic of Kazakhstan.

As at 31 December 2012, 2011 and 2010, the Bank has 23 branches in the Republic of Kazakhstan.

Kazkommertsbank is a parent company of the banking group ("the Group") which consists of the following enterprises consolidated in the financial statements:

		Proportion or ownership interest/voting rights			
Name	**Country of operation**	**2012**	**2011**	**2010**	**Type of operation**
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	100%	Securities market transactions
LLP Processing Company	Republic of Kazakhstan	100%	100%	100%	Payment card processing and other related services
Kazkommerts International B.V.	Kingdom of Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Capital II B.V.	Kingdom of Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
JSC OCOPAIM Grantum Asset Management	Republic of Kazakhstan	100%	100%	100%	Investment management of pension assets
JSC Life Insurance Company Kazkommerts Life	Republic of Kazakhstan	100%	100%	100%	Life insurance
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	100%	100%	Commercial bank
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	100%	100%	100%	Insurance
OJSC Commercial Bank Moskommertsbank	Russian Federation	100%	100%	100%	Commercial bank
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	95.75%	95.75%	95.75%	Commercial bank
JSC Grantum APF	Republic of Kazakhstan	82.52%	82.52%	82.52%	Pension fund

JSC Kazkommerts Securities is a Joint Stock Company and has operated under the laws of the Republic of Kazakhstan since 1997. The company's primary business consists of trading with securities, including broker and dealing operations, consulting in investments and corporate finances, organization of security issuances, allocation and underwriting of securities, and purchase and sale of securities in the capacity as an agent. Due to re-registration from OJSC to JSC, the company received a license on broker and dealing operations № 0401201207 dated 17 May 2006 and license for investment portfolio management № 0403200439 dated 17 May 2006 issued by the FMSC.

LLP Processing Company is a limited liability partnership and has operated under the laws of the Republic of Kazakhstan since 9 July 2004. The company is registered with the Ministry of Justice of the Republic of Kazakhstan under № 64313-1910-TOO. The Company's primary business is to provide payment and other types of card processing.

Kazkommerts International B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company was registered with the Chamber of Commerce of the Netherlands under the license № 24278506 dated 1 October 1997 for raising funds, including the issuance of bonds and other securities and entering into agreements regarding those activities.

Kazkommerts Finance II B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company was registered with the Chamber of Commerce of the Netherlands under the license № 24317181 dated 13 February 2001 for conducting operations.

Kazkommerts Capital II B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands since 11 April 2000. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company has license № 24305284 dated 11 April 2000 issued by the Chamber of Commerce of the Netherlands for conducting operations.

JSC OCOPAIM Grantum Asset Management ("Grantum PAMC") is a Joint Stock Company and has operated under the laws of the Republic of Kazakhstan since 1998. The company's primary business is investment management of pension funds. The company has license № 0411200249 dated 26 June 2006 on investment management of pension funds issued by the FMSC, license № 0403200454 dated 26 June 2006 on management of investment portfolio issued by the FMSC, license № 0402200299 dated 26 June 2006 on broker and dealer activity without right to custody activities issued by the FMSC.

JSC Life Insurance Company Kazkommerts Life is a Joint Stock Company and operates under the laws of the Republic of Kazakhstan. The company's primary business consists of life insurance. The company has a license on life insurance (reinsurance) services № 2.2.42 dated 6 January 2011 issued by the FMSC.

On 29 May 2007, the Board of Directors of the Bank decided to establish a subsidiary bank, CJSC Kazkommertsbank Tajikistan. The Bank received an approval from the FMSC № 93 on 6 September 2007 for the creation of a subsidiary bank in Tajikistan. On 24 January 2008, CJSC Kazkommertsbank Tajikistan received an operating license from the National Bank of Tajikistan for banking operations in both national currency and foreign currencies № 33/1. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees.

JSC Kazkommertsbank Kyrgyzstan is a Joint Stock Company and has operated under the laws of the Kyrgyz Republic since 1991. The Bank's operations are regulated by the National Bank of the Kyrgyz Republic ("the NBKR") according to license № 010 dated 15 April 2005 for banking operations in national currency and license № 010/1 dated 15 April 2005 for banking operations in foreign currency. The Bank's primary business consists of commercial banking activities, acceptance of deposits from individuals, transfer of payments, operations with foreign exchange and derivative instruments, originating loans and guarantees.

JSC Grantum APF is a Joint Stock Company and has operated since 1998 under the laws of the Republic of Kazakhstan. The company's primary business consists of the receipt of pension contributions of depositors and making pension payments to recipients under the laws of the Republic of Kazakhstan. The company operates based on a state license on the receipt of pension contributions and making pension payments, also on operating on securities market № 3.2.19/38/41 dated 7 May 2010 issued by the FMSC.

JSC Insurance Company Kazkommerts-Policy is a Joint Stock Company and has operated under the laws of the Republic of Kazakhstan since 1996. The company's primary business consists of insurance of property, cargoes, auto insurance, civil liability insurance of vehicle owners, insurance of other civil liabilities and reinsurance. The company has license on insurance and reinsurance services № 2.1.13 dated 1 June 2011 issued by the FMSC.

OJSC Commercial Bank Moskommertsbank ("MKB") is a Joint Stock Company and operates under the laws of the Russian Federation ("RF") since 2001. MKB's operations are regulated by the Central Bank of the Russian Federation ("the CBR") in accordance with the license on the banking operations with private sector № 3365 dated 08 December 2010. License of the Federal securities commission on broker operations № 177-11190-100000 dated 18 April 2008, license on the depository activity № 177-11200-000100 dated 18 April 2008, license on dealer operations № 177-11192-010000 dated 18 April 2008.

MKB provides a wide spectrum of banking products and services for individuals, corporate clients and financial institutions. The Bank's primary business consists of retail banking, crediting of small and medium business and the corporate sector.

In December 2011, Kazakhstan adopted the Law on the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan regarding the Regulation of Banking Activities and Financial Organisations with Respect to Risk Mitigation, which stipulated that commercial banks create special subsidiaries to purchase banks' non-working (stress) assets and manage them. On 28 January 2013, the Bank's special subsidiaries for the management of stress assets – SAMC-KKB-1 LLP and SAMC KKB-2 LLP - were registered by the Ministry of Justice of the Republic of Kazakhstan.

Acquisitions and sales

On 11 February 2010, at the Extraordinary General Shareholders Meeting of JSC Grantum APF, a decision was taken to increase the charter capital of JSC Grantum APF by issuing 2,200,000 additional common shares. On 2 March 2010, the Board of Directors of JSC Grantum APF approved the price at KZT 1,000 per share. On 6 April 2010, Kazkommertsbank exercised its pre-emptive right and purchased 1,760,260 shares of JSC Grantum APF for KZT 1,760 million. After the completion of the placement, the Board of Directors of JSC Grantum APF made a decision to place the remaining 80,370 common shares at KZT 1,000 per share among unrestricted investors. On 5 May 2010, Kazkommertsbank purchased in full the above-mentioned shares. As a result, Kazkommertsbank increased its stake in JSC Grantum APF from 80.01% to 82.52%.

On 14 May 2010, Kazkommertsbank has acquired the ordinary shares of the 7th issue of OJSC Kazkommertsbank Kyrgyzstan, increasing its stake from 94.64% to 95.75% at a price of Kyrgyz soms 1,689,500 (equivalent to KZT 5 million).

On 8 December 2010, the Bank sold its stake in LLP Investment Group East Kommerts for KZT 295 million. The gain on sale amounted to KZT 1,199 million.

On 9 September 2011, the Board of Directors of the Bank decided to liquidate the subsidiary of special-purpose - Kazkommerts Capital II B.V. which performed its financial activity in the Netherlands.

During 2011, the Bank increased the share capital of JSC "Life Insurance Company "Kazkommerts Life" by purchasing 414,000 ordinary newly issued shares of its own subsidiary. As a result, the share capital of the company increased to KZT 1,865 million. The percentage of share capital held by the Bank remained at 100% after the issuance of the new capital.

On 11 October 2012, the Bank within the general concept for the development of subsidiaries, had increased the share capital of the Grantum PAMC by acquiring the right of privilege of purchase of the common shares of new issues. The Bank acquired 32,600 shares of the common stock of the new issue at the price KZT 25,000 per one (each) share. As a result, the share capital increased by KZT 815 million and amounted to KZT 1,465 million. The percentage of share capital held by the Bank remained at 100% after the issuance of the new capital.

The investments of the Bank into the share capital of subsidiaries were made with the purpose of increasing their financial stability and compliance with the prudential and capital adequacy requirements.

On 5 January 2012, the National Bank of the Republic of Kazakhstan gave permission to the Bank on acquisition of insurance holding status of JSC Insurance Company Kazkommerts-Policy and JSC Life Insurance Company Kazkommerts Life. The Bank is the sole shareholder of both above-listed insurance organizations.

Shareholders

As at 31 December 2012, 2011 and 2010, the following shareholders owned the issued ordinary shares of the Bank:

	31 December 2012		31 December 2011		31 December 2010	
	Number of shares	Direct ownership,* %	Number of shares	Direct ownership, * %	Number of shares	Direct ownership,* %
JSC Alnair Capital Holding (“Alnair”)	223,922,790	28.80	223,922,790	28.77	223,922,790	28.76
JSC Central-Asian Investment Company (“CAIC”)**	185,561,734	23.86	185,561,734	23.84	184,679,013	23.73
JSC National Welfare Fund Samruk – Kazyna***	165,517,241	21.29	165,517,241	21.26	165,517,241	21.26
European Bank for Reconstruction and Development (“EBRD”)	76,095,329	9.79	76,095,329	9.78	76,095,329	9.77
Subkhanberdin N.S.	72,570,672	9.33	72,570,672	9.32	72,570,672	9.32
Other shareholders	53,920,757	6.93	54,694,822	7.03	55,800,316	7.16
Total****	**777,588,523**	**100.00**	**778,362,588**	**100.00**	**778,585,361**	**100.00**

Notes:

*These percentage holdings were calculated based on the direct holding of each shareholder in the total number of ordinary shares outstanding less treasury shares purchased by the Bank and its subsidiaries. JSC “Kazkommerts Securities”, subsidiary of the Bank, acts as a market-maker of the Bank’s shares on the local stock exchange.

**For the years 2012, 2011 and 2010, the total number of shares under CAIC’s control is 241,885,810 common shares, including 56,324,076 shares received in trust management from JSC National Welfare Fund Samruk-Kazyna and 882,721 shares owned indirectly through JSC Ak-Zhalyn, subsidiary of CAIC. As at 31 December 2012, ownership share – 31.11% (2011: 31.08%, 2010: 31.07%).

On 31 January 2011, CAIC with ownership of 23.73% from the total number of ordinary shares outstanding and JSC Ak-Zhalyn, whose main shareholder is CAIC, with ownership of 0.11% from the total number of ordinary shares outstanding conducted reorganization through merging JSC Ak-Zhalyn with CAIC.

Due to the reorganization, the ownership of CAIC in equity of the Bank has changed insignificantly:

- direct ownership increased and amounted to 23.84% of the total number of common shares outstanding;
- indirect ownership decreased and amounted to 7.23% of the total number of common shares outstanding (shares were passed under trust management to CAIC from JSC National Welfare Fund Samruk-Kazyna).

Total share (direct and indirect) of CAIC in the Bank’s equity did not change and amounted to 31.07% out of total number of issued shares.

The merger of JSC Ak-Zhalyn with CAIC did not result in any changes in control over the Bank and did not influence the ownership shares of the other main shareholders – Mr. Subkhanberdin N.S., JSC Alnair Capital Holding, National Welfare Fund Samruk-Kazyna and the European Bank of Reconstruction and Development.

***As at 31 December 2012, 2011 and 2010 out of the total number of common shares disclosed, in the table above, 56,324,076 common shares were passed under trust management to CAIC.

****This number is calculated at each reporting date as the total number of the common shares outstanding minus treasury shares purchased by the Bank's market-maker based on the requirements of the JSC Kazakhstan Stock Exchange.

In January 2010, JSC Alnair Capital Holding acquired additional shares of JSC Kazkommertsbank. As a result of the transaction, Alnair increased its holding of JSC Kazkommertsbank's common shares to 28.77% and now owns 223,922,790 common shares of the Bank (mainly in the form of GDRs). The earlier agreement between Alnair and JSC National Welfare Fund Samruk-Kazyna, in relation to the placement of 6.448% of the Bank's common shares under the trust management of Alnair, has been terminated based on the mutual agreement of both parties. This purchase has not resulted in any changes to the shareholdings structure of other major shareholders – Mr. Subkhanberdin, CAIC, EBRD and Samruk-Kazyna.

Information on major shareholders

JSC Central-Asian Investment Company ("CAIC") is one of the entities through which the Directors and Management Board members own shares of the Bank. As at 31 December 2012, CAIC held 185,561,734 shares of the Bank (2011: 185,561,734 shares, 2010: 184,679,013 shares). As at 31 December 2012, the sole shareholders of CAIC were Subkhanberdin N.S., Chairman of the Board of Directors of the Bank, who owns 87.21% (2011: 87.21%, 2010: 87.21%) and Zhussupova N.A., Chairman of the Management Board of the Bank, who owns 12.79% (2011: 12.79%, 2010: 12.79%). CAIC and Subkhanberdin N.S. act as the bank's holding company and major shareholder, respectively, on the basis of approval of the FMSC. As at 31 December 2012, Subkhanberdin N.S. owns 36.46% (2011: 36.43%, 2010: 36.41%) of the ordinary share capital of the Bank through direct and indirect ownership as a result of his holdings in CAIC and Zhussupova N.A. owns 3.98% (2011: 3.97%, 2010: 3.97%) through indirect ownership.

JSC Alnair Capital Holding ("Alnair") is a company operating under the laws of the Republic of Kazakhstan. It is owned by a sole shareholder – "Alnair Capital" LLP which is resident of the Republic of Kazakhstan and its ultimate shareholder is Mrs. Aigul Nuriyeva. Alnair has been a shareholder of the Bank since 2008 and together with "Alnair Capital" LLP has the official status of bank holding. Alnair owns shares in the form of GDRs, which are included in the total amount of shares under the nominal holding with the Central Depository.

JSC National Welfare Fund Samruk–Kazyna ("Samruk–Kazyna") is an entity controlled by the Government of the Republic of Kazakhstan. Samruk–Kazyna took its position in the Bank in 2009 following the Government's decision to protect the rights of the Bank's creditors and support the sustainability of the Kazakh banking system. Samruk-Kazyna is a shareholder of the Bank for a limited period based on the terms of the agreements signed between Samruk-Kazyna, the Bank and its major shareholders. According to these agreements, Samruk-Kazyna will not participate in the day-to-day management of the Bank. The major shareholders of the Bank have maintained control over the Bank, as Samruk-Kazyna has transferred a portion of its common shares to the trust management of major shareholders CAIC and Alnair. As a result of this agreement, CAIC, EBRD and Mr. Subkhanberdin together have voting rights of 50% plus one common share of the Bank. Due to the refusal of the pre-emptive right for acquisition of shares of the Bank major shareholders were granted an option to repurchase shares of the Bank owned by the Samruk-Kazyna.

EBRD is an international financial institution established in 1991 to support market economies in the countries of Central Europe and Central Asia. It has been a shareholder of the Bank since 2003.

These consolidated financial statements were authorized for issue by the Management Board of the Bank on 8 April 2013.

2. BASIS OF PRESENTATION

Accounting basis

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

These consolidated financial statements are presented in millions of Kazakhstani tenge ("KZT"), unless otherwise indicated.

These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of property and equipment at revalued amounts according to International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement" and IAS 16 "Property, Plant and Equipment", respectively.

Kazkommertsbank and its subsidiaries (except for subsidiaries in Russian Federation, Republic of Tajikistan and Kyrgyz Republic) maintain their accounting records in accordance with IFRS. Subsidiaries in Russian Federation, Republic of Tajikistan and Kyrgyz Republic maintain their accounting records in accordance with local GAAP and their financial statements are prepared from the local statutory accounting records and adjusted to conform with IFRS.

These consolidated financial statements have been prepared based on the accounting records of the Bank and its subsidiaries. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and statement of comprehensive impact from the effective date of acquisition or up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” (“IAS 21”), and in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates on the date of the transactions;
- Equity items of the foreign entity are translated at exchange rates on the date of the transactions;
- All resulting exchange differences are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). until the disposal of the investment;
- On disposal of an investment in a foreign entity, related exchange differences are reclassified to profit or loss .

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities are recognised and measured in accordance with IAS 12;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Parent. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent and to the non-controlling interests. Total comprehensive income is attributed to the equity holders of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Parent.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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

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

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

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

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

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

Cash and balances with national (central) banks

Cash and balances with national (central) banks include cash on hand and unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, the Central Bank of the Russian Federation, the National Bank of Kyrgyz Republic and the National Bank of Tajikistan with original maturities within 90 days.

Cash and cash equivalents

For the purposes of determining cash flows, cash and cash equivalents includes advances to banks with original maturities within 90 days, cash and balances with national(central) banks less the minimum reserve deposits required by the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan, the National Bank of the Kyrgyz Republic and the National Bank of Tajikistan.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates using the KZT/USD exchange rate effective on the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange and precious metals operations.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking or (3) which are designated by the Group at fair value through profit or loss upon initial recognition.

A financial asset or liability other than a financial asset or liability held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset or liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39

“Financial Instruments: Recognition and Measurement” permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period and is included in the ‘Net gain/(loss) from financial assets and liabilities at fair value through profit or loss’ line item. Fair value is determined in the manner described in ‘Valuation of financial instruments’.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, futures, swaps and options on foreign currency, precious metals and securities to manage currency, interest rate and liquidity risks and for trading purposes. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included within financial assets or financial liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions with a fixed maturity term are initially recorded at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction from impairment or uncollectibility.

Securities repurchase and reverse repurchase agreements and lending transactions

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

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets transferred under repos are retained in the consolidated financial statements and the consideration received under these agreements is recorded as a collateralized deposit received within loans and advances from banks and other financial institutions and customer accounts.

Financial assets received under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within Loans and advances to banks and other financial institutions and loans to customers.

In the event that the financial assets received under reverse repos are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and resale of the underlying financial assets is accrued over the life of the agreement using the effective interest rate and recognized as interest income or expense in the consolidated income statement.

The Group enters into repos and reverse repos agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

As at 31 December 2012, the fair value of securities transferred as collateral under loans under repurchase agreements amounted to KZT 77,936 million (2011: KZT 29,404 million, 2010: KZT 37 million).

As at 31 December 2012, the fair value of securities received as collateral under reverse repurchase agreements amounted to KZT 11,623 million (2011: KZT 842 million, 2010: KZT 8,771 million).

Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

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

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. A lease is classified as a finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor presents finance leases within Loans to customers and initially measures them in the amount equal to net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment in the finance lease.

Investments available-for-sale

Investments available-for-sale represents debt and equity investments that are intended to be held for an indefinite period of time. Investments in AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Investments available-for-sale are initially recorded at fair value and subsequently are measured at fair value, with such re-measurement recognized in other comprehensive income and accumulated within the Investments AFS fair value reserve which is included in Other reserves line item within equity, except for impairment losses, foreign exchange gains or losses, interest income accrued using the effective interest method and dividends on AFS equity investments, which are recognized directly in the consolidated income statement. When sold, the cumulative gain or loss previously accumulated in the Investments AFS fair value reserve is reclassified to profit or loss. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Dividends on AFS equity investments are recognised when the Group's right to receive the dividends is established and are included in dividend income in the consolidated income statement.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has a positive intent and the ability to hold them to maturity. Such securities are carried at amortized cost, using the effective interest rate method, less any allowance for impairment. Amortized discounts or premiums are recognized in interest income over the period to maturity using the effective interest method.

Impairment of financial assets

Financial assets carried at amortized cost

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Investments available-for-sale

Investments in AFS debt securities are considered 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 asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For AFS equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If an available-for-sale asset is impaired, the cumulative loss comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is reclassified from equity to the consolidated income statement. Reversals of impairment losses in respect of equity securities classified as available-for-sale are not recognized in the consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated within the Investments available-for-sale fair value reserve which is included in Other reserves line item within equity. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognized in the consolidated income statement.

For the financial assets recorded at cost the impairment represents the difference between the carrying value of the financial asset and present value of the estimated future cash flows discounted using the current market interest rate for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included in the consolidated income statement using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater than recorded impairment.

Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business (see paragraph Business Combinations above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (“CGU”) (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, equipment and intangible assets

Property and equipment, except for buildings and other real estate and construction, and intangible assets are carried at historical cost less accumulated depreciation and amortization. Buildings and other real estate and construction are carried at market value. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization of property, equipment and intangible assets are charged on the carrying value of property and equipment and are designed to write off assets over their useful economic lives. Depreciation and amortization are calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	1-10%
Furniture and equipment	4-50%
Intangible assets	15-50%

Freehold land is not depreciated.

Leasehold improvements are amortized over 5 years. Expenses related to repairs and renewals are charged when incurred and included in operating expenses of consolidated income statement, unless they qualify for capitalization.

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use, where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

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

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

Depreciation on revalued buildings is charged to consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Market value of property is assessed using one of three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property based on available public information;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted as of the reporting date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit or taxable temporary difference from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes other than income tax, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt are initially recognized at fair value less transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Provisions

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Share capital and share premium reserve

Share capital is recognized at historical cost. Share premium reserve represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium reserve.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Preference shares

Preference shares having a prescribed dividend amount are considered to be compound financial instruments in accordance with the substance of the contractual arrangement and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. On initial recognition the equity component is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. The fair value of the liability component on initial recognition is estimated by discounting expected future cash flows at a market interest rate for a comparable debt instrument. Subsequently, the liability component is measured according to the same principles used for subordinated debt, and the equity component is measured according to the same principles used for share capital.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the countries in which the Group operates certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the state pension system of the countries in which the Group operates. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated income statement when the related transactions are completed. Interest income, received on assets assessed at fair value, is classified as interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct and incremental costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Underwriting income and expenses

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

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

Losses and loss adjustments are charged to the consolidated income statement as incurred.

Commissions earned on ceded reinsurance contracts are recorded to the consolidated income statement at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

Reserve for insurance losses and loss adjustment expenses is a summary of estimates of ultimate losses, and includes both claims reported but not settled ("RBNS") and claims incurred but not reported ("IBNR").

RBNS is created for significant reported claims not settled at the reporting date. Estimates are made on the basis of information received by the Group during its investigation of insured events. IBNR is estimated by the Group based on its previous history of claims/indemnification of claims using actuarial methods of calculation, which include loss triangulation for insurance classes for which there is statistical data. For the types of insurance that do not have statistical data, IBNR is calculated according to the FMSC requirements as not less than 5% of the written premiums.

Life insurance

The reserves for claims and claims incurred for annuity contracts are determined as the sum of the discounted value of the expected future benefits, annuities handling and contracts administration expenses, which are directly related to the contract, less the discounted value of the expected estimated premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The reserves are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

The reinsurers' share in the provision for losses is calculated in accordance with the reinsurers' share under the reinsurance contracts.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated statements of financial position within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Rates of exchange

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year end are as follows:

	31 December 2012	31 December 2011	31 December 2010
KZT/1 US Dollar	150.74	148.40	147.50
KZT/1 Euro	199.22	191.72	196.88
KZT/1 Kyrgyz Som	3.18	3.21	3.13
KZT/1 Russian Rouble	4.96	4.61	4.83
KZT/1 Tajikistan Somoni	31.68	31.18	33.50

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides depositary services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

The segments are identified on the basis used by the Group's chief operating decision maker (Management Board) to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and loans and advances to banks and other financial institutions and operating expenses other than salaries and other employee benefits. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported based on the domicile of the company within the Group.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition:

Allowance for impairment losses of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgment to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The most significant judgment is applied in assessing impairment levels in real estate loans and construction financing. Current economic and market conditions make historical statistical loss levels less relevant in determining the inherent loss levels in the loan portfolio. Instead, management is required to use recent empirical evidence of impairment or employ analytical tools to estimate future economic value of collateral secured under loans or the expected cash generating ability of borrowers' business. This area of judgment bears significant sensitivity to various risk factors, such as general economic growth, central government involvement, support of local authorities, trends in the housing and commercial real estate markets, and changes in the regulatory environment. The assumptions underlying this judgment are highly subjective.

The level of loan loss provisions for this loan category at the reporting date is supported by following factors:

- The economic value assessment of collateral under real estate loans. In some cases management used certain assumptions to determine the inherent value of collateral, such as land, based on highest and best use, current observable lease rates and sale prices for commercial and residential real estate. Moreover, the assessment sometimes depends on expectations that local municipal government will continue funding capital expenditure costs for infrastructure development in and around any given real estate project. In certain cases, the requirement for additional financing as well as investment is factored into determining the value.
- The Bank has formulated a work-out strategy for construction loans, which is currently being implemented, most significantly in Almaty and Astana. In many cases the approach taken by the Bank necessitates close partnership with local municipal authorities, construction subcontractors, suppliers of construction materials, and the availability of construction materials, specialized equipment and labor.
- Incomplete construction projects are more likely to result in past due construction loans. Therefore, the Bank encourages additional investments in incomplete construction projects, which in turn increase an opportunity to generate more cash flows for existing borrowers of the Bank that are involved in ancillary services to the construction sector, such as equipment leasing, construction materials, site management, labor outsourcing, transportation, security, and other services.

Fair value changes in the above factors and assumptions may result in significant adjustment to loan loss provisions and the carrying value of loans to customers. Management seeks to regularly update assumptions and the approach it has taken toward individual borrowers.

The allowances for impairment losses of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in these conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The impairment of a loan is identified within credit monitoring, which includes monitoring of payments of the customer and preparation of regular monitoring reports on the customer and his loans every 6 or 12 months, depending on the solvency of the customer. In addition, on a regular basis the credit managers monitor the quality of the loan, financial position and business of the customer, and observe the terms of the loan agreements. For the purpose of provisioning, an assessment of impairment losses for corporate loans is performed on an individual basis.

Consumer loans are classified as non-performing or impaired if there is a default on payments of the principal or accrued interest for 60 days or more. For the purpose of provisioning, assessment of impairment losses is made on a collective or portfolio basis.

According to the Group's credit portfolio management policy, if at least one loan of a customer is recognized as impaired based on the above mentioned criteria, the total debt of such a customer is considered impaired, i.e. other performing loans of such customer are also recognized as impaired.

For certain performing loans which are not overdue, the Group classifies them as homogenous and individually assessed watch assets. Homogenous assets are not individually impaired, because there is not enough objective evidence to recognize them as impaired. At the same time, the Group assesses these assets for credit risk and impairment on a collective basis taking into account the general macroeconomic environment as well as industry specific developments. The individually assessed watch assets consist of loans not past due, but there is a possibility that the credit losses may arise in the future due to a possible negative trend in the borrower's financial position or evidence of some unsatisfactory financial results which affect the ability of a borrower to repay. The financial standing of such clients is evidenced and monitored, based on business results, repayment discipline and cash flows.

The Group creates an allowance for impairment losses in order to cover credit losses, including losses where the asset is not specifically identified. At least monthly, the provision for impairment losses on interest bearing assets is reviewed by the Chairman of the Board, the Head of Risk Management Department №1, the Chief Financial Officer, and the Chief Accountant. At least quarterly, the provision for impairment losses and overall credit quality is reviewed by the Board of Directors. The amount of provision is reviewed relative to the credit portfolio and current economic conditions. The amount of provision is determined by individual and portfolio-based approaches. As at 31 December 2012, 2011 and 2010, management deemed the provision for impairment losses to be appropriate and sufficient to absorb losses that are inherent to the Group's loan portfolio.

The carrying amount of the allowance for impairment of loans to customers as at 31 December 2012 is KZT 923,287 million (2011: KZT 658,108 million, 2010: KZT 572,450 million).

In December 2012 amendments to the Tax Code of RK came into force, in accordance with which starting from 2013 Kazakhstani banks will have a right to deduct provisioning charges under IFRS and dynamic provisioning charges incurred under the requirements of the NBRK. Regulatory specific provisioning based on the requirements of the FMSC is to be cancelled in 2013. Additionally in 2013 phase-in of capital adequacy ratios in accordance with Basel III is expected to start in Kazakhstan. Regulations of NBRK covering these amendments have not yet been approved in the manner prescribed by the legislation, thus creating uncertainty of the regulatory environment.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available-for-sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price at the close of business on the reporting date. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data and the use of discounted cash flow pricing models. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted market prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The Group classifies its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group uses quoted market prices from independent information sources, for all its financial assets and liabilities recorded at fair value, with the exception of certain debt securities, which are valued using internal models, and derivative financial instruments, which are valued using generally recognized valuation models based on market data.

The Group considers the credit risk of its counterparties when estimating the fair value of financial instruments, including derivatives. The Group attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resulting value is incorporated into the fair value of the respective instruments. The Group generally calculates the credit risk adjustment for derivatives on observable credit data.

Credit risk is measured using dynamic models that calculate the probability and potential future exposure given default. The main inputs used in these models are generally data relating to individual issuers in the portfolio and correlations thereto. The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads and the correlation between individual issuers' quoted credit derivatives. Historically, the Group did not adjust derivative liabilities for its own credit risk. As at 31 December 2012, 2011 and 2010, the impact of credit valuation adjustments in the derivatives portfolio was not material to the Group.

Had Management used different assumptions regarding the interest rates, volatility, exchange rates, the credit ratings of the counterparties, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available could have had a material impact on the Group's reported net (loss)/income.

The table below summarizes the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2012, 2011 and 2010, respectively:

Category as per the consolidated statement of financial position		**Quoted prices in active markets (Level 1) (KZT million)**	**Internal models based on market prices (Level 2) (KZT million)**	**Internal models (unobservable inputs) (Level 3) (KZT million)**	**31 December 2012 Total (KZT million)**
Assets:					
Trading assets	Debt securities	103,561	-	83	103,644
	Equity investments	6,355	-	-	6,355
Derivative financial instruments	Foreign exchange and interest rate contracts	-	8,823	-	8,823
Investments available-for-sale	Debt securities	13,965	-	-	13,965
	Equity securities	1,717	-	-	1,717

Total		125,598	8,823	83	134,504
Liabilities:					
Derivative financial instruments	Foreign exchange and interest rate contracts	-	8,877	-	8,877
Total		-	8,877	-	8,877

Category as per the consolidated statement of financial position		Quoted prices in active markets (Level 1) (KZT million)	Internal models based on market prices (Level 2) (KZT million)	Internal models (unobservable inputs) (Level 3) (KZT million)	31 December 2011 Total (KZT million)
Assets:					
Trading assets	Debt securities	165,277	-	82	165,359
	Equity investments	9,852	-	-	9,852
Derivative financial instruments	Foreign exchange and interest rate contracts	-	13,102	-	13,102
Investments available-for-sale	Debt securities	11,312	-	-	11,312
	Equity securities	4,107	-	-	4,107
Total		190,548	13,102	82	203,732
Liabilities:					
Derivative financial instruments	Foreign exchange and interest rate contracts	-	37,771	-	37,771
Total		-	37,771	-	37,771

Category as per the consolidated statement of financial position		Quoted prices in active markets (Level 1) (KZT million)	Internal models based on market prices (Level 2) (KZT million)	Internal models (unobservable inputs) (Level 3) (KZT million)	31 December 2010 Total (KZT million)
Assets:					
Trading assets	Debt securities	197,068	-	120	197,188
	Equity investments	4,519	-	-	4,519
Derivative financial instruments	Foreign exchange and interest rate contracts	-	21,524	-	21,524
Investments available-for-sale	Debt securities	11,876	-	-	11,876
	Equity securities	4,946	-	-	4,946
Total		218,409	21,524	120	240,053
Liabilities:					
Derivative financial instruments	Foreign exchange contracts	-	36,047	-	36,047
Total		-	36,047	-	36,047

Reconciliation from the beginning balances to the ending balances in Level 3 of fair value hierarchy for the years ended 31 December 2012, 2011 and 2010 was presented as follows:

	2012 (KZT million)	2011 (KZT million)	2010 (KZT million)
Beginning of the year	82	120	599
Gain/(loss) recognized in the consolidated income statement	1	(38)	(479)
End of the year	83	82	120

Internal models used in estimation of fair value of certain debt instruments are based on discounted future cash flows with/or without consideration of restructuring plan depending on type of debt security. Discount factors are estimated using yield curve which in turn is formed by constructing risk-free curve for a given currency of debt instrument adding a risk premium. The risk premium value is measured in basis points and reflects an issuer's credit risk determined using a robust scoring model. This internal model does not take directly into consideration available market information related to prices. However, on a regular basis its outcomes are compared with prices of similar instruments or quoted prices of certain debt instruments, which the Management does not consider reliable due to low trading volumes, thus, a minimal number of those values are used to determine fair value of the debt instrument. Reasonable possible changes in the key assumptions were used. Based on changing the key assumptions, Management determined that changing these assumptions did not cause the fair value of those debt instruments to change significantly.

Goodwill impairment

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

- the future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance, and reflect management's expectations of future business prospects at the time of the assessment; and
- the rates used to discount future expected cash flows are based on the costs of capital assigned to individual CGUs and the rates can have a significant effect on their valuation. The cost of capital percentage is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial variables, which are subject to fluctuations in external market rates and economic conditions beyond our control.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

During 2012, 2011 and 2010 no impairment of goodwill was identified. The carrying amount of goodwill as at 31 December 2012 is KZT 2,405 million (2011: KZT 2,405 million, 2010: KZT 2,405 million).

Statutory reserve

The Statutory reserve which reflects the difference between provisions for impairment losses accrued under IFRS and provisions for impairment losses reported to the regulator in accordance with statutory requirements amounted to KZT 802 million as at 31 December 2012 (2011: KZT 172,009 million). The difference results mostly from methodological deviations in the calculation of the provision on loans to customers in accordance with statutory requirements and under IFRS. One of the differences is attributable to the impact that collateral has on the level of provisions. This reserve is required by legislation of the Republic of Kazakhstan and is created through an appropriation of retained earnings.

Application of new and revised International Financial Reporting Standards (IFRSs)

The Group has adopted the following new or revised standards and interpretations issued by IASB and the IFRIC which became effective for the Group's annual consolidated financial statement for the year ended 31 December 2012:

- IFRS 7 "Financial Instruments: Disclosures" – amendments enhancing disclosures about transfers of financial assets effective from annual periods beginning on or after 1 January 2013. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. An application of the amendments to IFRS 7 did not have an effect on the Group's consolidated financial statements as the information required was disclosed by the Group before the adoption of the amendments in Note 24.

- IAS 12 "Income Taxes" – limited scope amendment (recovery of underlying assets); effective for annual periods beginning on or after 1 January 2012. The Group has applied the amendments to IAS 12 in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 "Investment Property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 did not have an effect on the Group's consolidated financial statements.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Group.

New and revised IFRSs in issue but not yet effective

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not yet effective, and which the Group has not early adopted:

- IFRS 9 "Financial Instruments"[3];
- IFRS 10 "Consolidated Financial Statements"[2];
- IFRS 11 "Joint Arrangements"[2];
- IFRS 12 "Disclosure of Interest in Other Entities"[2];
- IFRS 13 "Fair Value Measurement"[1];
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – amendments enhancing disclosures about offsetting financial assets and financial liabilities[1];
- Amendments to IFRS 9 "Financial Instruments and IFRS 7 Financial Instruments: Disclosures" – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"[3];
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements and IFRS 12 Disclosure of Interest in Other Entities" – "Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance"[3];
- IAS 19 "Employee Benefits" — improvements to the accounting for post-employment benefits[1] (as revised in 2011);
- IAS 27 - reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011)[2];
- IAS 28 - reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011)[2];
- Amendments to IAS 32 "Financial Instruments: Presentation" – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements[4].
- Amendments to IFRSs – Annual Improvements to IFRSs 2009-2011 cycle.

[1] Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
[2] Each of the five standards becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).
[3] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2014. The new offsetting disclosure requirements are effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

Was issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group's management anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 Consolidated Financial Statements

Replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (ie whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements

Replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a 'joint venture' recognises an investment.

IFRS 12 Disclosure of Interests in Other Entities

Requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

The Group's management anticipates that the application of these five standards will have a significant impact on amounts reported in the consolidated financial statements. A detailed review will be performed by the Group's management to quantify the impact on the application of these five standards.

IFRS 13 Fair Value Measurement

Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

The Group's management anticipates that the application of the new Standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IAS 19 Employee Benefits

Introduce significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. The amended standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income.

The amendments to IAS 19 Employee Benefits require retrospective application. The Group's management does not anticipate that the revision of IAS 19 Employee Benefits will have a significant effect on the Group's consolidated financial statements as the Group has no defined benefit plans.

IAS 27 (2011) Separate Financial Statements

Includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures

Now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Amendments to IAS 32 Financial Instruments: Presentation

Provide clarifications on the application of the offsetting rules, and focus on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The respective amendments to the disclosure requirements in IFRS 7 “Financial Instruments: Disclosure” require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Group's financial position.

The Group’s management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on income statement, other comprehensive income and total comprehensive income.

Annual Improvements to IFRSs 2009-2011 cycle issued in May 2012

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. The following list does not represent the complete list of amendments and reflects only amendments that are relevant to the Group’s operations:

Amendments to IAS 32 Financial Instruments: Presentation

The amendments to IAS 32 “Financial Instruments: Presentation” clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 “Income Taxes”. The Group management anticipates that the amendments to IAS 32 “Financial Instruments: Presentation” will have no effect on the Group’s consolidated financial statements as the Group has already adopted this treatment.

Amendments to IAS 1 Presentation of Financial statements

The amendments to IAS 1 clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period (third statement of financial position) only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third statement of financial position and that the related notes are not required to accompany the third statement of financial position.

The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

Amendments to IAS 34 Interim Financial Reporting

The amendments to IAS 34 "Interim Financial Reporting" clarify requirements for segment information disclosures. The total assets and total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

4. RECLASSIFICATIONS

As at 31 December 2011 and 2010 some accounts of consolidated financial statements were reclassified for consistency with current period information. The Management of the Group reclassified commission expenses on insurance activity from fee and commission expenses to other income, as they believe that such classification better reflects the nature of these expenses.

As per Consolidated Income Statement	Amount (KZT million)	As per previous report Year ended 31 December 2011 (KZT million)	As per reclassified report Year ended 31 December 2011 (KZT million)
Fee and commission expense	3,101	(10,348)	(7,247)
Other income	(3,101)	8,892	5,791
As per Consolidated Statement of Cash flows			
Fee and commission paid	3,101	(10,359)	(7,258)
Other income received	(3,101)	8,591	5,490

As per Consolidated Income Statement	Amount (KZT million)	As per previous report Year ended 31 December 2010 (KZT million)	As per reclassified report Year ended 31 December 2010 (KZT million)
Fee and commission expense	1,153	(6,882)	(5,729)
Other income	(1,153)	6,530	5,377
As per Consolidated Statement of Cash flows			
Fee and commission paid	1,153	(6,871)	(5,718)
Other income received	(1,153)	6,807	5,654

5. NET INTEREST INCOME

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
- interest income on homogenous and individually assessed watch assets	148,684	156,790	197,504
- interest income on individually impaired financial assets	54,069	65,641	64,532
- interest income on unimpaired financial assets	22,738	15,968	24,338
Interest income on financial assets at fair value through profit or loss	5,799	7,680	4,407
Interest income on investments available-for-sale	771	774	734
Total interest income	232,061	246,853	291,515
Interest income on financial assets recorded at amortized cost comprises:			
Interest on loans to customers	222,670	234,938	279,871
Interest on loans and advances to banks and other financial institutions	2,441	3,392	6,447
Interest on investments held to maturity	380	69	56
Total interest income on financial assets recorded at amortized cost	225,491	238,399	286,374
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held-for-trading	5,799	7,680	4,407
Total interest income on financial assets at fair value through profit or loss	5,799	7,680	4,407
Interest income on investments available-for-sale	771	774	734
Total interest income	232,061	246,853	291,515
Interest expense comprises:			
Interest on financial liabilities recorded at amortized cost	107,723	133,531	152,091
Total interest expense	107,723	133,531	152,091
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest on customer accounts	65,986	85,490	96,997
Interest on debt securities issued	24,737	28,701	31,313
Interest on loans and advances from banks and other financial institutions	3,972	5,412	7,947
Interest expense on subordinated debt	10,891	11,938	13,544
Preference share dividends	778	731	731
Other interest expense	1,359	1,259	1,559
Total interest expense on financial liabilities recorded at amortized cost	107,723	133,531	152,091
Net interest income before provision for impairment losses on interest bearing assets	124,338	113,322	139,424

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

Individually assessed watch assets represent loans with some minor indicators of deterioration in credit quality not yet resulting in the impairment of the loan. Such indicators may include minor breaches of loan covenants, and/or some factors leading to the deterioration of the financial position of the borrower, which are not yet affecting the ability of the borrower to repay the amounts in due course. Watch list loans are subject to stricter monitoring of financial position, collateral and other enhanced credit risk management tools in comparison with unimpaired assets.

The Group classifies corporate loans as non-performing and accordingly impaired if there is a default on payment of the principal or accrued interest for 30 days or more.

Based on the Bank's historical experience of exit from exposures and sale of completed or foreclosed assets, Management have reassessed their assumptions on the time horizon of exit from certain loan exposures in the fourth quarter of the year ended 31 December 2012. This re-assessment has contributed to the Bank recognizing additional provisions on such exposures as a result of the effect of discounting of the estimated future cash flows over an extended period from what was originally estimated.

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans and advances to banks and other financial institutions (KZT million) (Note 17)	Loans to customers (KZT million) (Note 18)	Investments available-for-sale (KZT million)	Total (KZT million)
31 December 2009	22	505,548	-	505,570
Discontinued operations	-	(3,050)	-	(3,050)
Aditional provision recognized	115	95,422	18	95,555
Write-off of assets	-	(23,123)	-	(23,123)
Foreign exchange differences	(1)	(2,347)	-	(2,348)
31 December 2010	136	572,450	18	572,604
Additional provision recognized	25	65,944	126	66,095
Write-off of assets	-	(10,279)	-	(10,279)
Recovery of previously written-off loans	-	29,879	42	29,921
Foreign exchange differences	(1)	114	-	113
31 December 2011	160	658,108	186	658,454
Additional provision recognized	132	286,193	-	286,325
Write-off of assets	-	(30,824)	-	(30,824)
Foreign exchange differences	(12)	9,810	-	9,798
31 December 2012	280	923,287	186	923,753

As at 31 December 2012, the Group has identified certain corporate customer loans, where under the contractual terms of the loan agreements there are no cash flows to the Group in the next few years. These loans are considered impaired by management. In accordance with IAS 39, interest should continue to be accrued on impaired loans, even where there are doubts in relation to its collection. The accrued interest income on these loans for the year ended 31 December 2012 amounted to KZT 42,314 million (2011: KZT 42,172 million, 2010: KZT 54,398 million). Management has accrued allowance for loan losses against this interest. While there is currently evidence of impairment, the Group continues to progress work out strategies on these loans. The Group regularly evaluates probability of cash flows and introduces respective changes to the list of these corporate loans.

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Insurance provisions, gross	12,876	8,200	6,287
Reinsurance share in provision	(3,322)	-	-
	9,554	8,200	6,287

The movements in insurance provisions, allowances for impairment losses on other transactions were as follows:

	Insurance provisions, gross (KZT million)	Other assets (KZT million) (Note 23)	Total (KZT million)
31 December 2009	4,728	2,756	7,484
Discontinued operations	-	(841)	(841)
Additional provision recognized	1,559	2,120	3,679
Write-off of assets	-	(12)	(12)
Foreign exchange differences	-	10	10
31 December 2010	6,287	4,033	10,320
Additional provision recognized/(recovery of provision)	1,913	(48)	1,865
Write-off of assets	-	(219)	(219)
Foreign exchange differences	-	7	7
31 December 2011	8,200	3,773	11,973
Additional provision recognized	4,676	1,223	5,899
Write-off of assets	-	(201)	(201)
Foreign exchange differences	-	95	95
31 December 2012	12,876	4,890	17,766

Insurance provisions, net of reinsurance, comprised:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Annuity insurance	4,432	3,798	2,738
Civil liability for damage	1,851	1,493	164
Property	1,395	648	1,095
Civil liability for owners of vehicles	645	813	567
Medical insurance	276	214	262
Life insurance	252	133	90
Accidents	226	342	646
Vehicles	193	294	290
Freight	104	127	94
Financial loss insurance	71	221	3
Railway transport	52	42	16
Insurance of environmental risk	16	32	82
Other	41	43	240
	9,554	8,200	6,287

Other insurance provisions include provisions for insurance of private lawyers, auditors and audit organizations, medical, air and marine transport and others.

The movements in provision for guarantees and other contingencies were as follows:

	Guarantees and other off-balance sheet contingencies (KZT million) (Note 31)
31 December 2009	7,217
Recovery of provision	(3,261)
Foreign exchange differences	(53)
31 December 2010	3,903
Recovery of provision	(1,387)
Foreign exchange differences	8
31 December 2011	2,524
Additional provision recognized	109
Foreign exchange differences	40
31 December 2012	2,673

The movements in provision for reinsurance assets were as follows:

	Reinsurance assets (KZT million) (Note 23)
31 December 2011	-
Reinsurance share in provision	(3,322)
31 December 2012	(3,322)

7. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Net loss on financial assets and liabilities held-for-trading	(326)	(5,232)	(5,947)
Total net loss on financial assets and liabilities at fair value through profit or loss	(326)	(5,232)	(5,947)
Net loss on operations with financial assets and liabilities held-for-trading comprise:			
Realized gain on trading operations	1,178	1,090	1,793
Unrealized (loss)/gain on fair value adjustment of financial assets held for trading	(5,441)	144	484
Net gain/(loss) on operations with derivative financial instruments	3,937	(6,466)	(8,224)
Total net loss on financial assets and liabilities at fair value through profit or loss	(326)	(5,232)	(5,947)

8. NET GAIN ON FOREIGN EXCHANGE AND PRECIOUS METALS OPERATIONS

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Dealing, net	4,823	2,009	4,460
Translation differences, net	(1,213)	(1,023)	(1,898)
	3,610	986	2,562

9. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Fee and commission income:			
Plastic cards operations	8,690	6,794	5,394
Cash operations	6,136	5,631	4,885
Settlements	4,629	3,885	3,402
Investment fees on administered pension funds	3,661	3,011	2,219
Documentary operations	1,853	2,088	2,875
Foreign exchange and securities operations	1,693	1,710	1,449
Encashment operations	440	361	312
Other	368	466	438
Total fee and commission income	27,470	23,946	20,974
Fee and commission expense:			
Payments to the Individuals' Deposit Insurance Fund	4,738	4,017	3,103
Plastic cards services	2,936	2,283	1,862
Foreign exchange and securities operations	278	296	290
Correspondent bank services	244	197	169
The NBRK computation center services	138	138	130
Documentary operations	68	93	47
Insurance activity	2	7	1
Investment expenses on administered pension funds	-	-	15
Other	180	216	112
Total fee and commission expense	8,584	7,247	5,729

10. DIVIDEND INCOME

The dividend income for the year ended 31 December 2012 in the amount of KZT 8,508 million included dividend income on financial assets at fair value through profit or loss and investments available-for-sale of JSC Kazakhtelecom is the amount of KZT 6,698 million and KZT 1,523, respectively, and dividend income of KZT 287 million in relation to other investments available-for-sale.

11. OTHER INCOME

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Income from insurance activity	3,092	4,223	4,394
Gain from sale of foreclosed assets held for sale	776	465	1
Gain from revaluation of investment property	217	-	-
Income from repurchase of own debt securities and early redemption of other obligations	63	543	180
Income from sale of property and equipment	23	30	82
Income from sale of inventory	7	1	-
Fines and penalties received	6	120	1
Income from recovery of impairment loss on property and equipment	5	6	15
(Impairment)/recovery of impairment of foreclosed assets	(150)	(164)	515
Other	709	567	189
	4,748	5,791	5,377

For the year ended 31 December 2012, the Bank repurchased its own bonds in the amount of KZT 556 million (USD 3.6 million) (2011: KZT 47,841 million (USD 322 million), 2010: KZT 66,765 million (USD 453 million)). As a result of this operation the Bank received a gain on debt repayment in the amount of KZT 63 million (2011: KZT 543 million, 2010: KZT 180 million), which is included in other income in the consolidated income statement.

12. OPERATING EXPENSES

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Staff costs	17,799	18,036	17,709
Depreciation and amortization	3,149	3,286	3,481
Operating leases	2,452	2,509	2,386
Property and equipment maintenance	2,279	2,276	2,085
Advertising costs and telecommunications	2,093	2,378	1,936
Taxes, other than income tax	1,599	1,609	1,319
Bank cards services	866	824	725
Security	793	322	299
Vehicle maintenance	415	343	329
Other expenses	2,445	2,545	2,461
	33,890	34,128	32,730

13. INCOME TAX

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012, 2011 and 2010 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

In December 2012, changes in the Tax Code were introduced that affect taxation of the Bank. Thus, Kazakhstan's banks are required to calculate dynamic provisions and adjust taxable base subject to dynamic provision amount changes.

Tax effect of temporary differences as at 31 December 2012, 2011 and 2010:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Deferred income tax assets:			
Tax losses carried forward	5,907	2,900	591
Unrealised loss on trading securities and derivatives	1,570	4,477	2,603
Allowance for impairment losses on loans and advances to banks and customers	533	-	-
Bonuses accrued	459	309	794
Provision on guarantees and letters of credit	1	36	492
Unamortized deferred loan fees	-	41	58
Unrealised loss on revaluation of financial instruments treated as cash flow hedges	-	-	46
Other assets	273	165	-
Total deferred income tax assets	8,743	7,928	4,584
Deferred income tax liabilities:			
Property, equipment and intangible assets	(2,151)	(2,089)	(1,922)
Unrealized gain on revaluation of financial instruments, recognized on cash flow hedges	(1,538)	(100)	-
Unrealised gain on trading securities and derivatives	(147)	-	(8)
Allowance for losses on loans and advances to banks and customers	-	(34,398)	(32,681)
Other liabilities	(3)	-	(8)
Total deferred income tax liabilities	(3,839)	(36,587)	(34,619)
Unrecognized deferred tax assets	(684)	(472)	-
Net deferred income tax assets/(liabilities)	4,220	(29,131)	(30,035)

Relationships between tax expenses and accounting profit for the years ended 31 December 2012, 2011 and 2010 are explained as follows:

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
(Loss)/profit before income tax from continued and discontinued operations	(163,786)	31,177	29,357
Tax at the statutory tax rate	(32,757)	6,235	5,871
Tax effect of permanent differences:			
- tax exempt income	(2,682)	(1,853)	(1,446)
- non-deductible expense	2,183	3,252	2,944
Adjustments in respect of current income tax expense based on declarations for prior years	402	23	-
Income tax (benefit)/expense	(32,854)	7,657	7,369
Current income tax expense	278	8,530	2,768
Adjustments in respect of current income tax expense based on declarations for prior years	402	23	-
Deferred income tax (benefit)/expense	(33,534)	(896)	4,601
Income tax (benefit)/expense	(32,854)	7,657	7,369
Income tax (benefit)/expense from continued operations	(32,854)	7,657	7,419
Income tax benefit from discontinued operations	-	-	(50)
Income tax (benefit)/expense	(32,854)	7,657	7,369

The deductible temporary differences do not expire under current tax legislation. The tax losses carried forward expire in 2022. Based on the business plans prepared, management concluded that sufficient future taxable income will be available against which to offset these recognised deferred tax assets and it is appropriate to recognise a deferred tax asset amounting to KZT 4,220 million as at 31 December 2012.

Deferred tax assets have not been recognised in respect of allowance for impairment losses and certain part of other assets because it is not probable that future taxable profit will be available against which the OJSC Moskommertsbank, Bank's subsidiary, can utilise the benefits there from.

During 2012, 2011 and 2010, tax exempted income was represented by interest income and capital gains on state and other securities listed on the Kazakhstan Stock Exchange ("KASE"), dividend income and interest income on finance leases, and non-deductible expenses comprising non-deductible operating expenses and provisions on finance leases.

Corporate income tax rate in the Republic of Kazakhstan was 20% during 2012, 2011 and 2010.

	2012 (KZT million)	2011 (KZT million)	2010 (KZT million)
Net deferred income tax (assets)/liabilities			
1 January	29,131	30,035	24,519
(Decrease)/increase of deferred tax liability	(33,534)	(896)	4,601
Effect of disposal of discontinued operations	-	-	663
Change in hedging reserve	47	147	188
Change in available-for-sale reserve	136	(154)	(54)
Change in deferred tax liability from revaluation of property and equipment	-	(1)	118
31 December	(4,220)	29,131	30,035

14. (LOSS)/EARNINGS PER SHARE

Basic and diluted (loss)/earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

As described in Note 30, dividend payments per ordinary shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Year ended 31 December 2012 (KZT million)	Year ended 31 December 2011 (KZT million)	Year ended 31 December 2010 (KZT million)
Basic and diluted (loss)/earnings per share			
Net (loss)/profit for the year attributable to equity holders of the Parent	(130,353)	23,480	21,879
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	-	(2,603)	(2,385)
Less: dividends on preference shares	(778)	-	-
Net (loss)/profit for the year attributable to ordinary shareholders	(131,131)	20,877	19,494
Weighted average number of ordinary shares for basic and diluted (loss)/earnings per share	777,954,987	778,508,421	778,595,809
(Loss)/earnings per share – basic and diluted (KZT)	(168.56)	26.82	25.04

The Group is not presenting the (loss)/earnings per share for discontinued operations because its impact on total (loss)/earnings per share is not material.

The book value per share for each type of shares as at 31 December 2012, 2011 and 2010 is as follows:

	31 December 2012			31 December 2011			31 December 2010		
Type of shares	**Outstanding shares**	**Net asset value (KZT million)**	**Book value per share, KZT**	**Outstanding shares**	**Net asset value (KZT million)**	**Book value per share, KZT**	**Outstanding shares**	**Net asset value (KZT million)**	**Book value per share, KZT**
Ordinary shares	777,588,523	300,454	386.39	778,362,588	428,912	551.04	778,585,361	405,783	521.18
Preference shares	123,209,769	13,038	105.82	123,963,374	13,002	104.89	124,514,944	13,034	104.68
		313,492			441,914			418,817	

The number of outstanding ordinary and preferred shares is calculated net of treasury shares.

According to amendments enacted to the KASE Listing Rules effective from 25 August 2010, listed companies are required to present book value per share (ordinary and preferred) in their financial statements. The Management of the Group believes that the book value per share is calculated in accordance with the methodology in the KASE Listing Rules.

15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Cash on hand	50,188	41,308	38,243
Balances with national (central) banks	56,309	63,759	22,973
	106,497	105,067	61,216

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Cash and balances with national (central) banks	106,497	105,067	61,216
Loans and advances to banks with original maturities less than 3 months	112,733	30,771	95,227
Less funds deposited with the National Bank of the Republic of Kazakhstan (“NBRK”)	(37,806)	(54,653)	(35,693)
Less funds deposited with the Central Bank of Russian Federation (“CBR”)	(2,974)	(2,916)	(2,378)
Less funds deposited with the National Bank of the Kyrgyz Republic (“NBKR”)	(133)	(126)	(110)
Less funds deposited deposit with the National Bank of Tajikistan (“NBT”)	(72)	(79)	(39)
	178,245	78,064	118,223

16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Debt securities	103,644	165,359	197,188
Derivative financial instruments	8,823	13,102	21,524
Equity investments	6,355	9,852	4,519
Total financial assets at fair value through profit or loss	118,822	188,313	223,231

The financial assets at fair value through profit or loss relate entirely to financial assets held for trading.

	31 December 2012		31 December 2011		31 December 2010	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:						
State treasury bonds of the Ministry of Finance of Republic of Kazakhstan	0.00-8.75	77,504	2.50-8.75	86,456	8.75	36,084
Bonds of Russian companies	7.40-13.50	13,760	7.25-14.25	10,062	6.21-14.75	11,069
Bonds of Russian banks	7.90-10.15	4,039	7.60-9.00	3,002	6.48-9.00	3,943
Bonds of Kazakhstani companies	0.00-9.20	2,489	7.50-9.50	2,509	6.25-11.00	8,916
Municipal bonds of the RF	8.86-9.00	2,010	8.79-9.00	2,195	7.70-9.00	2,167
Eurobonds of Kazakhstani banks	7.25-9.50	1,891	7.25-9.25	3,398	7.25-9.25	1,428
Eurobonds of Kazakhstani companies	8.38	866	6.25-9.13	2,889	6.25-11.75	3,778
Bonds of Kazakhstani banks	6.00-9.70	768	6.00-10.00	586	7.50-9.70	833
Bonds of Development Bank of Kazakhstan	6.50	173	6.50	147	6.50	150
Bonds of international financial organizations, foreign banks and foreign financial organizations	5.87-6.95	89	4.20-6.75	3,018	5.05-7.75	919
Eurobonds of the Government of the RF	7.85	55	7.85	8,765	-	-
Eurobonds of Eurasian Development Bank	-	-	7.38	638	-	-
Bonds of federal loan of the Ministry of Finance of the RF	-	-	8.00	73	8.00	155
Eurobonds of OECD countries	-	-	-	-	0.38-4.75	16,184
Bonds of Eurasian Bank of Development	-	-	-	-	7.38	649
Short-term NBRK notes	-	-	-	41,621	-	110,913
		103,644		165,359		197,188

As at 31 December 2012, 2011 and 2010, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data, and certain debt securities, which are valued using valuation models not based on observable market data.

	Ownership share %	31 December 2012 (KZT million)	Ownership share %	31 December 2011 (KZT million)	Ownership share %	31 December 2010 (KZT million)
Equity investments:						
Shares of Kazakhstani companies	0.001-3.083	4,430	0.010-3.080	6,642	0.120	267
GDRs of Kazakhstani companies	1.425	1,262	0.050	465	0.00001-0.080	1,052
GDRs of Russian banks	0.000-0.010	240	0.0001-0.010	264	0.014	723
Shares of Russian companies*	-	161	0.030	285	0.0001	88
Shares of foreign companies	0.000-0.060	106	0.0001-1.470	383	0.0002	34
Shares of Russian banks*	-	76	0.0008	60	-	-
Shares of foreign banks*	-	55	0.0002-0.010	165	-	-
GDRs of Kazakhstani banks	0.015-0.016	25	0.0001-1.100	1,421	0.002-0.25	2,310
GDRs of Russian companies	-	-	0.001-0.005	122	0.00002-0.0018	45
ADRs of Russian company	-	-	0.0002	23	-	-
ADRs of foreign companies	-	-	0.004	22	-	-
		6,355		9,852		4,519

*Ownership interest in equity securities is below 1%

As at 31 December 2012, financial assets at fair value through profit or loss included accrued interest income on debt securities of KZT 2,250 million (2011: KZT 2,510 million, 2010: KZT 1,417 million).

As at 31 December 2012, fair value of financial assets at fair value through profit or loss pledged under repurchase agreements were equal to KZT 77,936 million (2011: KZT 29,404 million, 2010: KZT 37 million).

	Notional value	31 December 2012 Fair value (KZT million)		Notional value	31 December 2011 Fair value (KZT million)		Notional value	31 December 2010 Fair value (KZT million)	
Derivative financial instruments:		**Assets**	**Liabilities**		**Assets**	**Liabilities**		**Assets**	**Liabilities**
Foreign exchange contracts:									
Swaps	166,073	8,701	(1,514)	268,980	13,013	(26,700)	338,467	20,228	(23 470)
Spot	21,723	23	(12)	10,044	5	(17)	5,012	1,114	(1,112)
Forwards	4,540	22	-	3,768	12	-	4,216	3	(1)
Interest rate contracts:									
Swaps	34,193	77	(7,351)	67,104	72	(11,054)	98,731	179	(11,464)
		8,823	(8,877)		13,102	(37,771)		21,524	(36,047)

As at 31 December 2012, the aggregate amount of unrealized gains/(losses) under foreign exchange swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 1,468 million (2011: KZT 1,646 million, 2010: KZT 1,428 million). It is being recycled to profit or loss over the periods up to February 2017, in line with the previously hedged cash flows relating to these contracts.

As at 31 December 2012, the aggregate amount of unrealized losses under interest rate swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 732 million (2011: KZT 1,145 million, 2010: KZT 1,658 million). It is being recycled to the consolidated income statement over the periods up to January 2018, in line with the previously hedged cash flows relating to these contracts.

17. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2012 (KZT million)	**31 December 2011 (KZT million)**	**31 December 2010 (KZT million)**
Recorded as loans and receivables:			
Loans and advances to banks	42,805	26,433	120,370
Correspondent accounts with other banks	93,490	26,895	17,690
Loans under reverse repurchase agreements	10,688	800	8,407
	146,983	54,128	146,467
Less allowance for impairment losses	(280)	(160)	(136)
	146,703	53,968	146,331

Movements in allowances for impairment losses on loans and advances to banks and other financial institutions for the years ended 31 December 2012, 2011 and 2010 are disclosed in Note 6.

As at 31 December 2012, loans and advances to banks and other financial institutions included accrued interest of KZT 364 million (2011: KZT 220 million, 2010: KZT 275 million).

As at 31 December 2012, the Group had KZT 74,947 million loans and advances to banks and other financial institutions, which individually exceeded 10% of the Group's equity (2011: KZT Nil, 2010: KZT Nil).

As at 31 December 2012, the maximum exposure to any individual bank amounted to KZT 74,947 million (2011: KZT 18,324 million, 2010: KZT 24,161 million).

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2012, 2011 and 2010 comprised:

	31 December 2012 (KZT million)		**31 December 2011 (KZT million)**		**31 December 2010 (KZT million)**	
	Fair value of collateral	**Carrying value of loans**	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**	**Carrying value of loans**
Bonds of the Ministry of Finance of the Republic of Kazakhstan	11,623	10,688	-	-	54	500
Notes of NBRK	-	-	842	800	5,263	5,000
Bonds of the executive bodies and subjects of the RF	-	-	-	-	1,549	1,256
Bonds of the Russian banks	-	-	-	-	1,024	901
Bonds of the Russian companies	-	-	-	-	844	724
Shares of Kazakhstani companies	-	-	-	-	37	26
	11,623	10,688	842	800	8,771	8,407

In addition, as at 31 December 2012, the Bank maintained deposits of KZT 95 million included in loans and advances to banks as collateral for credit cards operations (2011: KZT 228 million, 2010: KZT 403 million).

As at 31 December 2012, reverse repo agreements were concluded through KASE. The Bank believes that counterparties of these agreements are banks and other financial institutions.

18. LOANS TO CUSTOMERS

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Recorded as loans and receivables:			
Originated loans	2,834,240	2,731,605	2,739,966
Net investments in finance lease	6,739	6,164	6,417
Loans under reverse repurchase agreements	-	-	827
	2,840,979	2,737,769	2,747,210
Less allowance for impairment losses	(923,287)	(658,108)	(572,450)
	1,917,692	2,079,661	2,174,760

As at 31 December 2012, accrued interest income included in loans to customers amounted to KZT 371,611 million (2011: KZT 343,680 million, 2010: KZT 301,219 million).

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2012, 2011 and 2010 are disclosed in Note 6.

For the year ended 31 December 2012, the Group has recognized an increase in the allowance for impairment losses on loans to customers in the amount of KZT 286,193 million (2011: KZT 65,944 million, 2010: KZT 95,422 million), resulting in a total allowance for impairment losses as at 31 December 2012 of KZT 923,287 million (2011: KZT 658,108 million, 2010: KZT 572,450 million).

Conditions within both the commercial and residential property market in Kazakhstan remain challenging. Whilst prices have generally stabilized and development projects have restarted, the timeline for completion and ultimate sale of these properties remains difficult to determine.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Analysis by type of collateral:			
Loans collateralized by real estate	1,053,504	962,619	1,093,333
Loans collateralized by equipment	400,186	557,616	401,473
Loans collateralized by inventories	175,388	213,059	226,045
Loans collateralized by shares of the banks and other companies	135,693	162,865	220,857
Loans collateralized by accounts receivable	61,316	74,744	57,804
Loans collateralized by cash or Kazakhstani Government guarantees	15,977	36,051	24,896
Loans collateralized by mixed types of collateral	11,667	21,784	3,755
Loans collateralized by guarantees of enterprises	11,579	17,109	37,958
Loans with collateral under the registration process (property, land, shares, guarantees, etc.)	7,883	2,072	20,496
Loans collateralized by securities	-	-	818
Loans collateralized by guarantees of financial institutions	-	-	143
Unsecured loans	44,499	31,742	87,182
	1,917,692	2,079,661	2,174,760

Mixed collateral consists of multiple types of collateral including real estate, guarantees and inventories. Loans are classified as being collateralized by mixed collateral where it is impractical to split this collateral into the categories disclosed above.

In addition to the collateral disclosed above, as at 31 December 2012, the Bank has own bonds and Eurobonds (previously issued by its subsidiary Kazkommerts Finance II B.V.) with a fair value of KZT 47 million (USD 313 thousand) (2011: KZT 12,673 million (USD 85 million), 2010: KZT 12,547 million (USD 85 million)) as collateral for certain loans.

	31 December 2012 (KZT million)	31 Decmber 2011 (KZT million)	31 December 2010 (KZT million)
Analysis by sector:			
Housing construction	504,032	538,737	368,093
Commercial real estate construction	296,818	280,338	160,702
Individuals	213,185	208,786	232,690
Wholesale and retail trade	197,549	207,291	255,718
Hospitality business	138,146	132,654	183,800
Real estate	113,363	131,525	327,872
Production of other non-metal materials	103,829	99,485	102,749
Energy	43,558	54,286	57,699
Transport and communication	40,262	64,311	92,830
Investments and finance	39,860	96,886	95,349
Industrial and other construction	36,321	53,892	48,345
Agriculture	21,847	27,376	41,699
Production of construction materials	19,325	18,616	18,896
Food industry	15,259	17,258	42,481
Mining and metallurgy	8,786	13,361	11,809
Medicine	7,323	6,905	8,099
Machinery construction	4,233	6,424	10,357
Other	113,996	121,530	115,572
	1,917,692	2,079,661	2,174,760

During the years ended 31 December 2012, 2011 and 2010, the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2012, such assets in the amount of KZT 71,853 million (2011: KZT 68,141 million, 2010: KZT 16,517 million) are included in the other assets line of the consolidated statement of financial position. These assets are represented mostly by real estate the majority of which will be realized through auctions.

Loans to individuals comprise the following products:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Mortgage loans	123,104	127,527	144,264
Consumer loans	83,595	72,954	73,105
Car loans	2,536	3,483	5,348
Business loans	2,186	2,231	2,760
Other	1,764	2,591	7,213
	213,185	208,786	232,690

As at 31 December 2012, the Group granted loans to the borrowers, which individually exceeded 10% of the Group's equity, in the total amount of KZT 832,629 million (2011: KZT 401,578 million, 2010: KZT 326,602 million).

As at 31 December 2012, a significant part of loans 90.52% (2011: 87.67%, 2010: 84.42%) of the total portfolio is granted to companies operating in the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

As at 31 December 2012, the maximum credit risk exposure on loan commitments and overdrafts extended by the Group to its customers amounted to KZT 13,947 million (2011: KZT 14,053 million, 2010: KZT 8,992 million).

As at 31 December 2012, 2011 and 2010, the fair value of collateral and carrying value of loans under reverse repurchase agreements comprised:

	31 December 2012 (KZT million)		31 December 2011 (KZT million)		31 December 2010 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Promissory notes of Russian companies	-	-	-	-	461	461
Bonds of Kazakhstani companies	-	-	-	-	357	366
	-	-	-	-	818	827
Less allowance for impairment losses	-	-	-	-	-	(9)
Total	-	-	-	-	818	818

The components of net investment in finance lease as at 31 December 2012, 2011 and 2010 are as follows:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Minimum lease payments	8,058	6,381	6,941
Less: unearned finance income	(1,319)	(217)	(524)
Net investment in finance lease	6,739	6,164	6,417
Current portion	1,674	2,458	3,126
Long-term portion	5,065	3,706	3,291
Net investment in finance lease	6,739	6,164	6,417

The value of future minimum lease payments receivable from the customer under a finance lease as at 31 December 2012, 2011 and 2010 comprised:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Not later than one year	2,207	1,699	2,731
From one year to five years	3,647	3,544	2,897
More than five years	2,204	1,138	1,313
Total value of future minimum lease payments	8,058	6,381	6,941
Less: unearned finance income	(1,319)	(217)	(524)
Present value of minimum lease payments receivable	6,739	6,164	6,417

As at 31 December 2012, 2011 and 2010, the Group's finance lease agreements have an average life of five years.

19. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Debt securities	13,965	11,312	11,876
Equity securities	1,717	4,107	4,946
	15,682	15,419	16,822

	Nominal interest rate %	31 December 2012 (KZT million)	Nominal interest rate %	31 December 2011 (KZT million)	Nominal interest rate %	31 December 2010 (KZT million)
Debt securities:						
Bonds of Kazakhstani companies	0.00-8.62	6,839	0.00-9.90	6,118	0.00-18.59	6,346
State treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	0.01-6.50	4,622	0.01-8.40	3,522	0.00-10.10	4,974
Bonds of Kazakhstani banks	6.90-12.50	1,873	7.25-9.10	1,097	3.70-10.50	556
Eurobonds of the Ministry of Finance of the RF	7.85	551	7.85	575	-	-
Eurobonds of Eurasian Development Bank	4.77	80	-	-	-	-
		13,965		11,312		11,876

	Ownership share %	31 December 2012 (KZT million)	Ownership share %	31 December 2011 (KZT million)	Ownership share %	31 December 2010 (KZT million)
Equity securities:						
ADR of Kazakhstani companies	0.650	780	1.060	1,402	0.650	1,262
Shares of Kazakhstani companies	0.029-0.145	610	0.030-0.440	657	0.030-0.120	701
GDR of Russian banks	0.009	261	0.010	284	0.009	492
Shares of Kazakhstani banks	0.009-0.050	66	0.000001-0.010	50	0.000007-0.014	94
GDR of Kazakhstani banks	-	-	0.020	79	0.017	155
GDR of Kazakhstani companies	1.090	-	0.020	1,635	0.180	2,242
		1,717		4,107		4,946

As at 31 December 2012, interest income on debt securities amounting to KZT 482 million (2011: KZT 525 million, 2010: KZT 438 million), was accrued and included in investments available-for-sale.

As at 31 December 2012, 2011 and 2010 there were no investments available for sale pledged under repurchase agreements.

20. INVESTMENTS HELD TO MATURITY

	31 December 2012		31 December 2011		31 December 2010	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:						
Bonds of Kazakhstani banks	6.70-13.00	2,365	6.60-11.00	1,358	6.00-11.00	662
Bonds of Kazakhstani companies	0.00-11.75	2,024	0.00-11.75	1,253	0.00-11.75	942
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.48-6.75	1,661	0.07-6.75	243	6.75	238
Bonds of Russian banks	7.88-8.70	351	8.70	189	-	-
Bonds of international financial institutions and foreign banks	5.46-6.75	333	6.69-6.75	487	6.69	154
Bonds of JSC National Welfare Fund “Samruk-Kazyna”	6.50	203	6.50	204	-	-
Eurobonds of the Government of RF	-	-	7.85	292	-	-
		6,937		4,026		1,996

As at 31 December 2012, interest income accrued on debt securities amounting to KZT 127 million (2011: KZT 88 million, 2010: KZT 39 million) related to investments held to maturity.

21. GOODWILL

Goodwill arising as a result of business acquisition relates to expected income from business expansion from the distribution of products on new markets, raising long-term funds and expected combined activity.

Goodwill arising as a result of a business acquisition is distributed to the companies that generate cash flows (cash generating units).

Companies that generate cash flows:	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
JSC Grantum APF	1,281	1,281	1,281
JSC OCOPAIM Grantum Asset Management	1,124	1,124	1,124
	2,405	2,405	2,405

As at 31 December 2012, 2011 and 2010, there was no evidence that the goodwill that arose on the acquisition of JSC Grantum APF and JSC OCOPAIM Grantum Asset Management has been impaired.

As at 31 December 2012, the Group has tested goodwill attributable to Grantum APF and Grantum PAMC for impairment. For the estimations of cash flows, the Group used the following assumptions:

- The economy is cyclical;
- Equity market volatility;
- Conservative investment strategy;
- Stable customer base (high salary customers);
- Favorable population indicators (expanding younger population); and
- Cross-selling opportunities.

The Bank used forecasted cash flows for revenues and expenses of Grantum APF and Grantum PAMC for the next 4 years based on the budgets; the revenues and expenses were segregated by sources of inflows/outflows (e.g. commission income/expense, general and administrative expenses).

Estimation was made using the discounted cash flows method. Calculations used pre-tax discounted rates of 20.74% (2011: 17.10%, 2010: 15.40%), which are calculated using a Capital Asset Pricing Model, and growth rates of 3%, based on external sources.

Based on the results of internal estimation of goodwill the recoverable value of shares exceeds the carrying value of the CGU. As such, the Management of the Bank believes that there is no impairment of goodwill. Moreover, a sensitivity analysis allowing for reasonable possible changes in the key assumptions used, on which Management has based its determination of the recoverable amounts, did not cause the carrying amount of goodwill to exceed its recoverable amount.

22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate (KZT million)	**Furniture and equipment (KZT million)**	**Intangible assets (KZT million)**	**Construction in progress (KZT million)**	**Other (KZT million)**	**Total (KZT million)**
At primary/revalued cost:						
31 December 2009	23,357	17,210	3,692	412	2,373	47,044
Additions	2,458	2,393	322	-	84	5,257
Revaluation	142	-	-	-	-	142
Disposals	(3,377)	(1,110)	(18)	(374)	(510)	(5,389)
Foreign exchange differences	(6)	(122)	(57)	-	(18)	(203)
31 December 2010	22,574	18,371	3,939	38	1,929	46,851
Additions	1,432	2,296	373	51	634	4,786
Revaluation	36	-	-	-	-	36
Disposals	(77)	(943)	(94)	(21)	(1,120)	(2,255)
Foreign exchange differences	(23)	(48)	(17)	-	(56)	(144)
31 December 2011	23,942	19,676	4,201	68	1,387	49,274
Additions	114	1,668	408	24	31	2,245
Revaluation	239	-	-	-	-	239
Disposals	(41)	(957)	(91)	(33)	(306)	(1,428)
Foreign exchange differences	39	72	29	-	66	206
31 December 2012	24,293	20,459	4,547	59	1,178	50,536
Accumulated depreciation:						
31 December 2009	245	9,644	1,770	-	1,414	13,073
Charge for the year	261	2,167	577	-	476	3,481
Transfers	(15)	70	-	-	(55)	-
Disposals	(100)	(979)	(18)	-	(343)	(1,440)
Foreign exchange differences	(1)	(88)	(22)	-	(9)	(120)
31 December 2010	390	10,814	2,307	-	1,483	14,994
Charge for the year	275	2,076	544	-	391	3,286
Disposals	(9)	(747)	(94)	-	(1,112)	(1,962)
Foreign exchange differences	(1)	(40)	(17)	-	(14)	(72)
31 December 2011	655	12,103	2,740	-	748	16,246
Charge for the year	352	2,098	509	-	190	3,149
Revaluation	(126)	-	-	-	-	(126)
Disposals	(33)	(941)	(91)	-	(306)	(1,371)
Foreign exchange differences	1	62	26	-	29	118
31 December 2012	849	13,322	3,184	-	661	18,016
Net book value:						
31 December 2012	23,444	7,137	1,363	59	517	32,520
31 December 2011	23,287	7,573	1,461	68	639	33,028
31 December 2010	22,184	7,557	1,632	38	446	31,857

As at 31 December 2012, property, equipment and intangible assets of the Group included fully depreciated and amortized assets on initial cost amounting to KZT 8,064 million (2011: KZT 7,363 million, 2010: KZT 6,342 million), of which KZT 6,560 million pertain to the Bank (2011: KZT 6,487 million, 2010: KZT 5,389 million).

Buildings and other real estate are revalued on a regular cyclical basis, with the last valuation being conducted on 27 July 2012 (2011: 26 August 2011, 2010: 22 September 2010). The valuation was conducted by a local independent appraisal company and for determining of the final value on these dates, the Group used observable prices in an active market for the properties. These prices are obtained through publications and current market data, and are adjusted based on characteristics of the valued property.

The carrying value of the buildings and other real estate as at 31 December 2012 amounted to KZT 23,444 million (2011: KZT 23,287 million, 2010: KZT 21,184 million). If the buildings were accounted for at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value as at 31 December 2012 would be KZT 14,380 million (2011: KZT 14,366 million, 2010: KZT 13,361 million).

Intangible assets include software, patents and licenses.

23. OTHER ASSETS

	31 December 2012 (KZT million)	**31 December 2011 (KZT million)**	**31 December 2010 (KZT million)**
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Receivables on other transactions	6,800	7,302	7,935
Accounts receivable from insurance activity	1,668	2,059	1,901
Accrued commission	1,253	842	1,159
	9,721	10,203	10,995
Less allowance for impairment losses	(4,890)	(3,773)	(4,033)
Total other financial assets recognized as loans and receivables in accordance with IAS 39	4,831	6,430	6,962
Non-current assets held for sale	71,853	68,141	16,517
Tax settlements, other than income tax	4,452	4,380	2,597
Resinsurance share in insurance reserves	3,322	-	-
Income tax assets	2,635	363	495
Investment property	1,462	-	-
Prepaid expenses	943	1,208	1,574
Inventory	13	-	-
Total other non-financial assets	84,680	74,092	21,183
	89,511	80,522	28,145

During the years ended 31 December 2012, 2011 and 2010, the Group received non-financial assets by taking possession of collateral it held as security as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active program to locate a buyer and complete the plan has been initiated. The type of assets recognized were land, buildings and constructions. The majority of these assets are in Almaty and Astana. The proceeds from disposal are expected to exceed the carrying value of the assets and accordingly no impairment losses have been recognized on these assets during the years 2012, 2011 and 2010. It was intended that the fair value of these assets would be recovered principally through a sale transaction within one year from the date of classification.

For the year ended 31 December 2012, the amount of gain from the sale of non-current assets amounted to KZT 776 million (2011: KZT 465 million, 2010: KZT 1 million). The non-current assets are included in the retail banking and corporate banking segments in Note 33. The impairment of such non-financial assets amounted to KZT 150 million (2011: impairment KZT 164 million, 2010: recovery of impairment KZT 515 million). Movements in allowances for impairment losses for the years ended 31 December 2012, 2011 and 2010 are disclosed in Note 6.

24. LOANS AND ADVANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Recorded at amortized cost:			
Correspondent accounts of other banks	2,348	3,322	1,940
Correspondent accounts of organizations that serve certain types of banking operations	171	180	227
Loans from banks and other financial institutions, including:			
Loan with maturity of June 2014	8,378	14,960	23,037
Loan with maturity of December 2013	3,302	-	-
Loan with maturity of December 2012	-	1,045	-
Loan with maturity of August 2011	-	-	148
Loans from other banks and financial institutions	24,289	44,433	121,760
Deposits with banks	503	338	1
Loans under repurchase agreements	71,486	27,937	26
	110,477	92,215	147,139

As at 31 December 2012, accrued interest expense included in loans and advances from banks and other financial institutions amounted to KZT 213 million (2011: KZT 236 million, 2010: KZT 492 million).

As at 31 December 2012, loans from other banks and financial institutions of KZT 23,546 million (97.35% of total loans from other banks and financial institutions) (2011: KZT 42,890 million or 97% of total loans with other banks and financial institutions, 2010: KZT 116,985 million or 96% of total loans from other banks and financial institutions) consisted of 7 (2011: 6, 2010: 9) banks and financial institutions of such countries as Great Britain, Latvia, Kazakhstan, Russian Federation, United States of America, the Netherlands and China. Maturities of these loans range from 12 months to 97 months (2011: 7 days to 97 months, 2010: 48 days to 52 months). Interest rates on loans with other banks and financial establishments varied from 0.86% to 7.00% (2011: from 0.25% to 9%, 2010: from 1.33% to 9.75%).

As at 31 December 2012, included in loans and advances from banks and other financial institutions are loans under repurchase agreements of KZT 71,486 million (2011: KZT 27,937 million, 2010: KZT 26 million).

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2012, 2011 and 2010 are presented as follows:

	31 December 2012 (KZT million)		31 December 2011 (KZT million)		31 December 2010 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of the Ministry of Finance of the Republic of Kazakhstan	65,186	60,222	-	-	-	-
Bonds of foreign companies	8,964	7,857	-	-	-	-
Municipal bonds of RF	1,993	1,895	-	-	-	-
Bonds of foreign banks	1,793	1,512	-	-	-	-
Notes of the NBRK	-	-	29,404	27,937	-	-
Shares of Kazakhstani companies	-	-	-	-	37	26
	77,936	71,486	29,404	27,937	37	26

As at 31 December 2012, reverse repurchase agreements were concluded through KASE. The Bank believes that counterparties of these agreements are banks and other financial institutions.

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2012 are disclosed below:

Securities lending and repurchase agreements

The Group has a plan to borrow and lend securities and to sell securities under agreements to repurchase (repos) and to purchase securities under agreements to resell (reverse repos). The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets.

The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Group, which instead record a separate asset for any possible cash collateral provided.

	Financial assets at fair value through profit or loss (Note 16)
Total carrying amount of the original assets before the transfer	77,936
As at 31 December 2012:	
Carrying amount of assets	77,936
Carrying amount of associated liabilities (loans under repurchase agreements)	71,486

In accordance with the contractual terms of the loans from certain OECD based banks and EBRD, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In accordance with the terms of certain of those loans, the Group is also required to obtain the approval of the lender before distributing any dividends to the common shareholders except for dividends to be reinvested for ordinary shares. Furthermore, certain of the Group's outstanding financing agreements include covenants restricting the capability of the Group to create the right of pledge on its assets. The Group's failure to observe obligations on these covenants can lead to cross-accelerations and cross-defaults under the terms of the other financial agreements of the Group.

As at 31 December 2012, 2011 and 2010, the Group was in compliance with the covenants of the various debt agreements the Group has with other banks and financial institutions.

25. CUSTOMER ACCOUNTS

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Recorded at amortized cost:			
Time deposits	1,064,077	894,543	893,814
Demand deposits	379,974	457,588	459,480
JSC National Welfare Fund "Samruk-Kazyna", JSC Entrepreneurship Development Fund "Damu" and JSC Distressed Assets Fund	105,883	107,689	152,383
Accounts in precious metals	3,642	3,257	1,123
	1,553,576	1,463,077	1,506,800

As at 31 December 2012, customer accounts included accrued interest expense of KZT 12,844 million (2011: KZT 12,238 million, 2010: KZT 16,767 million).

As at 31 December 2012, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 6,626 million (2011: KZT 7,697 million, 2010: KZT 3,711 million), as disclosed in Note 31.

As at 31 December 2012, the total amount of funds deposited under the stabilization program of the Government of Kazakhstan by means of deposits from JSC National Welfare Fund "Samruk-Kazyna" and JSC Distressed Assets Fund amounted to KZT 103,701 million (2011: KZT 105,072 million, 2010: KZT 138,314 million), including:

- KZT 22,629 million for refinancing mortgage loans (initially granted and deposited in the Bank KZT 24,000 million);
- KZT 77,432 million for completion of construction projects in Almaty and Astana (initially granted and deposited in the Bank KZT 111,998 million); and
- KZT 3,640 million for financing large-scale businesses in the manufacturing sector.

On 23 February 2012, the Bank has completed a program of refinancing mortgage loans under the government program of the JSC National Welfare Fund "Samruk-Kazyna".

As at 31 December 2012, customer accounts of KZT 654,158 million or 42.11% (2011: KZT 610,002 million or 41.69%, 2010: KZT 769,594 million or 51.07%), were due to 10 customers, which represents a significant concentration. The Management of the Group believes that in the event of withdrawal of funds, the Group would be given sufficient notice as to realize its liquid assets to enable repayment.

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Analysis by sector:			
Individuals	659,384	594,062	472,732
Chemical and petrochemical industry	199,811	114,484	287,393
Investments and finance	105,072	120,288	128,512
Transport and communication	96,591	116,668	108,939
Public organizations and unions	84,825	71,074	21,125
Government related entities	83,355	84,862	120,650
Distribution of electricity, gas and water	70,207	98,340	104,791
Construction	60,053	55,536	46,158
Wholesale and retail trade	49,602	47,973	47,476
Individual services	41,419	41,095	59,728
Education	35,944	25,523	31,854
Agriculture	12,519	20,934	27,462
Mining and metallurgy	10,887	18,771	21,236
Other	43,907	53,467	28,744
	1,553,576	1,463,077	1,506,800

26. DEBT SECURITIES ISSUED

	Currency	Maturity date	Annual coupon rate %	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Recorded at amortized cost:						
Eurobonds of JSC Kazkommertsbank (previously Kazkommerts International B.V.):						
Issued in March, 2006 at the price of 99.993%	EUR	March 2011	5.125	-	-	35,741
Issued in May 2008 at the price of 100%	USD	May 2011	12.00	-	-	5,739
Issued in February 2007 at the price of 99.962%	GBP	February 2012	7.625	-	25,903	30,632
Issued in April 2003 at the price of 97.548%	USD	April 2013	8.50	45,940	45,279	51,625
Issued in April 2004 at the price of 99.15%	USD	April 2014	7.875	29,016	26,851	36,183
Issued in November 2005 at the price of 98.32%	USD	November 2015	8.00	42,671	39,030	40,363
Issued in November 2006 at the price of 98.282%	USD	November 2016	7.50	43,121	41,410	50,250
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.875	78,202	75,258	77,283
Issued in May 2011, at the price 99.353%*	USD	May 2018	8.50	45,188	44,490	-
Other Eurobonds	USD	December 2012	12.85	-	10,384	26,330
				284,138	308,605	354,146
(Less)/including:						
Discount on debt securities issued				(1,791)	(2,038)	(2,361)
Accrued interest on Eurobonds issued				7,401	8,886	10,850
Total issued Eurobonds of JSC Kazkommertsbank (previously Kazkommerts International B.V)				289,748	315,453	362,635
Debt securities issued of JSC Kazkommertsbank at the price 102.21%-104.48%		April 2016	9.00	2,329	2,329	2,329
Accrued interest expenses on debt securities issued of JSC Kazkommertsbank				47	47	47
Premium on debt securities issued of JSC Kazkommertsbank				60	79	97
Issued promissory notes of OJSC Moskommertsbank at the price of 88.00-100.00%		January 2013	4.01-12.00	414	471	2,642
Accrued interest expense on issued promissory notes of OJSC Moskommertsbank				9	7	419
Issued bonds of Moscow Stars B.V. at the price of 99.00%		June 2022	2.03-5.53	4,633	5,692	7,020
Accrued interest on bonds of Moscow Stars B.V.				7	9	10
				297,247	324,087	375,199

* Eurobonds issued by JSC Kazkommertsbank initially.

As at 31 December 2012, accrued interest expense included in debt securities issued amounted to KZT 7,465 million (2011: KZT 8,949 million, 2010: KZT 11,326 million).

On 11 February 2010, the Bank replaced Kazkommerts International B.V. as a Eurobonds issuer. As a result, the Bank's guarantee is no longer effective and all of the issuer's liabilities on the Eurobonds have been transferred to the Bank. The issuer has been substituted in accordance with the terms and conditions of the Eurobonds; and this transfer has no effect on the bondholders' rights.

On 18 July 2007, Eurobonds were issued by Moscow Stars B.V. with a maturity of June 2022, the first coupon payment was due on 16 August 2007 and subsequent coupon is to be paid on the 15th of each month. Moscow Stars B.V. is the special purpose vehicle created for securitization of mortgage loans, and it is consolidated into the financial statement of MKB in accordance with SIC 12 "Consolidation – Special Purpose Entities".

On 23 March 2011, the Bank has announced the repayment of its Eurobond issued in March 2006 for the original amount of EUR 300 million (KZT 61,440 million). The Eurobond was repaid in full on the date of its maturity from the Bank's own funds.

On 12 May 2011, the Bank issued Eurobonds in the amount USD 300 million (KZT 43,722 million) bearing an 8.5% annual coupon rate at a price of 99.353% of the nominal, maturing in 7 years.

On 30 May 2011, the Bank has announced the repayment of its Eurobond issued in May 2008 for the original amount of USD 230 million (KZT 33,428 million). The Eurobond was repaid in full on the date of its maturity from the Bank's own funds.

On 13 February 2012, the Bank has repaid Eurobonds in the amount of GBP 122 million (KZT 28,609 million) issued in February 2007 for the original amount of GBP 350 million.

On 13 November 2012, the Bank has cancelled previously repurchased bonds for the amount of USD 40 million (KZT 6,038 million).

On 19 December 2012, the Bank has repaid Eurobonds in the amount of USD 72 million (KZT 11,614 million) issued in December 2007 for the original amount of USD 125 million.

During 2012, the Bank repurchased its own bonds for total nominal amount of KZT 556 million (USD 3.6 million) (2011: KZT 47,841 million (USD 322 million), 2010: KZT 66,765 million (USD 453 million)) with maturity dates in 2012-2016.

During 2012, the Bank sold its own bonds for total nominal amount of KZT 6,119 million (USD 41 million) (2011: KZT Nil, 2010: KZT Nil) with maturity dates in 2014-2016.

The Group is obligated to comply with financial covenants in relation to the debt securities disclosed above. These covenants include stipulated capital ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants in the years ended 31 December 2012, 2011 and 2010.

27. OTHER BORROWED FUNDS

	Currency	Maturity	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Loans from JSC Entrepreneurship Development Fund "Damu"*	KZT	August 2016	17,540	20,359	16,300
Loans from Private Export Funding Corporation	USD	April 2017	1,075	1,378	1,788
Loans from Deere Credit	USD	May 2013	16	76	170
Loans from Societe Generale Financial Corp	USD	September 2017	-	3,062	3,549
Loans from London Forfaiting Company LTD	USD	June 2012	-	1,484	1,475
Loans from DEG-Deutsche Investitions MBH	USD	November 2011	-	-	642
Loans from the Ministry of Finance of the Republic of Kazakhstan	KZT	September 2011	-	-	19
			18,631	26,359	23,943

* JSC Entrepreneurship Development Fund "Damu" is a subsidiary of JSC National Welfare Fund "Samruk-Kazyna".

As at 31 December 2012, accrued interest expense included in other borrowed funds amounted to KZT 386 million (2011: KZT 371 million, 2010: KZT 317 million).

The Group is obligated to comply with financial covenants in relation to other borrowed funds disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2012, 2011 and 2010.

28. OTHER LIABILITIES

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Other financial liabilities:			
Payable to employees	2,729	2,353	4,206
Settlements on other transactions	1,656	302	539
Accounts payable to re-insurers	1,552	1,234	783
Accrued payable to the Individuals' Deposit Insurance Fund	1,184	-	-
Accrued expenses	339	574	380
Accrued commission expense	17	32	44
	7,477	4,495	5,952
Other non-financial liabilities			
Advances received	1,669	392	161
Taxes payable other than income tax	1,150	2,760	1,755
	10,296	7,647	7,868

29. SUBORDINATED DEBT

	Currency	Maturity date	Interest rate %	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Subordinated debt*	USD	2017	5.950	31,798	37,115	36,883
Subordinated bonds	KZT	2015 - 2019	5.700-9.000	33,847	33,645	33,108
Subordinated debt*	USD	2016	6.770	23,181	30,433	30,515
Subordinated debt of Citigroup GMD AG & Co	USD	2014	9.667	15,414	15,175	15,083
Perpetual bonds*	USD	-	9.200	11,059	14,928	14,845
Debt component of preference shares	USD	-	-	6,851	6,744	6,703
				122,150	138,040	137,137

*Previously issued by Kazkommerts Finance II B.V.

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank’s liabilities to all other creditors.

As at 31 December 2012, accrued interest expenses included in subordinated debt amounted to KZT 1,624 million (2011: KZT 2,139 million, 2010: KZT 2,272 million).

On 25 August 2010, the Bank replaced Kazkommerts Finance II B.V. as a subordinated bonds issuer. As a result, all of the issuer’s liabilities on the bonds have been transferred to the Bank. The issuer has been substituted in accordance with the terms and conditions of the subordinated bonds; and this transfer has no effect on the bondholders’ rights.

The Group is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2012, 2011 and 2010.

30. SHARE CAPITAL

As at 31 December 2012, 2011 and 2010, authorized share capital consisted of 1,100 million ordinary shares and 175 million preference shares.

As at 31 December 2012, the Group’s share capital comprised the following:

	Authorized share capital (KZT million)	Authorized but not issued share capital (KZT million)	Repurchased share capital (KZT million)	Issued share capital (KZT million)
Ordinary shares	11,000	(3,206)	(18)	7,776
Preference shares	1,750	(500)	(18)	1,232
	12,750	(3,706)	(36)	9,008

As at 31 December 2011, the Group’s share capital comprised the following:

	Authorized share capital (KZT million)	Authorized but not issued share capital (KZT million)	Repurchased share capital (KZT million)	Issued share capital (KZT million)
Ordinary shares	11,000	(3,206)	(10)	7,784
Preference shares	1,750	(500)	(11)	1,239
	12,750	(3,706)	(21)	9,023

As at 31 December 2010, the Group's share capital comprised the following:

	Authorized share capital (KZT million)	Authorized but not issued share capital (KZT million)	Repurchased share capital (KZT million)	Issued share capital (KZT million)
Ordinary shares	11,000	(3,206)	(8)	7,786
Preference shares	1,750	(500)	(5)	1,245
	12,750	(3,706)	(13)	9,031

As at 31 December 2012, 2011 and 2010 ordinary shares remain unpaid.

The preference shares carry no voting rights, unless preference dividends are not paid, but rank ahead of the ordinary shares in the event of liquidation of the Bank. The annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share. According to Kazakhstan legislation on Joint Stock Companies, additional dividend payments on the preference shares cannot be less than the dividends paid on common shares. These shares are cumulative and not redeemable.

During 2012, dividends declared on preference shares amounted to KZT 778 million (2011: KZT 731 million, 2010: KZT 731 million). In 2012, 2011 and 2010 dividends on ordinary shares of the Bank have not been declared.

The table below provides a reconciliation of the number of shares outstanding as of 31 December 2012, 2011 and 2010:

	Preference shares Number of shares	Ordinary shares Number of shares
31 December 2009	124,452,984	778,601,164
Sale/(repurchase) of treasury shares	61,960	(15,803)
31 December 2010	124,514,944	778,585,361
Repurchase of treasury shares	(551,570)	(222,773)
31 December 2011	123,963,374	778,362,588
Repurchase of treasury shares	(753,605)	(774,065)
31 December 2012	123,209,769	777,588,523

As at 31 December 2012, the number of ordinary shares held as treasury shares is 1,749,654 shares (2011: 975,615 shares, 2010: 752,815 shares).

The share premium reserve represents an excess of contributions received over the nominal value of shares issued.

The Group's profit distributable among shareholders is limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. At each reporting date the reserve comprises an amount not less than the reserve, accrued on the prior reporting date and a certain portion of non-distributable net profit of the Bank prior to any ordinary share dividend distributions.

The Group expects changes in the banking legislation of the Republic of Kazakhstan regarding the introduction of general dynamic reserves in 2013. This general dynamic reserve is supposed to be created through an appropriation of retained earnings in the equity of the Bank on the basis of the methodology approved by the regulator of the Republic of Kazakhstan. The methodology involves the creation of several pools of loans for which there is a risk of unexpected loss detection. Additionally the methodology requires a counter-cyclical tool that will neutralize the effect of the financial and economic crisis on the banking system of the Republic of Kazakhstan.

31. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and credit commitments, in the event of non-performance or in the event of impairment by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2012, provision for losses on guarantees and other contingencies amounted to KZT 2,683 million, where reserves (provisions) for covering losses on granted guarantees and other contingencies amounted to KZT 2,673 million and commission income on granted guarantees amounted to KZT 10 million (2011: KZT 2,524 million, 2010: KZT 3,903 million).

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

As at 31 December 2012, the credit risk on contingent liabilities and credit commitments was covered by collateral of KZT 69,674 million (2011: KZT 46,580 million, 2010: KZT 23,383 million). The collateral includes real estate, deposits and various other financial and non-financial assets.

As at 31 December 2012, 2011 and 2010, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Contingent liabilities and credit commitments:			
Guarantees issued and similar commitments	79,314	68,895	90,557
Commitments on loans and unused credit lines	13,947	14,053	8,992
Letters of credit and other transaction related to contingent obligations	3,952	5,280	2,783
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	28	40	44
Total financial commitments and contingencies	97,241	88,268	102,376
Less collateral in cash	(6,626)	(7,697)	(3,711)
Less allowances	(2,673)	(2,524)	(3,903)
Total contingent liabilities and credit commitments, net	87,942	78,047	94,762
Total risk-weighted amount	87,440	80,641	95,907

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 31 December 2012, the amount of contingent liabilities on such unused credit lines equals KZT 417,634 million (2011: KZT 396,716 million, 2010: KZT 286,654 million). The decision to issue further funds is not obligatory since the Group is entitled to suspend or stop providing the borrower with a credit line or deny the borrower the credit for any reason including in case: the borrower violates the obligations before the Group; insufficiency of the collateral when revaluing the collateral due to a decrease in its pledge value or change of prices in the market; or as a result of provision of the credit line (provision of credit) the Group will violate any of the prudential norms established by the regulatory authorities for the second-tier banks; without warning the borrower.

Capital commitments

As at 31 December 2012, capital commitments amounted to KZT 173 million (2011: KZT 395 million, 2010: KZT 959 million).

Operating lease commitments

As at 31 December 2012, 2011 and 2010, there were no material operating lease commitments outstanding.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited rights on decision making with clients for the management of assets in accordance with specific criteria established by them. The Group is liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. As at 31 December 2012, these amounts represent balances of clients' funds under management of Group, including assets, which are under responsible custody at amount KZT 112,884 million (2011: KZT 89,223 million, 2010: KZT 104,847 million) respectively. As at 31 December 2012, assets of pension funds, which are under management of the Group, were equal to KZT 304,422 million (2011: KZT 243,170 million, 2010: KZT 150,038 million).

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all probable tax amounts due. Income tax related provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

During 2012, the tax authorities conducted a tax audit of the Bank covering the period from 2007 to 2010 inclusive. Based on the results of the tax authority's audit, a total amount of KZT 3,775 million in additional taxes and penalties, and a further KZT 1,395 million in fines should be accrued. The Bank has appealed to the Almaty City Court to overrule the tax authorities judgment in the amount of KZT 3,775 million and that the fines imposed are therefore not applicable . Based on previous experience, the Bank believes that their position is fully supportable by the tax legislation in force during the period. As at the date of approval of these financial statements the Bank has not received the results of the appeal and has not accrued any amount in relation to the case in these consolidated financial statements.

Operating environment

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

32. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are assessed in accordance with IAS 24.

In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2012 (KZT million)		31 December 2011 (KZT million)		31 December 2010 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	1,015	2,840,979	1,006	2,737,769	1,055	2,747,210
- key management personnel of the entity or its parent	1,015		1,006		1,055	
Allowance for impairment losses	(61)	(923,287)	(78)	(658,108)	(110)	(572,450)
- key management personnel of the entity or its parent	(61)		(78)		(110)	
Customer accounts	5,359	1,553,576	5,758	1,463,077	5,255	1,506,800
- parent company	1,467		1,456		1,402	
- entities with joint control or significant influence over the entity	349		303		327	
- key management personnel of the entity or its parent	3,494		3,761		3,474	
- other related parties	49		238		52	
Commitments on loans and unused credit lines	110	13,947	121	14,053	305	8,992
- key management personnel of the entity or its parent	110		121		305	
Guarantees issued and similar commitments	12	79,314	19	68,895	18	90,557
- key management personnel of the entity or its parent	12		19		18	

Included in the consolidated income statement for the years ended 31 December 2012, 2011 and 2010 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2012 (KZT million)		Year ended 31 December 2011 (KZT million)		Year ended 31 December 2010 (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	73	232,061	81	246,853	91	291,515
- key management personnel of the entity or its parent	73		81		91	
Interest expense	(272)	(107,723)	(438)	(133,531)	(471)	(152,091)
-parent company	(63)		(120)		(130)	
- entities with a joint control or significant influence of the entity	-		(2)		(7)	
- key management personnel of the entity or its parent	(209)		(316)		(316)	
- other related parties	-		-		(18)	
Operating expenses	(1,039)	(33,890)	(2,428)	(34,128)	(1,033)	(32,730)
Short-term employee benefits	(1,039)		(2,428)		(1,033)	
Recovery of provision/(provision) for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	5	(289,011)	(3)	(66,573)	8	(95,973)
- key management personnel of the entity or its parent	5		(3)		8	

Key management personnel compensation for the years ended 31 December 2012, 2011 and 2010 is represented by salary and bonuses.

As at 31 December 2012, 2011 and 2010, the Group does not pledge any assets in connection with guarantees issued to Management.

33. SEGMENT REPORTING

Business segments

The Group is managed and reported on the basis of four main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, documentary credits, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice.
- Other – representing insurance operations and other activities.

Retail banking offers a range of personal banking, savings and mortgage products and services. Corporate banking offers business banking services principally to small and mid sized companies and commercial loans to larger corporate and commercial customers. Investment banking consists of assets and liabilities required to support the liquidity and funding requirements of the Group, Asset and Liability Management activities, Group Capital and shared services.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments, if any, have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the financial position, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

More specific information on the revenues from external customers for each product and service, or each group of similar products and services is not available and the cost to develop it is excessive. Hence the Group presents operating segments on the basis of three main segments.

Segment information about these businesses is presented below.

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2012 (KZT million)
External interest income	31,632	191,038	8,398	993	-	-	232,061
Internal interest income	59,244	31,241	183,407	-	-	(273,892)	-
External interest expenses	(43,138)	(23,639)	(40,945)	(1)	-	-	(107,723)
Internal interest expenses	(15,817)	(146,890)	(111,185)	-	-	273,892	-
Net interest income before provision for impairment losses on interest bearing assets	31,921	51,750	39,675	992	-	-	124,338
Recovery of provision/(provision) for impairment losses on interest bearing assets	4,403	(290,550)	(178)	-	-	-	(286,325)
NET INTEREST INCOME/(EXPENSE)	36,324	(238,800)	39,497	992	-	-	(161,987)
Net loss on financial assets and liabilities at fair value though profit or loss	-	-	(169)	(157)	-	-	(326)
Net gain on foreign exchange and precious metals operations	1,362	845	1,329	74	-	-	3,610
Fee and commission income	14,157	9,349	3,964	-	-	-	27,470
Fee and commission expense	(7,215)	(674)	(468)	(227)	-	-	(8,584)
Net realized loss on investments available-for-sale	-	-	(649)	-	-	-	(649)
Dividend income	-	-	8,343	165	-	-	8,508
Other (expenses)/income	(78)	137	161	4,528	-	-	4,748
NET NON-INTEREST INCOME	8,226	9,657	12,511	4,383	-	-	34,777
OPERATING EXPENSES	(18,593)	(9,855)	(2,769)	(2,673)	-	-	(33,890)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	25,957	(238,998)	49,239	2,702	-	-	(161,100)
Provision for impairment losses on other transactions	-	(1,124)	(45)	(1,408)	-	-	(2,577)
Provision for guarantees and other contingencies	-	(109)	-	-	-	-	(109)
PROFIT/(LOSS) BEFORE INCOME TAX	25,957	(240,231)	49,194	1,294	-	-	(163,786)
Segment assets	243,952	1,779,516	416,700	67,029	11,215	(73,600)	2,444,812
Segment liabilities	632,079	931,481	586,930	14,800	1,038	(29,485)	2,136,843

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2011 (KZT million)
External interest income	29,122	205,812	11,080	839	-	-	246,853
Internal interest income	57,024	50,183	192,455	-	-	(299,662)	-
External interest expenses	(42,580)	(42,910)	(48,041)	-	-	-	(133,531)
Internal interest expenses	(16,666)	(160,106)	(122,890)	-	-	299,662	-
Net interest income before provision for impairment losses on interest bearing assets	26,900	52,979	32,604	839	-	-	113,322
Provision for impairment losses on interest bearing assets	(1,215)	(64,716)	(37)	(127)	-	-	(66,095)
NET INTEREST INCOME/(EXPENSE)	25,685	(11,737)	32,567	712	-	-	47,227
Net loss on financial assets and liabilities at fair value though profit or loss	(1)	-	(5,042)	(189)	-	-	(5,232)
Net gain/(loss) on foreign exchange and precious metals operations	911	228	(125)	(28)	-	-	986
Fee and commission income	11,339	9,426	3,181	-	-	-	23,946
Fee and commission expense	(5,983)	(601)	(509)	(154)	-	-	(7,247)
Net realized gain on investments available-for-sale	-	-	25	77	-	-	102
Dividend income	-	-	186	24	-	-	210
Other income	149	1,225	128	4,289	-	-	5,791
NET NON-INTEREST INCOME/(EXPENSE)	6,415	10,278	(2,156)	4,019	-	-	18,556
OPERATING EXPENSES	(19,417)	(8,295)	(3,395)	(3,021)	-	-	(34,128)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	12,683	(9,754)	27,016	1,710	-	-	31,655
Recovery of provision /(provision) for impairment losses on other transactions	-	81	(14)	(1,932)	-	-	(1,865)
Recovery of provision for guarantees and other contingencies	-	1,387	-	-	-	-	1,387
PROFIT/(LOSS) BEFORE INCOME TAX	12,683	(8,286)	27,002	(222)	-	-	31,177
Segment assets	236,547	1,945,678	383,429	59,431	4,594	(63,990)	2,565,689
Segment liabilities	568,301	900,580	640,855	9,812	31,669	(22,160)	2,129,057

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2010 (KZT million)
External interest income	32,970	246,812	11,023	710	-	-	291,515
Internal interest income	45,736	59,893	177,375	-	-	(283,004)	-
External interest expenses	(37,974)	(58,802)	(55,315)	-	-	-	(152,091)
Internal interest expenses	(18,848)	(165,600)	(98,556)	-	-	283,004	-
Net interest income before provision for impairment losses on interest bearing assets	21,884	82,303	34,527	710	-	-	139,424
Provision for impairment losses on interest bearing assets	(172)	(95,212)	(171)	-	-	-	(95,555)
NET INTEREST INCOME/(EXPENSE)	21,712	(12,909)	34,356	710	-	-	43,869
Net (loss)/gain on financial assets and liabilities at fair value though profit or loss	-	-	(6,259)	312	-	-	(5,947)
Net gain on foreign exchange and precious metals operations	686	88	1,775	13	-	-	2,562
Fee and commission income	8,821	9,640	2,513	-	-	-	20,974
Fee and commission expense	(4,275)	(917)	(441)	(96)	-		(5,729)
Net realized gain on investments available-for-sale	-	-	64	5	-	-	69
Dividend income	-	-	166	15	-	-	181
Other income	6	272	704	4,395	-	-	5,377
NET NON-INTEREST INCOME/(EXPENSE)	5,238	9,083	(1,478)	4,644	-	-	17,487
OPERATING EXPENSES	(14,412)	(13,367)	(2,437)	(2,514)	-	-	(32,730)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	12,538	(17,193)	30,441	2,840	-	-	28,626
(Provision)/recovery of provision for impairment losses on other transactions	-	(1,905)	21	(1,795)	-	-	(3,679)
Recovery of provision for guarantees and other contingencies	-	3,261	-	-	-	-	3,261
PROFIT/(LOSS) BEFORE INCOME TAX	12,538	(15,837)	30,462	1,045	-	-	28,208
Segment assets	258,973	1,968,934	483,630	59,989	2,979	(86,397)	2,688,108
Segment liabilities	453,765	1,061,873	762,042	7,385	31,563	(42,266)	2,274,362

Geographical segments

Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2012, 2011 and 2010.

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	For the year ended 31 December 2012 Total (KZT million)
Interest income	220,064	11,997	-	232,061
Interest expense	(101,261)	(6,458)	(4)	(107,723)
Provision for impairment losses on interest bearing assets	(286,105)	(220)	-	(286,325)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(1,014)	688	-	(326)
Net gain on foreign exchange and precious metals operations	3,034	568	8	3,610
Fee and commission income	26,796	674	-	27,470
Fee and commission expense	(8,204)	(380)	-	(8,584)
Net realized (loss)/gain on investments available-for-sale	(687)	38	-	(649)
Dividend income	8,501	7	-	8,508
Other income	4,455	293	-	4,748
OPERATING (LOSS)/INCOME	(134,421)	7,207	4	(127,210)

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	For the year ended 31 December 2011 Total (KZT million)
Interest income	234,913	11,932	8	246,853
Interest expense	(124,435)	(7,951)	(1,145)	(133,531)
(Provision)/recovery of provision for impairment losses on interest bearing assets	(66,201)	106	-	(66,095)
Net loss on financial assets and liabilities at fair value through profit or loss	(5,127)	(105)	-	(5,232)
Net gain/(loss) on foreign exchange and precious metals operations	60	934	(8)	986
Fee and commission income	23,282	664	-	23,946
Fee and commission expense	(6,935)	(322)	10	(7,247)
Net realized gain on investments available-for-sale	102	-	-	102
Dividend income	210	-	-	210
Other income	5,763	28	-	5,791
OPERATING INCOME/(LOSS)	61,632	5,286	(1,135)	65,783

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	For the year ended 31 December 2010 Total (KZT million)
Interest income	275,681	15,646	188	291,515
Interest expense	(133,177)	(9,162)	(9,752)	(152,091)
(Provision)/recovery of provision for impairment losses on interest bearing assets	(96,760)	1,205	-	(95,555)
Net loss on financial assets and liabilities at fair value through profit or loss	(5,857)	(90)	-	(5,947)
Net gain/(loss) on foreign exchange and precious metals operations	2,088	499	(25)	2,562
Fee and commission income	20,359	615	-	20,974
Fee and commission expense	(5,550)	(178)	(1)	(5,729)
Net realized gain on investments available-for-sale	69	-	-	69
Dividend income	181	-	-	181
Other income	4,813	564	-	5,377
OPERATING INCOME/(LOSS)	61,847	9,099	(9,590)	61,356

External operating income has been allocated based on domicile of the company within the Group.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value:

Loans and advances to and from banks and other financial institutions and other borrowed funds – for assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over three months, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances and other borrowed funds the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Debt securities issued – market values have been used, where available, to determine the fair value of debt securities traded on an active market.

Subordinated debt – market values have been used, where available, to determine the fair value of subordinated bonds issued and perpetual debt.

The fair value of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position compared with the corresponding carrying value in the consolidated financial statements of the Group are presented below:

	31 December 2012		31 December 2011		31 December 2010	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	(KZT million)		**(KZT million)**		**(KZT million)**	
Financial assets:						
Loans and advances to banks and other financial institutions	146,703	146,703	53,968	54,107	146,331	144,960
Loans to customers	1,917,692	1,929,541	2,079,661	2,061,752	2,174,760	2,123,515
Investments held to maturity	6,937	6,911	4,026	4,074	1,996	2,110
Financial liabilities:						
Loans and advances from banks and financial institutions	110,477	108,766	92,215	89,302	147,139	139,022
Customer accounts	1,553,576	1,540,809	1,463,077	1,444,041	1,506,800	1,494,395
Debt securities issued	297,247	280,787	324,087	290,527	375,199	353,548
Other borrowed funds	18,631	15,838	26,359	20,306	23,943	20,496
Subordinated debt	122,150	122,385	138,040	137,913	137,137	136,827

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated statement of financial position. The carrying amounts of cash and balances with national (central) banks, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

35. CAPITAL RISK MANAGEMENT

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total and tier 1 capital to risk weighted assets.

Capital adequacy requirements are set by the FMSC and controlled using the principles, methods and factors identified by the Basel Committee on Banking Supervision.

	31 December 2012 (KZT million)	31 December 2011 (KZT million)	31 December 2010 (KZT million)
Composition of regulatory capital[a]:			
Tier 1 capital:			
Share capital (ordinary shares)	7,776	7,784	7,786
Share premium reserve	194,721	194,924	195,024
Retained earnings [b]	225,918	202,380	180,609
Net (loss)/income [b] for the year	(131,131)	23,480	21,879
Non-controlling interest	1,315	1,112	1,074
Goodwill	(2,405)	(2,405)	(2,405)
Innovative instrument [c]	10,868	14,729	14,649
Total qualifying tier 1 capital	307,062	442,004	418,616
Property and equipment revaluation reserve [d]	5,710	4,866	5,940
Share capital (preference shares)	1,232	1,239	1,245
Subordinated debt [e]	66,176	82,947	92,030
Total qualifying tier 2 capital	73,118	89,052	99,215
Total capital	380,180	531,056	517,831
Risk weighted assets and contingent liabilities	2,249,073	2,379,633	2,579,090
Ratio of tier 1 capital adequacy	13.65%	18.57%	16.23%
Capital adequacy ratio	16.90%	22.32%	20.08%

[a] According to the principles applied by Basel Committee.
[b] As at 31 December 2012 and 2011, in the computation of total capital for capital adequacy purposes the line "Retained earnings" included statutory reserve, which is required by legislation of the Republic of Kazakhstan and reflected in IFRS financial statements since 1 July 2011.
[c] Innovative instruments represents perpetual bonds.
[d] The line "Property and equipment revaluation reserve" includes discounted amount of investments available-for-sale securities revaluation reserve/(deficit) (in accordance with the Basel standards).
[e] As at 31 December 2012, 2011 and 2010, the Group included in the computation of total capital for capital adequacy purposes the subordinated debt received, which is not to exceed 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

During the years ended 31 December 2012, 2011 and 2010, the Group complied with all set capital requirements.

The capital adequacy ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks and other financial institutions for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated and perpetual debt disclosed in Note 29, and equity comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board of the Bank reviews its capital structure on quarterly basis. Based on the recommendations of the Management Board by making decisions on the Board of Directors or shareholders meeting, the Group balances its overall capital structure through new share issues, issues of new debt or the redemption of existing debt, and the payment of dividends.

The Group's overall capital risk management policy remains unchanged in comparison with 2011 and 2010.

36. RISK MANAGEMENT POLICIES

Management of risks is fundamental to the Group's business. The risk management functions include:

- Risk identification: The risks, which the Group is exposed to in its daily activities, are identified by the risk management system.
-
- Measuring risks: The Group measures the risks using various quantitative and qualitative methodologies, which include risk based profitability analysis, calculation of possible loss amounts, and utilization of specialized models. Measurement models and associated assumptions are periodically reviewed to ensure that the tools represent the risks adequately and reasonably.

- Risk monitoring: Group's policies and procedures determine the processes for mitigating and minimizing the risks and establish limits on various types of operations. Such limits are reviewed on a periodic basis set forth in internal documents of the Group.

- Risk reporting: Risk reporting is performed on a line of business and on a consolidated basis. This information is periodically presented to the Management.

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Interest rate risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risk.

Credit risk

The Group is exposed to credit risk which is the risk that counterparty to a financial instrument will fail to fulfill its obligation to the Group. This covers actual payment defaults as well as losses in value resulting from a decrease in credit quality of the counterparty.

Risk management and monitoring is performed within set procedures and limits by the Credit Committees and the Management of the Group. Risk management coordination is performed by the risk management specialist or Risk Management Departments. Daily risk management is performed by the Head of the Credit Departments or Credit Divisions of branches and subsidiaries.

To measure credit risk, the Group employs several methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on types of assets (e.g. consumer loans versus corporate term loan), risk measurement parameters (e.g. delinquency status and credit bureau reports versus corporate risk rating), and risk management and collection procedures (e.g. consumer lending collection center versus centrally managed workout groups).

The Group determines the level of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product, by industry sector and by region are approved by the Credit Committees. The exposure to any individual borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committees.

Off-balance sheet credit commitments represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk of off-balance sheet financial instruments is defined as the probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet instruments, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. The actual amount of this loss is likely to be less than the total unused commitments since the commitments are contingent upon customers maintaining certain credit standards. The Group applies the same credit policy to contingent liabilities as it does to the on-balance sheet financial instruments.

Structure of credit committees

The Group has developed policies and guidelines that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are aimed at accurate assessment of credit risk and its proper and timely monitoring. The policy frameworks (separate for retail lending and corporate lending) establish credit approval authorities, risk-rating methodologies, credit review parameters and guidelines for management of distressed loans.

The Group has been centralizing decision making in the Head Office over the past several years. In particular, authorities of branches and regional directorates on approval of small entrepreneurship and retail loans have been transferred to Decision Making Centers (“DMCs”) in the Head office. Furthermore, most of the branch and regional directorate authorities on corporate loan approvals have also been transferred to the Head Office of the Bank.

The Group currently has the following credit committees:

- Head office committees.
    - *Head Office Credit Committee.* This committee is authorized to approve corporate loans of up to equivalent of USD 5 million. The committee also approves retail and small and medium entrepreneurship loans which exceed the thresholds and authorities set for DMCs.
    - *Commercial Directorate.* There are five members of the committee, including the Chair person of the Group, who presides, and four Managing Directors. The committee is authorized to approve loans exceeding the equivalent of USD 5 million.
    - *Board of Directors.* All loans exceeding 10% of the Group’s total assets as well as all transactions with related parties have to be approved by the Board of Directors.
- North Regional Directorate Committee. The Group has a North Regional Directorate Committee, covering the north regions of Kazakhstan (Astana, Kostanay, Kokshetau and Petropavlovsk). The north regional directorate has limited authorities to grant loans.
- Branch Committees. Each of the Group’s branches has a credit committee. The branches have limited authorities to grant loans.

Corporate loans

While considering loan applications of corporate borrowers, the related Credit Committees take into account the analysis and conclusions of Risk Management Department №1, Collateral Valuation, Legal and Security Departments.

- Risk Management Department №1. The analytic group within the Head Office, which provides advice on commercial loans based on their assessment of the borrower's business and/or the project, to which the loan relates. Their assessment takes into account a number of industry and borrower specific factors, future cash flows of the potential borrower and anticipated risk-adjusted returns for the Group. For the purpose of the analysis, risk managers utilize the rating model described below. Furthermore, the Department of Risk Management №1 is involved in the Group's loan portfolio monitoring and in the development of procedures and guidelines with respect to the Group's lending.
- Collateral Valuation Department. The Group requires collateral for almost all of its loans. According to legislation of the Republic of Kazakhstan, collateral valuation should be performed by independent collateral valuation companies ("IVCs"). The collateral Valuation Department reviews appraisal reports issued by IVCs and carries out certification and monitoring of IVCs.
- Legal Department. The Group obtains legal advice from the Legal Department regarding proposed loans and receives confirmation as to the valid corporate existence of the potential borrower and its authority to enter into loan transactions and collateral agreements.
- Security Department. The Security Department provides information on assets, credit history and reputation of potential borrowers. A central credit bureau has recently been established in Kazakhstan and this should improve the quality of information on the credit history of potential borrowers.

Retail, small and medium entrepreneurship loans

Loans to retail, small and medium entrepreneurship loans are subject to a standardized approval procedure. The Group has established two new divisions in Risk Management Department №2, the Decision Making Centers ("DMCs"). One DMC processes consumer loan applications, while the second unit makes decisions on small and medium entrepreneurship loans. In order to approve or decline an application, the DMCs analyze payment ability and creditworthiness of a potential borrower on the basis of standard terms, criteria and procedures set forth by the Group.

The DMC on retail is authorized to approve applications within the delegated authority and up to the equivalent of USD 200,000 per one borrower. The DMC on small entrepreneurship has authorities to approve applications within the delegated authority and up to the equivalent of USD 500,000. Applications with larger exposures and/or exceeding delegated authority are referred to one of the relevant credit committees in the Head Office. The DMCs conduct analysis of the applications exceeding their limits and/or delegated authority, and the relevant credit committee takes their conclusions into account in decision making.

Allowance for credit losses

The Group establishes an allowance for impairment losses on loans and off-balance liabilities where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, the Bank takes into account a number of criteria, including financial performance of the borrower, terms of the loan, collateral value and debt service of the borrower. In relation to loans, classified in homogeneous portfolio, portfolio approach is applied and the quality of debt service is considered.

Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks of certain financial assets and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and commitments. For financial assets the maximum exposure is equal to its carrying value of those assets prior to any offset or collateral. For financial guarantees and other commitments the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. The information in relation to financial guarantees and other contingent liabilities is disclosed in Note 31.

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged[1] (KZT million)	31 December 2012 Net exposure after offset and collateral (KZT million)
Financial assets at fair value through profit or loss	118,822	-	118,822	-	118,822
Loans and advances to banks and other financial institutions	146,703	-	146,703	(3,782)	142,921
Loans to customers	1,917,692	(4,236)	1,913,456	(786,606)	1,126,850
Investments available-for-sale	15,682	-	15,682	-	15,682
Investments held to maturity	6,937	-	6,937	-	6,937
Other financial assets	4,831	-	4,831	-	4,831
Contingent liabilities and other credit commitments	97,241	(14,607)	82,634	(55,067)	27,567

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged[1] (KZT million)	31 December 2011 Net exposure after offset and collateral (KZT million)
Financial assets at fair value through profit or loss	188,313	-	188,313	-	188,313
Loans and advances to banks and other financial institutions	53,968	-	53,968	(800)	53,168
Loans to customers	2,079,661	(16,161)	2,063,500	(972,557)	1,090,943
Investments available-for-sale	15,419	-	15,419	-	15,419
Investments held to maturity	4,026	-	4,026	-	4,026
Other financial assets	6,430	-	6,430	-	6,430
Contingent liabilities and other credit commitments	88,268	(7,407)	80,861	(39,127)	41,734

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged[1] (KZT million)	31 December 2010 Net exposure after offset and collateral (KZT million)
Financial assets at fair value through profit or loss	223,231	-	223,231	-	223,231
Loans and advances to banks and other financial institutions	146,331	-	146,331	(8,407)	137,924
Loans to customers	2,174,760	(18,576)	2,156,184	(1,124,117)	1,032,067
Investments available-for-sale	16,822	-	16,822	-	16,822
Investments held to maturity	1,996	-	1,996	-	1,996
Other financial assets	6,962	-	6,962	-	6,962
Contingent liabilities and other credit commitments	102,376	(4,810)	97,566	(18,527)	79,039

[1] A description of the collateral presented on loans to customers is included in Note 18.

The collateral pledged amount on loans to banks and other financial institutions is determined on the basis of fair value of collateral and capped by outstanding amount of loan.
The collateral pledged amount for loans to customers is represented by its fair value adjusted for costs to sell, including financial costs and adjusted for the period required to sell collateral. Fair value of collateral is reviewed on a semi-annual basis.

As at 31 December 2012, loans and advances to banks and other financial institutions also include loans under reverse repurchase agreements in amount of KZT 10,688 million (2011: KZT 800 million, 2010: KZT 8,407 million).

As at 31 December 2012, loans to customers include loans under reverse repurchase agreements in amount of KZT Nil (2011: KZT Nil, 2010: KZT 818 million).

Credit ratings

Financial assets are graded according to the current credit rating of international rating agencies. The highest possible rating is AAA. Investment grade of the financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as a speculative grade.

The following table details the credit ratings of financial assets held by the Group:

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2012 Total (KZT million)**
Financial assets at fair value through profit or loss	-	26	215	92,023	24,961	1,597	118,822
Loans and advances to banks and other financial institutions	-	95,645	11,864	15,043	8,464	15,687	146,703
Loans to customers	-	-	-	-	2,561	1,915,131	1,917,692
Investments available-for-sale	-	-	-	7,117	2,314	6,251	15,682
Investments held to maturity	180	-	153	4,499	1,191	914	6,937
Other financial assets	-	-	229	57	1,647	2,898	4,831

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2011 Total (KZT million)**
Financial assets at fair value through profit or loss	922	141	489	153,884	19,323	13,554	188,313
Loans and advances to banks and other financial institutions	-	13,756	11,213	23,384	1,210	4,405	53,968
Loans to customers	-	-	-	-	3,025	2,076,636	2,079,661
Investments available-for-sale	-	-	-	6,800	2,901	5,718	15,419
Investments held to maturity	333	-	154	1,883	1,608	48	4,026
Other financial assets	-	2	1,210	6	653	4,559	6,430

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2010 Total (KZT million)
Financial assets at fair value through profit or loss	15,831	7,042	291	164,367	13,774	21,926	223,231
Loans and advances to banks and other financial institutions	-	40,478	36,813	30,460	3,761	34,819	146,331
Loans to customers	-	-	-	-	3,506	2,171,254	2,174,760
Investments available-for-sale	-	-	-	5,837	5,015	5,970	16,822
Investments held to maturity	-	154	-	1,132	661	49	1,996
Other financial assets	-	114	2	314	948	5,584	6,962

Since not all counterparties of the Group have credit ratings from international rating agencies, the Group has developed its own methodologies allowing it to assign internal credit ratings. Such methodologies include a rating model for corporate borrowers and scoring models for retail banking clients and small and medium enterprises. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan.

Loans to customer are classified by the responsible departments on the basis of internal assessment and other analytical procedures. Taking into account past experience, in December 2010 there was an improvement of the assessment methodology of probability of default of the loans based on a deeper analysis of the financial position of the borrower and future cash flows. As a result of this improvement, added to this analysis were qualitative and quantitative factors of the borrowers, such as operational efficiency, liquidity, capital adequacy ratios, cash flows and debt servicing ratios, quality of the management, risk of the industry, presence of facts of misapplication of funds and the customers' credit history.

At present, the Bank uses the classification of loans to customers as follows:

Homogeneous loans: Loans to customers with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults and other factors). Collective assessment is performed on loans that were determined not to be individually significant and on individually significant loans that did not exhibit credit losses based on the individual assessment.

Group 1: The borrower makes interest and principal payments without delay and in full. The borrower is clearly able to repay both the loan principal and interest and the borrower's high financial efficiency is expected to continue.

Group 2: The borrower makes interest and principal payments without delay and in full. The borrower is currently in a stable financial position, however, a possible negative trend may arise.

Group 3: The borrower makes interest and principal payments without delay and in full. There is evidence of some unsatisfactory financial results which may affect the ability of the borrower to repay in the future.

Group 4: The borrower makes interest and principal payments with delays and/or not in full. There is evidence of a significant number of unsatisfactory financial results which will affect the ability of the borrower to repay.

Group 5: The borrower is unable to make interest and principal payments without delays and in full. Financial efficiency is questionable and there is low probability of a full repayment in the future.

	31 December 2012 (KZT million)	**31 December 2011 (KZT million)**	**31 December 2010 (KZT million)**
Homogeneous loans	171,896	111,935	114,401
Group 1	120,877	148,867	196,778
Group 2	355,551	483,908	560,786
Group 3	836,819	1,000,285	911,211
Group 4	343,877	234,792	284,612
Group 5	88,672	99,874	106,154
	1,917,692	2,079,661	2,173,942
Reverse repurchase agreements	-	-	818
Loans to customers	1,917,692	2,079,661	2,174,760

Impairment of financial assets

The following table details the carrying value of assets that are impaired and not impaired:

	Financial assets that are not impaired (KZT million)	Financial assets that have been assessed individually for impairment (KZT million)	Homogenous and individually assessed watch assets (KZT million)	31 December 2012 Total (KZT million)
Loans and advances to banks and other financial institutions	140,613	-	6,090	146,703
Loans to customers	123,168	383,913	1,410,611	1,917,692
Investments available-for-sale	15,682	-	-	15,682
Investments held to maturity	6,937	-	-	6,937
Other financial assets	4,831	-	-	4,831

	Financial assets that are not impaired (KZT million)	Financial assets that have been assessed individually for impairment (KZT million)	Homogenous and individually assessed watch assets (KZT million)	31 December 2011 Total (KZT million)
Loans and advances to banks and other financial institutions	50,456	-	3,512	53,968
Loans to customers	124,772	481,092	1,473,797	2,079,661
Investments available-for-sale	15,419	-	-	15,419
Investments held to maturity	4,026	-	-	4,026
Other financial assets	6,430	-	-	6,430

	Financial assets that are not impaired (KZT million)	Financial assets that have been assessed individually for impairment (KZT million)	Homogenous and individually assessed watch assets (KZT million)	31 December 2010 Total (KZT million)
Loans and advances to banks and other financial institutions	144,741	-	1,590	146,331
Loans to customers	191,175	473,550	1,510,035	2,174,760
Investments available-for-sale	16,822	-	-	16,822
Investments held to maturity	1,996	-	-	1,996
Other financial assets	6,962	-	-	6,962

As at 31 December 2012, the carrying value of financial assets that are overdue, but not impaired is KZT 21 million (2011: KZT 1,502 million, 2010: KZT 1,738 million) and they are overdue for less than a two-month period.

Geographical concentration

The relevant Credit Committees exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. The Group sets country limits for all countries with ratings below A- according to the Standard and Poor's classification.

The Management of the Group considers the main segment to be the Republic of Kazakhstan.

The geographical concentration of financial assets and financial liabilities is set out in tables below:

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries* (KZT million)	31 December 2012 Total (KZT million)
FINANCIAL ASSETS:					
Cash and balances with national (central) banks	95,995	10,430	-	72	106,497
Precious metals	176	-	3,647	-	3,823
Financial assets at fair value through profit or loss	89,548	18,245	11,029	-	118,822
Loans and advances to banks and other financial institutions	4,153	26,941	115,339	270	146,703
Loans to customers	1,745,551	116,015	19,544	36,582	1,917,692
Investments available-for-sale	14,400	812	470	-	15,682
Investments held to maturity	6,254	350	333	-	6,937
Other financial assets	3,425	1,102	302	2	4,831
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	1,959,502	173,895	150,664	36,926	2,320,987
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	42,186	16,037	46,482	5,772	110,477
Customer accounts	1,476,217	48,349	23,191	5,819	1,553,576
Financial liabilities at fair value through profit or loss	5	66	8,806	-	8,877
Debt securities issued	2,446	317	294,452	32	297,247
Other borrowed funds	17,540	-	1,091	-	18,631
Dividends payable	35	5	-	-	40
Other financial liabilities	7,178	296	-	3	7,477
Subordinated debt	40,662	-	81,488	-	122,150
TOTAL FINANCIAL LIABILITIES	1,586,269	65,070	455,510	11,626	2,118,475
NET POSITION	373,233	108,825	(304,846)	25,300	

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries* (KZT million)	31 December 2011 Total (KZT million)
FINANCIAL ASSETS:					
Cash and balances with national (central) banks	98,175	6,874	18	-	105,067
Precious metals	-	-	3,280	-	3,280
Financial assets at fair value through profit or loss	145,031	22,225	21,057	-	188,313
Loans and advances to banks and other financial institutions	2,102	8,195	43,671	-	53,968
Loans to customers	1,823,196	164,680	44,830	46,955	2,079,661
Investments available-for-sale	14,946	379	94	-	15,419
Investments held to maturity	3,057	482	487	-	4,026
Other financial assets	3,618	1,482	1,296	34	6,430
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	2,090,125	204,317	114,733	46,989	2,456,164
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	32,744	15	53,674	5,782	92,215
Customer accounts	1,379,073	60,726	16,469	6,809	1,463,077
Financial liabilities at fair value through profit or loss	5	106	37,660	-	37,771
Debt securities issued	1,565	233	322,194	95	324,087
Other borrowed funds	20,359	-	6,000	-	26,359
Dividends payable	-	6	-	-	6
Other financial liabilities	4,020	410	35	30	4,495
Subordinated debt	40,213	-	97,827	-	138,040
TOTAL FINANCIAL LIABILITIES	1,477,979	61,496	533,859	12,716	2,086,050
NET POSITION	612,146	142,821	(419,126)	34,273	

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries* (KZT million)	31 December 2010 Total (KZT million)
FINANCIAL ASSETS:					
Cash and balances with national (central) banks	54,693	6,503	20	-	61,216
Precious metals	-	-	1,345	-	1,345
Financial assets at fair value through profit or loss	157,537	14,968	50,726	-	223,231
Loans and advances to banks and other financial institutions	10,694	9,055	126,582	-	146,331
Loans to customers	1,835,714	177,055	36,042	125,949	2,174,760
Investments available-for-sale	16,330	492	-	-	16,822
Investments held to maturity	1,842	-	154	-	1,996
Other financial assets	5,136	1,613	209	4	6,962
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	2,081,946	209,686	215,078	125,953	2,632,663
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	558	1,560	139,987	5,034	147,139
Customer accounts	1,450,156	38,769	10,781	7,094	1,506,800
Financial liabilities at fair value through profit or loss	37	5	36,005	-	36,047
Debt securities issued	1,717	2,975	370,427	80	375,199
Other borrowed funds	16,472	-	7,471	-	23,943
Dividends payable	-	4	-	-	4
Other financial liabilities	5,691	178	83	-	5,952
Subordinated debt	39,700	-	97,437	-	137,137
TOTAL FINANCIAL LIABILITIES	1,514,331	43,491	662,191	12,208	2,232,221
NET POSITION	567,615	166,195	(447,113)	113,745	

*As at 31 December 2012, 2011 and 2010, over 90% of non-OECD countries operations were represented by operations of companies registered in the Republic of Cyprus. These borrowers operates in the CIS, their assets and cash flows are also generated in the CIS.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Main credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Asset and Liability Management Risks

Effective assets and liabilities management is fundamental to the Bank, which allows the Bank to offer competitive products in the market while maintaining the risk and profitability balance on the level creating additional value for shareholders.

The following are defined by the bank as key areas within asset and liability management:

- Structural risk management: structural interest rate and currency risks;
- Liquidity risk management;
- Market risk management in trading portfolio;
- Capital management.

The Group's Assets and Liabilities Management Committee ("the ALMC") is responsible for managing risks the bank is exposed to while managing assets and liabilities.

The ALMC is responsible of making strategic and operational decisions with respect of managing asset and liabilities with purpose of:

- Maintaining and further increasing net income while keeping risk exposure at an acceptable level;
- Ensuring continuity of the bank operations.

In order to fulfill the objectives set above, short meetings of the ALMC take place on a weekly basis while extended meetings are organized monthly. Operational asset and liability management questions including trading portfolio performance and liquidity management are considered at the weekly meetings. At the monthly meetings ALMC discusses more strategic questions including balance sheet structure management. Various reports are presented to ALMC's attention including but not limiting to trading portfolio reports, open currency positions, liquidity gaps, cash flows, stress tests, etc.

Structural interest rate risk

To define and manage overall interest rate risk the Group applies an approach, which implies distinguishing interest rate risk in trading portfolio from structural interest rate risk since they impact capital and profit and loss differently. These two subtypes of the risk are now measured and managed separately. This section covers structural interest rate risk. Interest rate risk in trading portfolio is measured and managed by the bank as a part of market risks.

Structural interest rate risk is a risk of possible decline in interest income generated on balance and off-balance sheet positions accounted at amortized cost as a result of changes in market interest rates. Thus managing structural interest rate risk implies managing exposure of the Bank's net interest income and hence capital to market interest rate changes with the purpose of limiting and controlling possible income reductions or losses and ensuring optimal and stable interest income inflow.

To manage structural interest rate risk ALMC monitors and analyzes re-pricing gap and earnings at risk as well as interest rate margins. This helps the Group mitigate exposure to the structural interest rate risk and maintain positive interest rate margin. The Risk Management Department monitors financial activity of the Group regularly assessing its exposure to changes in interest rates and income impact of the changes.

As for the moment most of the loans extended by the Group are at fixed rate agreements. At the same time the loan agreements allow the Group to change the interest rate thus allowing the Group to decrease interest rate risks.

The following table presents an analysis of interest rate risk. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2012			**31 December 2011**			**31 December 2010**		
	% in KZT	**% in USD**	**% in other currencies**	**% in KZT**	**% in USD**	**% in other currencies**	**% in KZT**	**% in USD**	**% in other currencies**
ASSETS:									
Financial assets at fair value through profit or loss	5.01	5.21	8.84	3.33	5.95	8.50	2.53	3.16	9.47
Loans and advances to banks and other financial institutions	1.82	1.17	-	1.60	5.09	0.17	0.35	3.99	0.84
Loans to customers	10.64	8.08	11.19	10.20	10.10	10.11	12.38	11.79	11.80
Investments available-for-sale and held to maturity	5.11	6.61	7.83	5.85	2.89	7.71	5.32	1.05	-
LIABILITIES:									
Loans and advances from banks and other financial institutions	3.33	3.28	5.37	1.68	4.55	1.16	1.15	4.97	5.33
Customer accounts	4.24	4.18	5.68	4.27	4.43	6.73	5.38	4.72	6.92
Debt securities issued	9.00	8.01	6.88	9.00	8.21	7.04	9.00	8.36	6.59
Other borrowed funds	7.16	0.68	-	7.24	1.33	-	7.66	1.31	-
Subordinated debt	6.49	7.61	-	9.79	8.43	-	6.94	8.61	-

The Group uses derivative financial instruments to mitigate the interest rate risk and control the interest rate margin by types of products. Management monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of change in interest rates and related cash flow interest rate risk.

Interest rate risk sensitivity analysis

The Risk Management Department periodically estimates the Group's sensitivity to changes in market interest rates and their influence on the Group's profitability. If necessary, the Risk Management Department suggests decreasing the relevant risk levels to the ALMC of the Group.

In calculating and analyzing sensitivity of net profit of the Group to structural interest rate risk, the Group applies the earnings at risk ratio (EaR). EaR is based on interest rate gap and measures the potential fluctuations in earnings over a given time interval under normal market conditions and based on the following assumptions:

- the period when possible losses are incurred, is one year. One year is viewed as a period, within which the Group may raise new funding or restructure its assets and liabilities with a purpose of returning and keeping its risks level within its risk appetite;
- EaR is calculated based on the assumption that each interest rate gap will be reassessed at a new interest rate.

As at the reporting date, in calculating EaR, as reasonably possible, the Group applied the range of interest rate fluctuations in 200 bp across the yield curve.

The following table presents the sensitivity of the Group's consolidated income statement to the above changes to interest rates, in which all other parameters are assumed to be constant:

Earnings at risk (EaR)	**31 December 2012 (KZT million)**
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	(4,624)
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	4,624

Earnings at risk (EaR)	**31 December 2011 (KZT million)**
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	(1,223)
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	1,223

Earnings at risk (EaR)	**31 December 2010 (KZT million)**
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	1,982
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	(1,982)

At the reporting date, the Group's equity is not sensitive to interest rate fluctuations, since the interest rate swaps became ineffective in 2009 and, accordingly, changes in fair value of these instruments are recognized in the consolidated income statement.

Liquidity risk

Liquidity risk is the risk that the Group will not have enough funding at reasonable price to meet all cash outflows (on- and off-balance sheet).

ALMC controls these types of risks by means of weekly liquidity gap analysis and taking appropriate decisions to reduce liquidity risk. Current liquidity is managed by the Treasury Department through the deals in the money markets, with placement of available funds in liquid securities in line with instructions of ALMC.

The Group maintains the compliance to regulatory requirements, including term liquidity ratios and foreign exchange liquidity. The Group considers these requirements to be strict, and, as such, this measure guarantees maintaining appropriate liquidity level.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the contractual maturity date.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2012 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	682	8,374	8,855	51,768	40,538	-	110,217
Loans and advances to banks and other financial institutions	125,830	1,610	6,718	12,106	75	-	146,339
Loans to customers	11,862	70,560	364,394	692,385	406,880	-	1,546,081
Debt securities included in investments available-for-sale	7	81	970	5,396	7,029	-	13,483
Investments held to maturity	-	-	413	5,556	841	-	6,810
Total interest bearing assets	138,381	80,625	381,350	767,211	455,363	-	1,822,930
Cash and balances with national (central) banks	103,523	-	-	-	2,974	-	106,497
Precious metals	3,823	-	-	-	-	-	3,823
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	6,355	6,355
Equity securities in the investments available-for-sale	-	-	-	-	-	1,717	1,717
Accrued interest income on interest-bearing assets	34,324	58,728	66,887	213,817	1,078	-	374,834
Other financial assets	3,175	94	1,500	62	-	-	4,831
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	283,226	139,447	449,737	981,090	459,415	8,072	2,320,987
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	75,525	880	5,852	28,007	-	-	110,264
Customer accounts	143,956	197,364	581,501	122,572	100,196	-	1,145,589
Debt securities issued	155	23	46,194	198,547	44,863	-	289,782
Other borrowed funds	-	-	16	18,229	-	-	18,245
Subordinated debt	-	-	-	101,417	12,258	6,851	120,526
Total interest bearing liabilities	219,636	198,267	633,563	468,772	157,317	6,851	1,684,406
Financial liabilities at fair value through profit or loss	783	1,338	1,242	4,412	1,102	-	8,877
Customer accounts	395,143	-	-	-	-	-	395,143
Dividends payable	5	-	35	-	-	-	40
Accrued interest expense on interest-bearing liabilities	4,120	8,251	9,426	729	6	-	22,532
Other financial liabilities	2,320	155	5,002	-	-	-	7,477
TOTAL FINANCIAL LIABILITIES	622,007	208,011	649,268	473,913	158,425	6,851	2,118,475
Liquidity gap	(338,781)	(68,564)	(199,531)	507,177	300,990		
Interest sensitivity gap	(81,255)	(117,642)	(252,213)	298,439	298,046		
Cumulative interest sensitivity gap	(81,255)	(198,897)	(451,110)	(152,671)	145,375		
Cumulative interest sensitivity gap as a percentage of total financial assets and precious metals	(3.5%)	(8.6%)	(19.4%)	(6.6%)	6.3%		
Contingent liabilities and credit commitments	5,315	6,304	40,061	26,590	4,751	242	

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2011 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	12,500	29,872	33,636	48,241	51,702	-	175,951
Loans and advances to banks and other financial institutions	31,775	745	2,489	18,679	60	-	53,748
Loans to customers	32,470	43,609	605,174	527,473	527,255	-	1,735,981
Debt securities included in investments available-for-sale	154	-	202	3,131	7,300	-	10,787
Investments held to maturity	-	-	95	2,173	1,670	-	3,938
Total interest bearing assets	76,899	74,226	641,596	599,697	587,987	-	1,980,405
Cash and balances with national (central) banks	102,151	-	-	-	2,916	-	105,067
Precious metals	3,280	-	-	-	-	-	3,280
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	9,852	9,852
Equity securities in the investments available-for-sale	-	-	-	-	-	4,107	4,107
Accrued interest income on interest-bearing assets	70,578	28,335	84,731	163,312	67	-	347,023
Other financial assets	3,452	920	2,058	-	-	-	6,430
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	256,360	103,481	728,385	763,009	590,970	13,959	2,456,164
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	35,019	576	17,202	39,182	-	-	91,979
Customer accounts	79,605	144,029	411,958	238,866	105,117	-	979,575
Debt securities issued	234	26,124	10,351	160,381	118,048	-	315,138
Other borrowed funds	-	-	1,512	20,711	3,765	-	25,988
Subordinated debt	-	-	-	71,647	57,510	6,744	135,901
Total interest bearing liabilities	114,858	170,729	441,023	530,787	284,440	6,744	1,548,581
Financial liabilities at fair value through profit or loss	730	22,673	866	5,511	7,991	-	37,771
Customer accounts	471,264	-	-	-	-	-	471,264
Dividends payable	6	-	-	-	-	-	6
Accrued interest expense on interest-bearing liabilities	4,684	10,136	7,204	1,909	-	-	23,933
Other financial liabilities	4,356	56	83	-	-	-	4,495
TOTAL FINANCIAL LIABILITIES	595,898	203,594	449,176	538,207	292,431	6,744	2,086,050
Liquidity gap	(339,538)	(100,113)	279,209	224,802	298,539		
Interest sensitivity gap	(37,959)	(96,503)	200,573	68,910	303,547		
Cumulative interest sensitivity gap	(37,959)	(134,462)	66,111	135,021	438,568		
Cumulative interest sensitivity gap as a percentage of total financial assets and precious metals	(1.5%)	(5.5%)	2.7%	5.5%	17.9%		
Contingent liabilities and credit commitments	7,511	2,718	23,889	27,305	12,752	676	

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2010 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	37,256	18,997	85,580	40,550	34,912	-	217,295
Loans and advances to banks and other financial institutions	94,795	10,184	17,473	23,589	15	-	146,056
Loans to customers	32,128	95,225	568,158	611,068	566,962	-	1,873,541
Debt securities included in investments available-for-sale	-	-	940	4,359	6,157	-	11,456
Investments held to maturity	-	-	1	1,007	949	-	1,957
Total interest bearing assets	164,179	124,406	672,152	680,573	608,995	-	2,250,305
Cash and balances with national (central) banks	58,837	-	-	-	2,379	-	61,216
Precious metals	1,345	-	-	-	-	-	1,345
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	4,519	4,519
Equity securities in the investments available-for-sale	-	-	-	-	-	4,946	4,946
Accrued interest income on interest-bearing assets	50,197	56,372	65,617	131,120	64	-	303,370
Other financial assets	4,800	917	1,225	20	-	-	6,962
TOTAL FINANCIAL ASSETS	279,358	181,695	738,994	811,713	611,438	9,465	2,632,663
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	2,725	12,614	59,047	72,261	-	-	146,647
Customer accounts	82,121	108,891	479,002	257,491	87,696	-	1,015,201
Debt securities issued	714	36,781	8,557	190,480	127,341	-	363,873
Other borrowed funds	-	95	666	5,042	17,823	-	23,626
Subordinated debt	-	-	-	41,834	86,328	6,703	134,865
Total interest bearing liabilities	85,560	158,381	547,272	567,108	319,188	6,703	1,684,212
Financial liabilities at fair value through profit or loss	2,051	2,474	448	28,366	2,708	-	36,047
Customer accounts	474,832	-	-	-	-	-	474,832
Dividends payable	-	-	4	-	-	-	4
Accrued interest expense on interest-bearing liabilities	5,551	11,935	13,019	669	-	-	31,174
Other financial liabilities	5,036	344	269	303	-	-	5,952
TOTAL FINANCIAL LIABILITIES	573,030	173,134	561,012	596,446	321,896	6,703	2,232,221
Liquidity gap	(293,672)	8,561	177,982	215,267	289,542		
Interest sensitivity gap	78,619	(33,975)	124,880	113,465	289,807		
Cumulative interest sensitivity gap	78,619	44,644	169,524	282,989	572,796		
Cumulative interest sensitivity gap as a percentage of total assets	(3.0%)	(1.7%)	(6.4%)	(10.7%)	21.8%		
Contingent liabilities and credit commitments	1,672	5,829	51,791	29,357	4,692	-	

Based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over.

A further analysis of the liquidity is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities, which indicates the total remaining contractual payments, including interest payments, which are not recognized in the consolidated statement of financial position under the effective interest rate method. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2012 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	75,525	880	5,852	28,007	-	-	110,264
Customer accounts	143,956	197,364	581,501	122,572	100,196	-	1,145,589
Debt securities issued	155	23	46,194	198,547	44,863	-	289,782
Other borrowed funds	-	-	16	18,229	-	-	18,245
Subordinated debt	-	-	-	101,417	12,258	6,851	120,526
Total interest bearing financial liabilities	219,636	198,267	633,563	468,772	157,317	6,851	1,684,406
Financial liabilities at fair value through profit or loss	783	1,338	1,242	4,412	1,102	-	8,877
Customer accounts	395,143	-	-	-	-	-	395,143
Accrued interest expense on interest-bearing liabilities	10,017	25,275	65,512	116,308	33,621	-	250,733
Other financial liabilities	2,320	155	5,002	-	-	-	7,477
Contingent liabilities and other credit commitments	5,315	6,304	40,061	26,590	4,751	242	83,263
TOTAL FINANCIAL LIABILITIES	633,214	231,339	745,380	616,082	196,791	7,093	2,429,899

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2011 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	35,019	576	17,202	39,182	-	-	91,979
Customer accounts	79,605	144,029	411,958	238,866	105,117	-	979,575
Debt securities issued	234	26,124	10,351	160,381	118,048	-	315,138
Other borrowed funds	-	-	1,512	20,711	3,765	-	25,988
Subordinated debt	-	-	-	71,647	57,510	6,744	135,901
Total interest bearing financial liabilities	114,858	170,729	441,023	530,787	284,440	6,744	1,548,581
Financial liabilities at fair value through profit or loss	730	22,673	866	5,511	7,991	-	37,771
Customer accounts	471,264	-	-	-	-	-	471,264
Accrued interest expense on interest-bearing liabilities	11,372	29,301	70,296	148,675	52,337	-	311,981
Other financial liabilities	4,356	56	83	-	-	-	4,495
Contingent liabilities and other credit commitments	7,511	2,718	23,889	27,305	12,076	676	74,175
TOTAL FINANCIAL LIABILITIES	610,091	225,477	536,157	712,278	356,844	7,420	2,448,267

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	2,725	12,614	59,047	72,261	-	-	146,647
Customer accounts	82,121	108,891	479,002	257,491	87,696	-	1,015,201
Debt securities issued	714	36,781	8,557	190,480	127,341	-	363,873
Other borrowed funds	-	95	666	5,042	17,823	-	23,626
Subordinated debt	-	-	-	41,834	86,328	6,703	134,865
Total interest bearing financial liabilities	85,560	158,381	547,272	567,108	319,188	6,703	1,684,212
Financial liabilities at fair value through profit or loss	2,051	2,474	448	28,366	2,708	-	36,047
Customer accounts	474,832	-	-	-	-	-	474,832
Accrued interest expense on interest-bearing liabilities	12,538	33,909	95,871	166,545	66,494	-	375,357
Other financial liabilities	5,036	344	269	303	-	-	5,952
Contingent liabilities and other credit commitments	1,672	5,829	51,791	29,357	4,692	-	93,341
TOTAL FINANCIAL LIABILITIES	581,689	200,937	695,651	791,679	393,082	6,703	2,669,741

Market risk

The Group defines market risk as currency, equity, commodity and interest rate risks related to its trading and available-for-sale portfolios, as well as currency positions.

The Risk Management Department measures the risks and generates treasury position reports, which are presented to the ALMC of the Group. Risk Management Department calculates VaR to measure the market risk on equity, fixed income and currency positions and breaks it down to individual risk factors (currency risk, interest rate risk, equity risk etc.). This allows the Group to analyze exposure to each risk factor and make further decisions to mitigate a particular exposure. For internal reporting purposes, in addition to VaR analysis discussed above, the Group also performs sensitivity analysis on its currency risk and interest rate exposures. This sensitivity analysis is presented in these financial statements.

Currency risk

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

The ALMC controls currency risk by managing its open currency positions on the basis of macroeconomic analysis and exchange rate forecasts, which give the Group an opportunity to minimize losses from significant currency fluctuations. Similar to liquidity risk management, the Treasury Department manages open currency positions of the Group using data generated by the Prudentials Monitoring and Credit Reporting Division on a daily basis.

The FMSC sets strict limits on open currency positions. This measure also limits the currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

As at 31 December 2012 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2012 Total (KZT million)
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	81,606	12,596	3,148	7,653	1,494	106,497
Precious metals	-	-	-	-	3,823	3,823
Financial assets at fair value through profit or loss	86,107	4,736	7,888	20,091	-	118,822
Loans and advances to banks and other financial institutions	14,384	120,046	9,836	1,108	1,329	146,703
Loans to customers	1,001,784	888,031	7,693	20,001	183	1,917,692
Investments available-for-sale	12,081	3,048	-	551	2	15,682
Investments held to maturity	5,175	1,378	-	384	-	6,937
Other financial assets	2,789	1,576	6	435	25	4,831
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	1,203,926	1,031,411	28,571	50,223	6,856	2,320,987
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	41,172	57,150	742	11,284	129	110,477
Customer accounts	859,581	610,077	50,563	27,969	5,386	1,553,576
Financial liabilities at fair value through profit or loss	5,753	3,054	-	4	66	8,877
Debt securities issued	2,437	211,866	82,553	391	-	297,247
Other borrowed funds	17,540	1,091	-	-	-	18,631
Dividends payable	-	35	-	-	5	40
Other financial liabilities	7,170	18	42	203	44	7,477
Subordinated debt	33,899	88,251	-	-	-	122,150
TOTAL FINANCIAL LIABILITIES	967,552	971,542	133,900	39,851	5,630	2,118,475
OPEN BALANCE SHEET POSITION	236,374	59,869	(105,329)	10,372	1,226	
DERIVATIVE FINANCIAL INSTRUMENTS:						
Net settled:						
- foreign exchange forward contracts	4,544	(4,522)	-	-	-	22
Gross settled:						
- foreign exchange forward contracts	(18)	18	-	-	-	-
- currency swaps	6,103	(107,762)	105,587	(1,287)	(257)	2,384
- spot	(11,287)	11,299	-	-	-	12
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	(658)	(100,967)	105,587	(1,287)	(257)	2,418
OPEN POSITION	235,716	(41,098)	258	9,085	969	

As at 31 December 2011 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2011 Total (KZT million)
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	75,947	21,498	2,426	4,290	906	105,067
Precious metals	-	-	-	-	3,280	3,280
Financial assets at fair value through profit or loss	137,515	15,201	7,582	22,585	5,430	188,313
Loans and advances to banks and other financial institutions	2,855	38,800	5,749	2,214	4,350	53,968
Loans to customers	957,602	1,089,404	6,073	26,117	465	2,079,661
Investments available-for-sale	10,380	4,471	-	568	-	15,419
Investments held to maturity	2,629	583	-	814	-	4,026
Other financial assets	3,224	2,222	49	925	10	6,430
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	1,190,152	1,172,179	21,879	57,513	14,441	2,456,164
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	30,658	55,942	5,476	39	100	92,215
Customer accounts	882,272	485,772	58,681	30,954	5,398	1,463,077
Financial liabilities at fair value through profit or loss	33,182	4,445	-	8	136	37,771
Debt securities issued	2,455	214,408	79,355	231	27,638	324,087
Other borrowed funds	20,359	6,000	-	-	-	26,359
Dividends payable	-	-	-	-	6	6
Other financial liabilities	4,289	-	1	122	83	4,495
Subordinated debt	33,734	104,306	-	-	-	138,040
TOTAL FINANCIAL LIABILITIES	1,006,949	870,873	143,513	31,354	33,361	2,086,050
OPEN BALANCE SHEET POSITION	183,203	301,306	(121,634)	26,159	(18,920)	
DERIVATIVE FINANCIAL INSTRUMENTS:						
Net settled:						
- foreign exchange forward contracts	3,275	(3,265)	-	-	-	10
Gross settled:	-	-	-	-	-	-
- foreign exchange forward contracts	-	505	-	-	(503)	2
- currency swaps	2,137	(222,285)	123,664	1,153	73,850	(21,481)
- spot	(6,516)	5,976	(60)	585	-	(15)
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	(1,104)	(219,069)	123,604	1,738	73,347	(21,484)
OPEN POSITION	182,099	82,237	1,970	27,897	54,427	

As at 31 December 2010 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2010 Total (KZT million)
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	44,631	7,509	3,355	4,710	1,011	61,216
Precious metals	-	-	-	-	1,345	1,345
Financial assets at fair value through profit or loss	162,170	32,910	9,747	12,994	5,410	223,231
Loans and advances to banks and other financial institutions	9,857	118,233	12,041	3,553	2,647	146,331
Loans to customers	891,462	1,246,378	10,579	26,029	312	2,174,760
Investments available-for-sale	12,671	4,151	-	-	-	16,822
Investments held to maturity	1,491	505	-	-	-	1,996
Other financial assets	4,377	1,217	92	1,267	9	6,962
TOTAL FINANCIAL ASSETS	1,126,659	1,410,903	35,814	48,553	10,734	2,632,663
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	1,797	140,400	4,777	125	40	147,139
Customer accounts	784,476	635,996	60,435	22,762	3,131	1,506,800
Financial liabilities at fair value through profit or loss	27,561	8,481	-	5	-	36,047
Debt securities issued	2,473	220,977	118,542	545	32,662	375,199
Other borrowed funds	16,319	7,624	-	-	-	23,943
Dividends payable	-	-	-	-	4	4
Other financial liabilities	5,783	-	5	132	32	5,952
Subordinated debt	33,205	103,932	-	-	-	137,137
TOTAL FINANCIAL LIABILITIES	871,614	1,117,410	183,759	23,569	35,869	2,232,221
OPEN BALANCE SHEET POSITION	255,045	293,493	(147,945)	24,984	(25,135)	
DERIVATIVE FINANCIAL INSTRUMENTS:						
Net settled:						
- foreign exchange forward contracts	(2,652)	2,655	-	-	-	3
Gross settled:						
- currency swaps	7,073	(246,272)	150,613	(2,428)	77,241	(13,773)
- spot	(2,802)	5,441	89	-	(1,427)	1,301
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	1,619	(238,176)	150,702	(2,428)	75,814	(12,472)
OPEN POSITION	256,664	55,317	2,757	22,556	50,679	

Currency risk sensitivity analysis

The Group estimates the possible effect of a 10% fluctuation in foreign currency rates on the consolidated income statement and consolidated equity based on the sensitivity analysis of the internally prepared open currency position report, which includes derivative financial instruments.

The analysis is based on the calculation of the impact of possible fluctuations in US dollar, Euro and Russian Rouble currency rates on the consolidated income statements and consolidated equity. This is due to the fact that as at 31 December 2012 these were the main currencies in which the Group had open positions. A 10% fluctuation is determined as a "reasonably possible change in the risk variable" by the management of the Group. All other parameters were assumed to be constant. Negative and positive amounts in the table reflect the potential probable effect on the consolidated income statement of such fluctuations.

	31 December 2012 (KZT million)					
	USD/KZT		**EUR/KZT**		**RUB/KZT**	
	+10%	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
Impact on profit or loss before tax	(8,333)	8,333	3,267	(3,267)	1,420	(1,420)
Impact on equity	(73)	73	-	-	-	-

	31 December 2011 (KZT million)					
	USD/KZT		**EUR/KZT**		**RUB/KZT**	
	+10%	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
Impact on profit or loss before tax	6,738	(6,738)	3,643	(3,643)	3,235	(3,235)
Impact on equity	-	-	-	-	-	-

	31 December 2010 (KZT million)					
	USD/KZT		**EUR/KZT**		**RUB/KZT**	
	+10%	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
Impact on profit or loss	4,761	(4,571)	3,428	(3,428)	2,750	(2,750)
Impact on equity	-	-	-	-	-	-

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key risk factor while all other things held constant. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger impacts should not be extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary depending on any actual market movements, since the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In instances where there are significant or unexpected changes in market conditions, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the risk factors may be different from those shown above.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with a fair degree of certainty; and the assumption that all interest rates move in an identical fashion.

Operational Risk

The Group is exposed to operational risk – the risk of incurred loss resulting from deficiencies or mistakes, which were made by employees, functioning of informational systems and technologies, and also as a result of external events, in the course of execution of internal processes. Nowadays, for effective working the Group uses the following tools of identification and measure of operational risks that are in compliance with the world's best practice:

- Corporate Loss Database on operational risk (CLD);
- Risk Self-Assessment (RSA);
- Operational Risk Assessment Process (ORAP);
- Key Operational Risk Control (KORC);
- Key Risk Indicators (KRI).

Tools on operational risk management make it possible for the Group to identify types of activities, which are more exposed to operational risk, to value and perform monitoring of losses of the Group, which were caused by operational risks, and also to establish corresponding controls and to develop preventive measures for minimization of such risk.

37. SUBSEQUENT EVENTS

In January 2013, the President of the Republic of Kazakhstan announced creation of a single pension fund and transfer of all pension accounts from the private pension funds into it. At the moment of issuing these consolidated financial statements of the Group legislative changes were not complete and the Management of the Group cannot assess the future implications for JSC APF Grantum and for the Group.