JSC AB KAZAKHSTAN ZIRAAT INTERNATIONAL BANK

International Financial Reporting Standards Financial Statements and Independent auditor's report

31 December 2012

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC Associated Bank Kazakhstan Ziraat International Bank

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

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

PricewaterhouseCoopers LLP

27 March 2013
Almaty, Kazakhstan

Approved by:

Zhanbota T. Bekenov
Managing Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance of the Republic of Kazakhstan №0000005 dated 21 October 1999)

Signed by:

Aigule Akhmetova
Auditor in Charge
(Qualified Auditor's Certificate №00000083 dated 27 August 2012)

In thousands of Kazakhstani Tenge	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	3,845,379	3,778,944
Due from other banks	8	301,731	297,047
Loans and advances to customers	9	9,794,939	3,891,059
Repurchase receivable	10	3,947,949	-
Investment securities held to maturity	11	3,147,540	7,634,354
Property, plant and equipment	12	700,666	721,404
Intangible assets	13	137,296	30,760
Other assets	14	772,616	614,681
TOTAL ASSETS		**22,648,116**	**16,968,249**
LIABILITIES			
Due to other banks		1,026	1,026
Customer accounts	15	5,465,812	5,238,073
Deferred tax liability	23	121,506	104,322
Other liabilities	16	27,464	19,762
TOTAL LIABILITIES		**5,615,808**	**5,363,183**
EQUITY			
Charter capital	17	15,000,000	10,000,000
Retained earnings		737,972	357,290
Reserves	18	1,084,434	1,022,714
Property, plant and equipment revaluation reserve		209,902	225,062
TOTAL EQUITY		**17,032,308**	**11,605,066**
TOTAL LIABILITIES AND EQUITY		**22,648,116**	**16,968,249**

Arifioglu A. Zeki
Chairman of the Management Board

Almagul Sarsenbayeva
Chief Accountant

27 March 2013

The acompanying notes on pages from 5 to 49 are the integral part of these financial statements.

AB KZI BANK JSC
Statement of Comprehensive Income

In thousands of Kazakhstani Tenge	Note	2012	2011
Interest income	19	933,654	569,936
Interest expense	19	(773)	(1,714)
Interest income, net		**932,881**	**568,222**
(Recovery of)/ provision for loan impairment	9	31,449	(55,073)
Net interest income after provision for loan impairment		**964,330**	**513,149**
Fee and commission income	20	524,854	448,369
Fee and commission expense	20	(23,707)	(20,971)
Gains less losses from trading in foreign currencies		258,481	209,715
Gains less losses from foreign currency translation		(12,118)	(13,837)
Other operating income	21	39,294	25,820
Administrative and other operating expenses	22	(886,607)	(766,072)
Profit before tax		**864,527**	**396,173**
Income tax expense	23	(164,987)	(73,368)
PROFIT FOR THE YEAR		**699,540**	**322,805**
Other comprehensive income			
Revaluation of premises and equipment		4,546	-
Other comprehensive income for the year		**4,546**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**704,086**	**322,805**
Basic and diluted earning per share (in Tenge per share)	24	**77**	**53**

The acompanying notes on pages from 5 to 49 are the integral part of these financial statements.

AB KZI BANK JSC
Statement of Changes in Equity

In thousands of Kazakhstani Tenge	**Note**	**Share capital**	**Property, plant and equipment revaluation reserve**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 31 December 2010		**5,010,000**	**247,297**	**588,466**	**538,424**	**6,384,187**
Comprehensive income for 2011		-	-	-	322,805	**322,805**
Share issue	17	4,990,000	-	-	-	**4,990,000**
Dividends declared	25	-	-	-	(91,926)	**(91,926)**
Transfer of building revaluation surplus to retained earnings	18	-	(22,235)	-	22,235	-
Transfer from retained earnings to other reserve of the Bank	18	-	-	391,379	(391,379)	-
Transfer from retained earnings to capital reserve of the Bank	18	-	-	42,869	(42,869)	-
Balance at 31 December 2011		**10,000,000**	**225,062**	**1,022,714**	**357,290**	**11,605,066**
Profit for the year		-	-	-	699,540	**699,540**
Other comprehensive income		-	4,546	-	-	**4,546**
Comprehensive income for 2012		-	4,546	-	699,540	**704,086**
Share issue	17	5,000,000	-	-	-	**5,000,000**
Dividends declared	25	-	-	-	(276,844)	**(276,844)**
Transfer of building revaluation surplus to retained earnings	18	-	(19,706)	-	19,706	-
Transfer from retained earnings to other reserve of the Bank	18	-	-	71,543	(71,543)	-
Transfer from reserve capital to retained earnings of the Bank	18	-	-	(9,823)	9,823	-
Balance at 31 December 2012		**15,000,000**	**209,902**	**1,084,434**	**737,972**	**17,032,308**

AB KZI BANK JSC
Statement of Cash Flows

In thousands of Kazakhstani Tenge	Note	2012	2011
Cash flows from operating activities			
Interest received		809,009	558,700
Interest paid		(778)	(1,714)
Fees and commissions received		518,722	448,369
Fees and commissions paid		(23,707)	(20,971)
Gains less losses from trading in foreign currencies		258,481	209,715
Other operating income received		21,655	25,820
Staff costs paid		(485,345)	(378,293)
Administrative and other operating expenses paid		(280,303)	(298,423)
Income tax paid		(137,457)	(39,684)
Cash from operating activities before changes in operating assets and liabilities		**680,277**	**503,519**
Net increase in due from other banks		(4,680)	(297,047)
Net increase in loans and advances to customers		(5,802,115)	(578,278)
Net increase in repurchase receivable		(3,945,003)	-
Net increase in other assets		(139,109)	(128,516)
Net decrease in due to other banks		-	(285)
Net increase in customer accounts		227,744	518,989
Net decrease in other liabilities		(3,782)	(29,771)
Net cash used in operating activities		**(8,986,668)**	**(11,389)**
Cash flows from investing activities			
Acquisition of investment securities held to maturity	11	(6,064,773)	(22,065,234)
Proceeds from redemption of investment securities held to maturity	11	10,600,000	18,336,455
Acquisition of property, plant and equipment and intangible assets	12	(197,159)	(45,196)
Proceeds from disposal of property, plant and equipment and intangible assets		3,997	(19,847)
Net cash from/(used in) investing activities		**4,342,065**	**(3,793,822)**
Cash flows from financing activities			
Issue of ordinary shares	17	5,000,000	4,990,000
Dividends paid	25	(276,844)	(91,926)
Net cash from financing activities		**4,723,156**	**4,898,074**
Effect of exchange rate changes on cash and cash equivalents		**(12,118)**	**(10,566)**
Net increase in cash and cash equivalents		**66,435**	**1,082,297**
Cash and cash equivalents at the beginning of the year		3,778,944	2,696,647
Cash and cash equivalents at the end of the year	7	**3,845,379**	**3,778,944**

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for Associated Bank Kazakhstan Ziraat International Bank Joint Stock Company ("Bank").

Principal activity. The Bank was established in the Republic of Kazakhstan in 1993 under the laws of the Republic of Kazakhstan. The Bank's activity is regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") under the license #163 dated 29 December 2007.

The principal activities of the Bank are attracting deposits and maintenance of customer accounts, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign currencies.

Registered address and place of business. The Bank's registered address is: Republic of Kazakhstan, Almaty, 132, Klochkov Str.

As at 31 December 2012 the Bank had two branches: in Astana and Shymkent, Republic of Kazakhstan (31 December 2011: 2 branches in Astana and Shymkent, Republic of Kazakhstan).

Shareholders. The Bank's major shareholder is T.C.Ziraat Bankasi A.S ("the Shareholder" or "the Parent Bank") located in Turkey, Ankara. Detailed information on transactions with the related parties is disclosed in Note 32.

As at 31 December 2012 and 31 December 2011 the Bank's shareholders were:

	2012 %	2011 %
Shareholders		
T.C. Ziraat Bankasi A.S.	99.58%	99.37%
Emlak Pazarlama Insaat Proje Yonetimi ve Ticaret A.S	0.25%	0.37%
T. Emlak Bankasi A.S. Munzam Sosyal Guvenlik Ve Yardim Vakfi	0.17%	0.26%
Total	**100%**	**100%**

2. Operating Environment of the Bank

Republic of Kazakhstan. The economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, a low level of liquidity in the public and private debt and equity markets and lack of market conformity and transparency.

The economy of the Republic of Kazakhstan, suffered from the global financial crisis of 2008 and 2009, experienced a moderate recovery in 2011 and 2012 with increases of GDP by 7% in both years. Inflation in 2012 was 6% (2011: 8.5%).The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Kazakhstani Tenge against major foreign currencies, and increased money market liquidity levels.

Additionally, the banking sector in Kazakhstan is particularly impacted by political, legislative, fiscal and regulatory developments in the Republic. The prospects for future economic stability in Kazakhstan in 2012-2013 are largely dependent upon the effectiveness of a range of measures undertaken by the Government. There remains the possibility of unpredictable changes in the financial and economic environment that may have an adverse effect on the Bank's operations.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

3. Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the basis of historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions, and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

3. Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the saleCash and cash equivalents.

Cash and cash equivalents are items readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the NBRK and all interbank placements with original maturities of less than three months. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to clients to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment loss is recognised through profit or loss as incurred as a result of one or more events (the "loss event") occurring after the initial recognition of the financial asset or affecting the value or period of the estimated future cash flows related to the financial asset or a Bank of financial assets which can be reliably estimated. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue due to deterioration of a borrower's financial position and the late payment cannot be attributed to a delay caused by the settlement systems;
- a borrower experiences significant financial difficulties as evidenced by the borrowers' financial information that the Bank obtains;
- a borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of a borrower as a result of changes in the national or local economic conditions that impact a borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to its present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3. Summary of Significant Accounting Policies (Continued)

If, 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate.

The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

3. Summary of Significant Accounting Policies (Continued)

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Bank has the right to require that the issuer repay or redeem the investment before its maturity, because early redemption right is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Property, plant and equipment. Premises and equipment are stated at cost except for land and buildings which are stated at market value less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any indication exists, management estimates the recoverable amount, determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	50
Office and computer equipment	from 3 to 5
Vehicles	5
Other premises and equipment	from 3 to 10

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of reporting period.

Intangible assets. All the Bank's intangible assets have definite useful lives including capitalised software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years.

3. Summary of Significant Accounting Policies (Continued)

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative financial liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt. Obligations to return securities borrowed and sold to third parties are carried at fair value through profit or loss.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

Income taxes. Income taxes have been provided for in the financial statements using tax rates and in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year or directly in equity because it relates to transactions that are also recognised, in the same or a different period in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or losses carried forward will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Financial guarantees. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts, other banking facilities and performance under tenders.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the end of the reporting period.

These estimates are determined based on judgement of the management. Any increase in guarantee related liability is shown in the statement of comprehensive income within administrative and other operating expenses.

Trade and other payables. Accounts payable are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

3. Summary of Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present obligation (legal or constructive as a result of past events) which has arisen before the reporting date. In addition, it is probable that an outflow of resources embodying economic benefits will be required for the Bank to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Mandatory reserve and other reserves. Mandatory reserve and other reserves are accounted for in accordance with the legislation of the Republic of Kazakhstan for the Bank's general risk, including future loss and other unforeseen risk and contingent liabilities.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The financial statements prepared in accordance with IFRS are the basis for payment of dividends and other distribution of profit. Kazakhstan legislation identifies the basis of distribution as the current year net profit and prior years retained earnings.

Income and expense recognition. Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all commissions and fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Bank relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When collection of loans and other debt instruments become doubtful, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The Bank's functional currency is the currency of the primary economic environment in which it operates. The functional and presentation currency of the Bank is the national currency of the Republic of Kazakhstan, i.e. ("Tenge"). At 31 December 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 150.74 (2011: USD 1 = Tenge 148.4), Euro 1 = Tenge 199.22 (2011: Euro 1 = 191.72 Tenge).

Foreign exchange gains and losses resulting from the settlement of transactions and translation of monetary assets and liabilities into the Bank's functional currency at year-end market exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

3. Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses are accrued in the year in which the associated services are rendered by employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Bank withholds pension contributions from employees' salary and transfers them into the employee's designated state or private pension fund. Upon retirement of employees, all pension payments are administered by the pension funds.

The Bank does not have any legal or constructive obligation to provide further funding if the state or private pension funds fail to make the pension payments.

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Tax legislation. Kazakhstan tax and customs legislation is subject to varying interpretations. Refer to Note 23.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party transactions are disclosed in Note 32.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the 2009 financial crisis on future operations of the Bank.

5. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2012:

"Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. This amendment is not applicable to the Bank.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have an impact on these financial statements.

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2010, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

IFRS 13 "Fair Value Measurement", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

6. New Accounting Pronouncements (Continued)

"Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

7. Cash and Cash Equivalents

In thousands of Kazakhstani Tenge	31 December 2012	31 December 2011
Cash on hand	1,165,323	931,138
Cash balances with the NBRK (other than mandatory reserves)	2,140,907	1,847,229
Mandatory cash balances with the NBRK	157,878	143,948
Correspondent accounts with other banks	381,271	856,629
Total cash and cash equivalents	**3,845,379**	**3,778,944**

The credit quality of cash and cash equivalents balances is summarised as follows at 31 December 2012:

In thousands of Kazakhstani Tenge	Cash balances with NBRK including mandatory reserves	Correspondent accounts with other banks	Total
Neither past due nor impaired			
- NBRK	2,298,785	-	2,298,785
- A1 rated (Moody's rating)	-	345,081	345,081
- A3 rated (Moody's rating)	-	874	874
- Ba2 rated (Moody's rating)	-	15,665	15,665
- B rated (Moody's rating)	-	19,651	19,651
Total cash and cash equivalents, excluding cash on hand	**2,298,785**	**381,271**	**2,680,056**

7. Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances is summarised as follows at 31 December 2011:

In thousands of Kazakhstani Tenge	**Cash balances with NBRK including mandatory reserves**	**Correspondent accounts with other banks**	**Total**
Neither past due nor impaired			
- NBRK	1,991,177	-	1,991,177
- A1 rated (Moody's rating)	-	826,406	826,406
- Ba3 rated (Moody's rating)	-	17,262	17,262
- BB+ rated (Fitch rating)	-	244	244
- A2 rated (Moody's rating)	-	43	43
- Unrated	-	12,674	12,674
Total cash and cash equivalents, excluding cash on hand	**1,991,177**	**856,629**	**2,847,806**

8. Due from Other Banks

As at 31 December 2012 due from other banks represents a long-term deposit placed with OJSB Azer-Turk Bank of Tenge 301,480 thousand and accrued interest of Tenge 251 thousand (31 December 2011: Tenge 296,800 thousand and accrued interest of Tenge 247 thousand). Interest rate on deposit is 6% p.a. with maturity of 18 months. Deposit was placed in foreign currency of USD 2 million.

OJSB Azer-Turk Bank does not have a credit rating. Interest rate analysis of due from other banks is disclosed in Note 27. The information on related party balances is disclosed in Note 32. Fair value of due from other banks is disclosed in Note 30.

9. Loans and Advances to Customers

In thousands of Kazakhstani Tenge	**31 December 2012**	**31 December 2011**
Loans issued to major customers	5,151,745	1,132,366
Loans to small and medium enterprises	2,362,584	1,285,549
Consumer loans	2,234,647	1,483,612
Mortgage loans	594,024	533,530
Total loans and advances to customers	**10,343,000**	**4,435,057**
Less: provision for loan impairment	(548,061)	(543,998)
Total loans and advances to customers	**9,794,939**	**3,891,059**

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of Kazakhstani Tenge	**Loans issued to major customers**	**Loans to small and medium enterprises**	**Consumer loans**	**Mortgage loans**	**Total**
Impairment provision at 1 January 2012	**90,816**	**237,778**	**198,868**	**16,536**	**543,998**
(Recovery of)/provision for impairment during the year	(4,655)	68,926	(17,197)	(15,625)	**31,449**
Written off amounts	-	(16,634)	(11,262)	(966)	**(28,862)**
Foreign exchange difference	32	479	910	55	**1,476**
Impairment provision at 31 December 2012	**86,193**	**290,549**	**171,319**	**-**	**548,061**

9. Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2011 are as follows:

In thousands of Kazakhstani Tenge	Loans issued to major customers	Loans to small and medium enterprises	Consumer loans	Mortgage loans	Total
Impairment provision at 1 January 2011	**43,346**	**237,671**	**258,299**	**61,361**	**600,677**
Provision for/(recovery of) impairment during the year	47,338	48,252	4,479	(44,996)	**55,073**
Recovery	-	61,088	8,825	-	**69,913**
Written off amounts	-	(109,385)	(74,148)	-	**(183,533)**
Foreign exchange difference	132	152	1,413	171	**1,868**
Impairment provision at 31 December 2011	**90,816**	**237,778**	**198,868**	**16,536**	**543,998**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2012		31 December 2011	
In thousands of Kazakhstani Tenge	**Amount**	**%**	**Amount**	**%**
Trade	3,543,514	34,3%	1,794,326	40,5%
Consumer loans	2,234,647	21,6%	1,483,612	33,5%
Production	1,524,695	14,7%	80,502	1,8%
Construction	1,235,290	11,9%	208,790	4,7%
Hotel business	893,428	8,6%	-	0,0%
Mortgages	594,024	5,7%	445,488	10,0%
Printing industry	47,185	0,5%	32,899	0,7%
Mining/metallurgy	42,511	0,4%	41,912	0,9%
Education	36,178	0,3%	45,525	1,0%
Transportation and communication	1,550	0,0%	9,190	0,2%
Culture and art	-	0,0%	15,478	0,3%
Other	189,978	1,8%	277,335	6,3%
Total loans and advances to customers before impairment provision	**10,343,000**	**100%**	**4,435,057**	**100%**

Information about collateral at 31 December 2012 is as follows:

In thousands of Kazakhstani Tenge	Loans issued to major customers	Loans to small and medium enterprises	Consumer loans	Mortgage loans	Total
Unsecured loans	**-**	**-**	**23,664**	**-**	**23,664**
Loans collateralized by:					
- buildings	4,480,261	2,241,458	1,901,170	547,270	**9,170,159**
- guarantee letter	629,340	33,033	282,590	46,754	**991,717**
- other	42,144	88,093	27,223	-	**157,460**
Total secured loans	**5,151,745**	**2,362,584**	**2,210,983**	**594,024**	**10,319,336**
Total loans and advances to customers before impairment provision	**5,151,745**	**2,362,584**	**2,234,647**	**594,024**	**10,343,000**

9. Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2011 is as follows:

In thousands of Kazakhstani Tenge	Loans issued to major customers	Loans to small and medium enterprises	Consumer loans	Mortgage loans	Total
Unsecured loans	-	-	-	-	-
Loans collateralized by:					
- buildings	1,088,141	1,090,257	1,316,627	401,491	**3,896,516**
- guarantee letter	44,225	24,021	152,881	33,566	**254,693**
- other	-	171,271	14,104	98,473	**283,848**
Total secured loans	**1,132,366**	**1,285,549**	**1,483,612**	**533,530**	**4,435,057**
Total loans and advances to customers before impairment provision	**1,132,366**	**1,285,549**	**1,483,612**	**533,530**	**4,435,057**

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of Kazakhstani Tenge	Loans issued to major customers	Loans to small and medium enterprises	Consumer loans	Mortgage loans	Total
Neither past due nor impaired					
- Loans and advances – standard	5,151,745	1,679,868	1,765,272	425,644	**9,022,529**
Total neither past due nor impaired	**5,151,745**	**1,679,868**	**1,765,272**	**425,644**	**9,022,529**
Past due but not impaired					
- less than 30 days overdue	-	30,473	168,839	23,377	**222,689**
- from 30 to 90 days overdue	-	93,672	23,211	24,697	**141,580**
- over 90 days overdue	-	319,472	171,087	35,375	**525,934**
Total past due but not impaired	**-**	**443,617**	**363,137**	**83,449**	**890,203**
Individually impaired (total amount)					
- overdue from 90 to 180 days	-	-	35,055	-	**35,055**
- overdue over 360 days	-	239,099	156,114	-	**395,213**
Total individually impaired (gross)	**-**	**239,099**	**191,169**	**-**	**430,268**
- Impairment provision for individually impaired loans	(75,365)	(250,745)	(88,686)	-	**(414,796)**
- Impairment provision, assessed on the basis of portfolio	(10,828)	(39,804)	(82,633)	-	**(133,265)**
Less total impairment provision	**(86,193)**	**(290,549)**	**(171,319)**	**-**	**(548,061)**
Total loans and advances to customers	**5,065,552**	**2,072,035**	**2,148,259**	**509,093**	**9,794,939**

9. Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In thousands of Kazakhstani Tenge	Loans issued to major customers	Loans to small and medium enterprises	Consumer loans	Mortgage loans	Total
Neither past due nor impaired					
- Loans and advances – standard	1,038,906	751,833	943,196	384,365	**3,118,300**
Total neither past due nor impaired	**1,038,906**	**751,833**	**943,196**	**384,365**	**3,118,300**
Past due but not impaired					
- less than 30 days overdue	93,460	73,296	74,964	69,099	**310,819**
- from 30 to 90 days overdue	-	15,649	4,199	45,176	**65,024**
- over 90 days overdue	-	23,137	88,237	22,853	**134,227**
Total past due but not impaired	**93,460**	**112,082**	**167,400**	**137,128**	**510,070**
Individually impaired (total amount)					
- less than 30 days overdue	-	34,280	52,804	-	**87,084**
- 30 to 90 days overdue	-	13,027	-	-	**13,027**
- overdue from 90 to 180 days	-	32,225	20,048	12,037	**64,310**
- overdue from 180 to 360 days	-	49,100	81,389	-	**130,489**
- overdue over 360 days	-	293,002	218,775	-	**511,777**
Total individually impaired (gross)	**-**	**421,634**	**373,016**	**12,037**	**806,687**
- Impairment provision for individually impaired loans	-	(179,547)	(147,587)	(843)	**(327,977)**
- Impairment provision, assessed on the basis of portfolio	(90,816)	(58,231)	(51,281)	(15,693)	**(216,021)**
Less total impairment provision	**(90,816)**	**(237,778)**	**(198,868)**	**(16,536)**	**(543,998)**
Total loans and advances to customers	**1,041,550**	**1,047,771**	**1,284,744**	**516,994**	**3,891,059**

9. Loans and Advances to Customers (Continued)

The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status, financial position, debt prolongation or restructuring and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

The effect of collateral at 31 December 2012:

	31 December 2012 Over-collateralised assets		31 December 2012 Under-collateralised assets	
In thousands of Kazakhstani Tenge	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Loans issued to major customers	4,896,494	12,717,747	255,251	255,251
Loans to small and medium enterprises	2,328,536	7,877,100	34,048	34,048
Consumer loans	1,946,126	7,040,057	288,521	279,939
Mortgage loans	575,164	1,678,200	18,860	18,860

The effect of collateral at 31 December 2011:

	31 December 2011 Over-collateralised assets		31 December 2011 Under-collateralised assets	
In thousands of Kazakhstani Tenge	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Consumer loans	1,483,612	4,439,750	-	-
Loans to small and medium enterprises	1,285,549	4,656,117	-	-
Loans issued to major customers	1,132,366	3,816,813	-	-
Mortgage loans	533,530	1,087,974	-	-

Interest rate analysis of loans and advances to customers is disclosed in Note 37. The information on related party balances is disclosed in Note 32. Fair value is disclosed in Note 30.

10. Repurchase Receivables

Repurchase receivables represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. The repurchase agreements are short-term in nature and mature by 31 January 2013:

In thousands of Kazakhstani Tenge	**31 December 2012**	**31 December 2011**
Bonds of the Ministry of Finance of the Republic of Kazakhstan	3,947,949	-
Total repurchase receivables	**3,947,949**	**-**

Bonds of the Ministry of Finance of the Republic of Kazakhstan are neither past due or impaired and have a rating BBB+ (Moody's).

11. Investment Securities Held to Maturity

In thousands of Kazakhstani Tenge	**31 December 2012**	**31 December 2011**
Notes of the National Bank of the Republic of Kazakhstan	499,511	5,300,000
Bonds of the Ministry of Finance of the Republic of Kazakhstan	2,648,029	2,334,354
Total investment securities held to maturity	**3,147,540**	**7,634,354**

Notes of the National Bank of the Republic of Kazakhstan and Bonds of the Ministry of Finance of the Republic of Kazakhstan are neither past due or impaired and have a rating BBB+ (Moody's).

The movement in investment securities held to maturity is as follows:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Gross amount at 1 January	7,634,354	3,894,339
Additions	6,064,773	22,065,234
Redemption	(10,600,000)	(18,336,455)
Interest income accrual	170,550	83,226
Interest income received	(122,137)	(71,990)
Gross amount at 31 December	**3,147,540**	**7,634,354**

Fair value is disclosed in Note 30.

12. Property, Plant and Equipment

In thousands of Kazakhstani Tenge	Land	Buildings and constructions	Construction in progress	Office and computer equipment	Vehicles	Other	Total
Cost at 31 December 2010	274,400	379,930	72,671	15,568	19,388	67,943	829,900
Accumulated depreciation	-	(16,446)	-	(7,326)	(13,641)	(34,434)	(71,847)
Carrying value at 31 December 2010	**274,400**	**363,484**	**72,671**	**8,242**	**5,747**	**33,509**	**758,053**
Additions	-	-	-	13,434	10,880	20,860	45,174
Disposals	-	(42,000)	(13,331)	(774)	-	(94)	(56,199)
Net transfers	-	-	2,770	-	-	-	2,770
Depreciation charges (Note 22)	-	(2,371)	-	(8,423)	(5,429)	(12,181)	- (28,934)
Carrying value at 31 December 2011	**274,400**	**319,113**	**62,110**	**12,479**	**11,208**	**42,094**	**721,404**
Cost at 31 December 2011	274,400	337,930	62,110	28,228	30,268	88,709	821,645
Accumulated depreciation	-	(18,817)	-	(15,749)	(19,060)	(46,615)	(100,241)
Carrying value at 31 December 2011	**274,400**	**319,113**	**62,110**	**12,479**	**11,208**	**42,094**	**721,404**
Additions	-	-	-	51,342	7,074	25,602	84,018
Disposals	-	(256)	-	(7,128)	(2,290)	(6,956)	(16,630)
Net transfers	-	-	-	104	-	(104)	-
Revaluation (loss)/ surplus	(5,969)	11,652	-	-	-	-	5,683
Depreciation charge (Note 22)	-	(13,821)	-	(12,791)	(2,174)	(6,918)	(35,704)
Impairment charge to profit or loss	-	-	(58,105)	-	-	-	(58,105)
Carrying value at 31 December 2012	**268,431**	**316,688**	**4,005**	**44,006**	**13,818**	**53,718**	**700,666**
Cost at 31 December 2012	268,431	349,326	4,005	72,546	35,052	107,251	836,611
Accumulated depreciation	-	(32,638)	-	(28,540)	(21,234)	(53,533)	(135,945)
Carrying value at 31 December 2012	**268,431**	**316,688**	**4,005**	**44,006**	**13,818**	**53,718**	**700,666**

13. Intangible Assets

In thousands of Kazakhstani Tenge	Software licenses	WIP	Total
Cost at 31 December 2010	36,161	-	36,161
Accumulated amortization	(21,243)	-	(21,243)
Carrying amount at 31 December 2010	**14,918**	**-**	**14,918**
Additions	19,848	-	19,848
Disposals	(488)	-	(488)
Amortization charges (Note 22)	(3,518)	-	(3,518)
Carrying amount at 31 December 2011	**30,760**	**-**	**30,760**
Cost at 31 December 2011	55,522	-	55,522
Accumulated amortization	(24,762)	-	(24,762)
Carrying amount at 31 December 2011	**30,760**	**-**	**30,760**
Additions	11,634	101,507	113,141
Disposals	(625)	-	(625)
Amortization charges (Note 22)	(5,980)	-	(5,980)
Carrying amount at 31 December 2012	**35,789**	**101,507**	**137,296**
Cost at 31 December 2012	66,530	101,507	168,037
Accumulated amortization	(30,741)	-	(30,741)
Carrying amount at 31 December 2012	**35,789**	**101,507**	**137,296**

Additions in work-in-progress represent ABIS software acquired from Colvir Software Solution LTD (Great Britain). As at 31 December 2012 several modules of the software are still in the finalization stage.

14. Other Assets

In thousands of Kazakhstani Tenge	31 December 2012	31 December 2011
Other financial assets		
Securities	7,001	7,001
Other banking debtors	6,396	6,527
Fee and commissions receivable	4,662	4,746
Guarantees receivable	-	399
Total other financial assets	**18,059**	**18,673**
Other non-financial assets		
Repossessed collateral for non-payments	689,574	558,330
Prepaid taxes	29,767	25,348
Prepayment for utilities	21,251	7,586
Prepayments for services	8,150	3,614
Other	5,815	1,130
Total other non-financial assets	**754,557**	**596,008**
Total other assets	**772,616**	**614,681**

14. Other Assets (Continued)

Repossessed collateral for non-payments represent real estate objects received by the Bank as settlement of overdue loans. Bank expects to realize these assets in the foreseeable future. These assets do not meet the definition of non-current assets held for sale and classified as inventory in accordance with IFRS (IAS 2), "Inventories". These assets are initially recognized at fair value on acquisition.

It is expected that other assets except repossessed collateral for non-payments as at 31 December 2012 will be settled during twelve months after year-end (31 December 2011: during twelve months after year-end).

15. Customer Accounts

In thousands of Kazakhstani Tenge	**31 December 2012**	**31 December 2011**
State and public organizations		
- Current/settlement accounts	185,342	177,985
Other legal entities		
- Current/settlement accounts	3,433,532	3,612,045
- Term deposits	105,582	114,732
Individuals		
- Current/settlement accounts	1,666,718	1,241,094
- Term deposits	74,638	92,217
Total customer accounts	**5,465,812**	**5,238,073**

Refer to Note 30 for fair value of each category of customer accounts. Interest rate analysis on customer accounts is detailed in Note 27. Information on related party transactions is disclosed in Note 32.

Customer accounts by industries are as follows:

In thousands of Kazakhstani Tenge	**31 December 2012**	**%**	**31 December 2011**	**%**
Individuals	1,741,356	32%	1,333,311	26%
Trade and services	1,342,687	25%	1,848,332	35%
Construction	1,032,732	19%	659,851	13%
Transportation and communication	754,943	14%	923,584	18%
Production	334,113	6%	230,039	4%
State organizations	185,342	3%	168,420	3%
Professional services	50,182	1%	45,689	1%
Sport and travel industry	10,268	0%	15,830	0%
Other	14,189	0%	13,017	0%
Total customer accounts	**5,465,812**	**100%**	**5,238,073**	**100%**

16. Other Liabilities

In thousands of Kazakhstani Tenge	31 December 2012	31 December 2011
Other financial liabilities		
Other creditors on non-operating activities	9,374	9,739
Guarantees issued	4,329	2,909
Total other financial liabilities	**13,703**	**12,648**
Other non-financial liabilities		
Settlements with staff	-	4,856
Taxes payable other than on income	13,740	869
Other prepayments	21	1,389
Total other non-financial liabilities	**13,761**	**7,114**
Total other liabilities	**27,464**	**19,762**

Fair value of each category of other financial liabilities is presented in Note 30. All of the above liabilities are expected to be settled within twelve months.

17. Charter Capital

In thousands of Kazakhstani Tenge except for number of shares	Number of outstanding shares (in thousands)	Ordinary shares	Total
At 31 December 2011	**10,000**	**10,000,000**	**10,000,000**
New shares issued	5,000	5,000,000	**5,000,000**
At 31 December 2012	**15,000**	**15,000,000**	**15,000,000**

As at 31 December 2012 the Bank's authorised, issued and outstanding share capital comprised 15,000,000 ordinary shares (31 December 2011: 10,000,000). Par value of each share is Tenge 1,000.

In accordance with a decision of the General Shareholders Meeting dated 13 August 2012, the Bank decided to issue additional 5,000,000 ordinary shares. T.C. Ziraat Bankasi A.S., the Bank's major shareholder made the cash contribution of Tenge 5,000,000 thousand.

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

18. Reserves

Presented below is a table of movements in the Bank's reserves:

In thousands of Kazakhstani Tenge	Property, plant and equipment revaluation reserve	Reserve capital	Other reserves	Total reserves
Balance at 31 December 2011	**225,062**	**631,335**	**391,379**	**1,247,776**
Transfer of building revaluation surplus to retained earnings	(15,160)	-	-	(15,160)
Decrease in reserve capital	-	(9,823)	-	(9,823)
Increase in other reserves	-	-	71,543	71,543
Balance at 31 December 2012	**209,902**	**621,512**	**462,922**	**1,294,336**

Decrease in reserve capital. The Bank's reserve capital at 31 December 2012 was Tenge 621,512 thousand (31 December 2011: Tenge 631,335 thousand) and its decrease resulted from transfer of Tenge 55,795 thousand to the Bank's retained earnings in accordance with the decision of Board of Directors dated 27 December 2011 and transfer of Tenge 45,970 thousand from the Bank's retained earnings in accordance with the decision of the General Shareholders Meeting dated 30 April 2012.

The reserve was formed under the laws of Kazakhstan, which sets the amount of not less than:

- The actual reserve capital generated during the previous reporting period;
- Part of undistributed net income of the Bank before payment of dividends on common shares equal to the production of undistributed net income of the Bank before payment of dividends on common shares divided on ratio of increase in assets and contingent liabilities, subject to the classification of the previous year to total assets and contingent liabilities, subject to the classification of at the beginning of the previous year, but not less than 0.1 and not more than 1, according to the NBRK.

The Bank had an excessive reserve capital as at 31 December 2011 and at the yearend adjusted balance of the reserve to the correct amount to comply with regulation.

Increase in other reserves. In accordance with the changes in Instruction for Accounting Maintenance by the Second Tier Banks and Joint Stock Company Kazakhstan Development Bank approved by the Statement of the Management Board of the National Bank of the Republic of Kazakhstan dated 31 January 2011 № 4, the difference between the loan loss provisions to be made in accordance with the Agency's classification rules and under the International Financial Reporting Standards is recognized in the account of statement of financial position – Other Reserves of the Bank.

Decrease in revaluation reserve of property, plant and equipment. The revaluation reserve for property plant and equipment is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised within other comprehensive income. The revaluation reserve for property, plant and equipment included in equity is transferred directly to retained earnings as the asset is used by the Bank.

19. Interest Income and Expense

In thousands of Kazakhstani Tenge	2012	2011
Interest income		
Loans and advances to customers	738,832	479,731
Investment securities held to maturity	126,590	83,226
Repurchase receivables	48,276	-
Due from other banks	18,189	4,728
Other investments	-	1,008
Other	1,767	1,243
Total interest income	**933,654**	**569,936**
Interest expense		
Customer accounts	773	1,714
Total interest expense	**773**	**1,714**
Net Interest income	**932,881**	**568,222**

20. Fee and Commission Income and Expense

In thousands of Kazakhstani Tenge	2012	2011
Fee and commission income		
- Settlement transactions	320,251	272,105
- Cash withdrawal	133,349	110,103
- Guarantees and letter of credits issued	33,766	35,017
- Money transfer services	15,291	10,078
- Safe transactions	4,679	4,125
- Other	17,518	16,941
Total fee and commission income	**524,854**	**448,369**
Fee and commission expense		
- Settlement transactions	18,163	16,411
- Other	5,544	4,560
Total fee and commission expense	**23,707**	**20,971**
Net fee and commission income	**501,147**	**427,398**

21. Other Operating Income

In thousands of Kazakhstani Tenge	2012	2011
Income on fines and penaties	20,657	6,746
Gain from disposal of property, plant and equipment	15,279	13,178
Grain from disposal of inventories	-	3,580
Other operating income	3,358	2,316
Total other operating income	**39,294**	**25,820**

22. Administrative and Other Operating Expenses

In thousands of Kazakhstani Tenge	2012	2011
Staff costs	441,553	384,277
Special reserves for receivables, not related to banking activities	61,756	-
Security and signaling expenses	49,005	43,476
Social taxes	43,792	38,874
Taxes other than income tax	41,013	39,824
Depreciation of premises and equipment	35,704	28,394
Communication and information services	31,800	26,562
Rent expenses	23,556	19,125
Repair and maintenance	18,747	13,831
Loss on disposal of fixed assets	17,255	42,000
Professional services	13,998	21,767
Membership contributions	9,314	8,471
General occupancy expenses	8,542	20,184
Cash collection	7,759	8,243
Software maintenance	7,169	11,326
Amortization intangible assets	5,980	3,518
Sponsorship	5,359	1,323
Stationeries and other office materials	5,021	4,786
Advertising and marketing	4,768	7,774
Customer expenses	4,342	6,116
Expenses on deposit insurance	4,298	4,870
Business trip expenses	3,848	3,317
Transportation	3,494	2,754
Representation expenses	2,461	-
Other	36,073	25,260
Total administrative and other operating expenses	**886,607**	**766,072**

Included in staff costs are social contributions of Tenge 9,120 thousand (2011: Tenge 7,807 thousand).

23. Income Tax

In thousands of Kazakhstani Tenge	2012	2011
Current income tax expenses	148,941	68,357
Deferred tax	16,046	5,011
Income tax expense for the year	**164,987**	**73,368**

The applicable corporate income tax rate is 20% (2011: 20%).

The management believes that the Bank operates in accordance with the taxation legislation regulating its operation, however, there is a risk that the tax authorities can have other positions on disputable tax issues.

23. Income Tax (Continued)

Presented below is the comparison of the theoretical income tax expense with the actual income tax expense.

In thousands of Kazakhstani Tenge	2012	2011
IFRS profit before tax	**864,527**	**396,173**
Theoretical tax charge at statutory rate 20%; (2011: 20%)	172,905	79,235
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income on investment securities held to maturity	(25,318)	(16,645)
Non-taxable income on repurchase receivables	(9,655)	-
Not deductible recovery of provision for loans losses	2,371	11,609
Not deductible provision on construction-in-progress	11,621	-
Other permanent differences	13,062	(831)
Income tax expense for the year	**164,986**	**73,368**

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Tax effect of movements in these temporary differences is recognised at the rate of 20% (2011: 20%).

In thousands of Kazakhstani Tenge	2010	Charged/ (credited) to profit or loss	2011	Charged/ (credited) to profit or loss	Credited to other comprehen-sive income	2012
Tax effect of deductible temporary differences						
Other liabilities	7,797	(5,001)	2,796	(1,668)	-	1,128
Recognized deferred tax asset	**7,797**	**(5,001)**	**2,796**	**(1,668)**	**-**	**1,128**
Tax effect of taxable temporary differences						
Premises, equipment and Intangible assets	34,606	(6,948)	27,658	5,908	1,138	34,704
Impairment provision on portfolio	72,502	6,958	79,460	8,470	-	87,930
Recognized deferred tax liability	**107,108**	**10**	**107,118**	**14,378**	**1,138**	**122,634**
Net deferred tax liability	**99,311**	**5,011**	**104,322**	**16,046**	**1,138**	**121,506**

24. Earnings per Share

Basic earnings per share are calculated by dividing net profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank does not have any treasury shares which can potentially dilute the earnings per share. Therefore, the diluted earnings equal the basic earnings per share. Earnings per share are calculated as follows:

In thousands of Kazakhstani Tenge	2012	2011
Profit attributable to shareholders-owners ordinary shares	864,527	396,173
Less dividends on preference shares	-	-
Net profit attributable to shareholders-owners ordinary shares	864,527	396,173
Weighted-average number of ordinary shares in issue	11,250,000	7,505,000
Basic and diluted earnings per share (in Tenge per share)	**77**	**53**

25. Dividends

All dividends are declared in Kazakhstani Tenge. Dividends payable are limited by the maximum retained earnings of the Bank determined in accordance with the legislation of the Republic of Kazakhstan.

	2012	2011
In thousands of Kazakhstani Tenge	Ordinary shares	Ordinary shares
Dividends payable at 1 January	-	-
Dividends declared during the year	276,844	91,926
Dividends paid during the year	(276,844)	(91,926)
Dividends payable at 31 December	-	-
Dividends per share, declared during the year in Tenge per share	**37**	**18**

In accordance with the Kazakhstan legislation, the Bank distributes the profit in the form of dividends on the basis of the financial statements prepared in accordance with the International Financial Reporting Standards.

26. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the operating decision makers and for which discrete financial information is available. The operating decision makers of the Bank are the Management Board of the Bank. The Management Board regularly uses for operational decision making and resource allocation financial information based on IFRS.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of one main business segment – corporate banking which represents direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products. The Bank also has retail banking which represents private banking services, private customer current accounts, savings, deposits and consumer loans.

26. Segment Analysis (Continued)

(b) Information about reportable segment profit or loss, assets and liabilities

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

In thousands of Kazakhstani Tenge	Corporate banking	Retail banking	31 December 2012
Assets			
Loans and advances to customers	7,072,480	2,722,459	9,794,939
Cash and deposits	4,147,110	-	4,147,110
Repurchase receivables	3,947,949	-	3,947,949
Investment securities held to maturity	3,154,541	-	3,154,541
Total reportable segment assets	**18,322,080**	**2,722,459**	**21,044,539**
Liabilities			
Customer accounts	3,724,739	1,741,073	5,465,812
Due to other banks	1,026	-	1,026
Total reportable segment liabilities	**3,725,765**	**1,741,073**	**5,466,838**

In thousands of Kazakhstani Tenge	Corporate banking	Retail banking	Total
2012:			
Interest income	904,870	28,784	933,654
Interest expense	-	(773)	(773)
Net interest income	**904,870**	**29,557**	**932,881**
Recovery of/(provision for) loan impairment	64,271	(32,822)	31,449
Net interest income after recovery of/(provision for) for loan portfolio impairment	936,319	29,557	964,330
Fee and commission income	316,216	208,638	524,854
Fee and commission expense	(23,707)	-	(23,707)
Gains less losses from trading with foreign currency	258,481	-	258,481
Gains less losses from foreign currency translation	(12,118)	-	(12,118)
Other operating income	39,294	-	39,294
Administrative and other operating expenses	(886,607)	-	(886,607)
Segment result	**627,878**	**238,195**	**864,527**

26. Segment Analysis (Continued)

Information about reportable segment profit or loss, assets and liabilities for the year ended 31 December 2011 is set out below:

In thousands of Kazakhstani Tenge	Corporate banking	Retail banking	31 December 2011
Assets			
Loans and advances to customers	2,089,321	1,801,738	3,891,059
Investment securities held to maturity	7,641,355	-	7,641,355
Cash and deposits	4,075,991	-	4,075,991
Total reportable segment assets	**13,806,667**	**1,801,738**	**15,608,405**
Liabilities			
Customer accounts	3,979,016	1,259,057	5,238,073
Due to other banks	1,026	-	1,026
Total reportable segment liabilities	**3,980,042**	**1,259,057**	**5,239,099**

In thousands of Kazakhstani Tenge	Corporate banking	Retail banking	Total
2011:			
Interest income	531,419	38,517	569,936
Interest expense	(798)	(916)	(1,714)
Net interest income	**530,621**	**37,601**	**568,222**
Provision for loan impairment	(52,731)	(2,342)	(55,073)
Net interest income after provision for loan portfolio impairment	475,548	37,601	513,149
Fee and commission income	264,615	183,754	448,369
Fee and commission expense	(20,971)	-	(20,971)
Gains less losses from trading with foreign currency	209,715	-	209,715
Gains less losses from foreign currency translation	(13,837)	-	(13,837)
Other operating income	25,820	-	25,820
Administrative and other operating expenses	(766,072)	-	(766,072)
Segment result	**174,818**	**221,355**	**396,173**

c) Reconciliation of income and expenses, assets and liabilities for reportable segments:

In thousands of Kazakhstani Tenge	31 December 2012	31 December 2011
Total reportable segment assets	**21,044,539**	**15,608,405**
Premises and equipment and Intangible assets	837,962	752,164
Other assets	765,615	607,680
Total Assets	**22,648,116**	**16,968,249**
Total reportable segment liabilities	**5,466,838**	**5,239,099**
Deferred income tax liability	121,506	104,322
Other liabilities	27,464	19,762
Total Liabilities	**5,615,808**	**5,363,183**

26. Segment Analysis (Continued)

In thousands of Kazakhstani Tenge	2012	2011
Total segment result	**864,527**	**396,173**
Income tax expense	(164,987)	(73,368)
Total profit for the year	**699,540**	**322,805**

The Bank's income is generated in Kazakhstan. Geographical areas of operations of the Bank are reported in Note 27 of these financial statements based on the ultimate domicile of the counterparty, i.e. based on economic risk rather than legal risk of the counterparty. The Bank has no customers which represent ten percent or more of the total revenues generated in 2012 (2011: nil).

27. Financial Risk Management

Risk is inherent in the Bank's activities. The Bank manages the risk through a process of ongoing identification, assessment and monitoring, subject to risk limits and other internal control actions. The process of risk management is critical to the Bank's continuing profitability and each specialist within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Bank is also subject to operating risks.

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

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

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

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

Risk Management. The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling. The Risk Management unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business unit includes decentralized unit responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

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

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

Risk measurement and reporting systems. The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

27. Financial Risk Management (Continued)

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, Management Board, Asset and Liability Management Committee, Credit Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios, interest risk ratios and risk profile changes.

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

The Bank's Management Board and other relevant employees of the Bank meetings are regularly held to discuss maintenance of established limits, investments, liquidity, and risk developments.

Risk mitigation. As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more details).

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

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

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

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

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

Risk mitigation and limitation policy. The Bank manages, establishes the limits and controls the credit risk concentration wherever it is identified – in particular, in terms of individual counterparties and groups and industry sectors.

The Bank controls the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Credit risk limits on products, industries and countries are annually approved by the Bank's Board.

Exposure to credit risk is managed through regular analysis of the current and potential borrowers' ability to repay the interest and principal amount and through changes in credit limits, if applicable.

27. Financial Risk Management (Continued)

Presented below are other specific control methods and measures for mitigation of credit risk.

(a) Collateral. The Bank uses a range of methodologies and practices to mitigate the credit risk. The most common of them is to receive the collateral for loans issued which is generally accepted banking practice. The Bank applies the instructions on acceptability of the special groups of collateral or credit risk mitigation.

Presented below are the main types of collateral on loans and advances:

- guarantee letters;
- buildings;
- equipment;
- deposits;
- housing;

Collateral in the form of guarantees for financial assets other than loans and advances is determined by the type of instrument. Debt securities, treasury bonds and other acceptable securities usually are not collaterised.

(b) Limits. The Bank's Credit Committee makes the decision on issue of borrowing within the limits provided by the Board of Directors. For borrowings exceeding the limits the Bank requests the individual decision of the Board of Directors.

(c) Risk concentration for financial assets exposed to credit risk. The Bank's management is focused on the risk concentration:

- Maximum risk amount for one borrower or borrowers group – not exceeding 25% of the Bank's equity;
- Maximum risk amount for unsecured loans – not exceeding 10% of the Bank's equity;
- The Bank's aggregate risk amount for one borrower (each risk exceeding 10% of the Bank's equity) should not exceed the Bank's equity for more than five times;
- Maximum risk amount for borrowers which have the special relations with the Bank – not exceeding 10% of the Bank's equity;
- Aggregate risk amount for borrowers which have the special relations with the Bank should not exceed the Bank's equity;

Impairment and provisioning policy. Internal and external rating systems described above are mainly focused on reflection of the credit quality from the commencement of lending and investment activities. On the contrary, for the purposes of financial statements, the impairment provisions are recognized only in terms of loss incurred at the reporting date on the basis of the objective evidences of impairment. Since the different methodologies are used, loss incurred on loans and stated in the financial statements is usually lower than loss determined by the expected loss model used for the purposes of internal management and compliance with the bank instructions.

Internal assessment mechanism allows the management to determine whether the objective evidence of impairment exists according to IAS 39 on the basis of the following criteria established by the Bank:

- Delay in contract repayment of principal or interest;
- Difficulties entailed by the borrower in terms of cash flows (e.g. independence rate, net profit share of sales amount);
- Violation of loan agreements or conditions;
- Initiation of bankruptcy procedures;
- Decrease in collateral value;

The Bank's policy envisages the examination of the individual financial assets exceeding the determined materiality threshold at least once a year under the circumstances. Impairment provisions on individually assessed accounts are determined through assessment of loss incurred at the reporting date for each case and applied to all individually significant accounts.

27. Financial Risk Management (Continued)

Such assessment usually covers the current collateral (including its foreclosure possibility) and expected repayments on individual account.

Aggregate impairment provisions are made for: portfolio of identical assets which on individual basis are lower than materiality level; and (ii) loss incurred but not identified using the historical experience, judgements and statistic methods.

The Bank's maximum credit risk is stated within carrying amount of financial assets in the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 29.

The Bank reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 27.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank is exposed to market risk related to open positions in (a) currency, (b) interest and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted which are monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Kazakhstani Tenge	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
2012			
Tenge	19,467,986	3,903,098	15,564,888
US Dollars	1,487,360	1,531,020	(43,660)
Euro	64,569	34,281	30,288
Other	35,683	12,142	23,541
Total	**21,055,598**	**5,480,541**	**15,575,057**
2011			
Tenge	13,463,719	(3,178,796)	10,284,923
US Dollars	1,942,592	(1,867,158)	75,434
Euro	198,132	(191,903)	6,229
Other	15,634	(13,890)	1,744
Total	**15,620,077**	**(5,251,747)**	**10,368,330**

The above analysis includes only monetary assets and liabilities. The Bank believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

27. Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

In thousands of Kazakhstani Tenge	2012 Impact on profit or loss	2011 Impact on profit or loss
US Dollar strengthening by 10% (2011: 10%)	4,366	(7,543)
US Dollar weakening by 10% (2011: 10%)	(4,366)	7,543
Euro strengthening by 3% (2011: 10%)	(909)	(623)
Euro weakening by 3% (2011: 10%)	909	623
Other currency strengthening (2011: 10%)	(2,354)	(174)
Other currency weakening (2011: 10%)	2,354	174
Total strengthening	**1,103**	**(8,341)**
Total weakening	**(1,103)**	**8,341**

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank. Effect on equity will be the same as on the statement of comprehensive income.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Interest rate risk is determined as exposure of the Bank's financial position to unfavourable fluctuations in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Bank applies the gap analysis for management of interest rate risk. The Bank classifies the financial assets and financial liabilities by the earliest from maturities or interest rate revision and determines the gap for each class. Positive gap means that increase in interest rates with the determined maturity will result in increase in net interest income (decrease in interest rates will result in decrease in net interest income). Negative gap means that increase in interest rates with the determined maturity will result in decrease in net interest income (decrease in interest rates will result in increase in net interest income).

When increase in interest rate is expected, the Bank increases the repayment periods, decreases the loans with fixed rate, decreases the maturities of investment portfolio, and decreases investments in securities and credit facilities.

When decrease in interest rate is expected, the Bank decreases the repayment periods, increases the loans with fixed rate, increases the maturities of investment portfolio and credit facilities.

To mitigate the interest rate risk, the Bank uses reserves with inclusion into the loan agreements the conditions on variable interest rates and early repayment; changes the interest rates on deposits; can sign the agreements on swaps and options; as well as revises the structure of loan portfolio.

27. Financial Risk Management (Continued)

The below table presents the model used by the Bank for monitoring of its exposure to interest rate risk at 31 December 2012 and 31 December 2011. The table also presents the carrying amounts of the Bank's financial assets and liabilities, categorized by the earlier of contractual interest repricing or maturity dates.

In thousands of Kazakhstani Tenge	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Above 5 years	Total
31 December 2012						
Total financial assets	8,727,993	466,175	603,691	7,749,585	3,508,154	**21,055,598**
Total financial liabilities	5,405,044	52,489	20,882	2,126	-	**5,480,541**
Net interest rates gap at 31 December 2012	**3,322,949**	**413,686**	**582,809**	**7,747,459**	**3,508,154**	**15,575,057**
31 December 2011						
Total financial assets	4,133,094	4,718,159	887,057	5,494,295	387,472	**15,620,077**
Total financial liabilities	5,145,112	821	95,426	10,388	-	**5,251,747**
Net interest rates gap at 31 December 2011	**(1,012,018)**	**4,717,338**	**791,631**	**5,483,907**	**387,472**	**10,368,330**

The Bank also determines the income from risk, i.e. effect of certain parallel change in interest rates on potential income before taxation on non-trading portfolio for this period. The Bank classifies the financial assets and liabilities at the reporting date into groups on expected maturities (but not for contractual maturities) or repricing period. The Bank determines the gaps in maturities from one day to five years. The Bank applies the possible fluctuations in interest rates in terms of gaps identified and determines the effect on profit.

If interest rates had been 200 basis points higher at 31 December 2012 (31 December 2011: 200 basis points lower), with all other variables held constant, profit for the year would have been Tenge 18,389 thousand higher (31 December 2011: Tenge 11,364 thousand higher), mainly as a result of lower interest expense on interest liabilities.

If interest rates had been 200 basis points lower at 31 December 2012 (31 December 2011: 200 basis points higher), with all other variables held constant, profit for the year would have been Tenge 18,389 thousand lower (31 December 2011: Tenge 11,364 thousand lower), mainly as a result of lower interest expense on interest liabilities.

	2012		**2011**	
In % p.a.	**Tenge**	**US Dollars**	**Tenge**	**US Dollars**
Assets				
Cash and cash equivalents	0	0	0	0
Due from other banks	-	0,5%-6%	-	0,5%-6%
Loans and advances to customers	8-20%	6-20%	8-20%	6-20%
Liabilities				
Due to other banks	0	-	0	-
Customer accounts:				
Individuals				
- current/demand accounts	0	0	0	0
- term deposits	1-3,5%	0,5%-2%	1-3,5%	0,5%-2%
Legal entities				
- current/demand accounts	0	0	0	0
- term deposits	-	-	-	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

27. Financial Risk Management (Continued)

Other price risk. The Bank is exposed to prepayment risk through providing loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's profit and loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortized cost and the prepayment right is at or close to the amortized cost of the loans and advances to customers (2011: no material impact). The Bank's Treasury controls and authorizes the equity instrument transactions, controlling dividend income from equity instrument. Sensitivity of assumptions used for instruments revaluation is presented in Note 4.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2012 is set out below:

In thousands of Kazakhstani Tenge	**Kazakhstan**	**OECD**	**Other countries**	**Total**
Assets				
Cash and cash equivalents	3,496,439	348,940	-	3,845,379
Due from other banks	-	-	301,731	301,731
Loans and advances to customers	9,794,939	-	-	9,794,939
Repurchase receivable	3,947,949	-	-	3,947,949
Investment securities held to maturity	3,147,540	-	-	3,147,540
Other financial assets	18,060	-	-	18,060
Total financial assets	**20,404,927**	**348,940**	**301,731**	**21,055,598**
Non-financial assets	**1,592,518**	**-**	**-**	**1,592,518**
Total assets	**21,997,445**	**348,940**	**301,731**	**22,648,116**
Liabilities				
Due to other banks	1,026	-	-	1,026
Customer accounts	5,465,812	-	-	5,465,812
Other financial liabilities	13,703	-	-	13,703
Total financial liabilities	**5,480,541**	**-**	**-**	**5,480,541**
Non-financial liabilities	**135,267**	**-**	**-**	**135,267**
Total liabilities	**5,615,808**	**-**	**-**	**5,615,808**
Net balance sheet position at 31 December 2012	**16,381,637**	**348,940**	**301,731**	**17,032,308**
Credit related commitments (Note 29)	**3,844,929**	**-**	**-**	**3,844,929**

27. Financial Risk Management (Continued)

The concentration of the Bank's financial assets and liabilities at 31 December 2011 is set out below:

In thousands of Kazakhstani Tenge	Kazakhstan	OECD	Other countries	Total
Assets				
Cash and cash equivalents	2,946,472	832,472	-	3,778,944
Due from other banks	-	-	297,047	297,047
Loans and advances to customers	3,891,059	-	-	3,891,059
Investment securities held to maturity	7,634,354	-	-	7,634,354
Other financial assets	18,673	-	-	18,673
Total financial assets	**14,490,558**	**832,472**	**297,047**	**15,620,077**
Non-financial assets	**1,348,172**	-	-	**1,348,172**
Total assets	**15,838,730**	**832,472**	**297,047**	**16,968,249**
Liabilities				
Due to other banks	1,026	-	-	1,026
Customer accounts	5,238,073	-	-	5,238,073
Other financial liabilities	12,648	-	-	12,648
Total financial liabilities	**5,251,747**	-	-	**5,251,747**
Non-financial liabilities	**111,436**	-	-	**111,436**
Total liabilities	**5.363,183**	-	-	**5,363,183**
Net balance sheet position at 31 December 2011	**10,475,547**	**832,472**	**297,047**	**11,605,066**
Credit related commitments (Note 29)	**1,845,848**	-	-	**1,845,848**

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

The Bank maintains a portfolio of highly marketable assets that can be easily sold in the event of an unforeseen interruption of cash inflows.

In addition, the Bank maintains an obligatory reserve with the National Bank of Kazakhstan, the amount of which could, apart from maintaining the liquidity level, serve as the source of maintaining the minimum reserve requirements. The Bank continuously monitors and complies with certain liquidity ratios established by NBRK.

27. Financial Risk Management (Continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted repayment obligations. Liabilities which are subject to the first notice are treated as if notice is given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

The maturity analysis of financial instruments at 31 December 2012 is as follows:

In thousands of Kazakhstani Tenge	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Due to other banks	1,026	-	-	-	1,026
Customer accounts	5,390,315	52,489	20,882	2,126	5,465,812
Other financial liabilities	13,703	-	-	-	13,703
Financial guarantees	182,102	381,225	-	181,027	744,354
Undrawn credit lines	2,929,389	-	-	-	2,929,389
Total potential future payments on financial liabilities	**8,516,535**	**433,714**	**20,882**	**183,153**	**9,154,284**

The maturity analysis of financial instruments at 31 December 2011 is as follows:

In thousands of Kazakhstani Tenge	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Due to other banks	1,031	-	-	-	1,031
Customer accounts	5,133,665	1,088	96,220	10,648	5,241,621
Other financial liabilities	12,648	-	-	-	12,648
Financial guarantees	75	58,272	284,538	793,731	1,136,616
Undrawn credit lines	1,845,848	-	-	-	1,845,848
Total potential future payments on financial liabilities	**6,993,267**	**59,360**	**380,758**	**804,379**	**8,237,764**

27. Financial Risk Management (Continued)

The Bank does not use the above maturity analysis without discounting to manage liquidity. Instead, the Bank controls the contractual maturities at 31 December 2012 presented in the below table.

In thousands of Kazakhstani Tenge	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Above 5 years	Total
Assets						
Cash and cash equivalents	3,845,379	-	-	-	-	3,845,379
Due from other banks	-	301,731	-	-	-	301,731
Loans and advances to customers	387,163	47,968	201,392	5,650,262	3,508,154	9,794,939
Repurchase receivable	3,947,949	-	-	-	-	3,947,949
Investment securities held to maturity	529,442	116,476	402,299	2,099,323	-	3,147,540
Other financial assets	18,060	-	-	-	-	18,060
Total financial assets	**8,727,993**	**466,175**	**603,691**	**7,749,585**	**3,508,154**	**21,055,598**
Non-financial assets	**-**	**-**	**-**	**-**	**-**	**1,592,518**
Total assets	**8,727,993**	**466,175**	**603,691**	**7,749,585**	**3,508,154**	**22,648,116**
Liabilities						
Due to other banks	1,026	-	-	-	-	1,026
Customer accounts	5,390,315	52,489	20,882	2,126	-	5,465,812
Other financial liabilities	13,703	-	-	-	-	13,703
Total financial liabilities	**5,405,044**	**52,489**	**20,882**	**2,126**	**-**	**5,480,541**
Non-financial liabilities	**-**	**-**	**-**	**-**	**-**	**135,267**
Total liabilities	**5,405,044**	**52,489**	**20,882**	**2,126**	**-**	**5,615,808**
Net liquidity gap on remaining maturities	**3,322,949**	**413,686**	**582,809**	**7,747,459**	**3,508,154**	**15,575,057**
Aggregate liquidity gap at 31 December 2012	**3,322,949**	**3,736,635**	**996,495**	**8,330,268**	**11,255,613**	

27. Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2011 is as follows:

In thousands of Kazakhstani Tenge	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Above 5 years	Total
Assets						
Cash and cash equivalents	3,778,944	-	-	-	-	3,778,944
Due from other banks	-	-	-	297,047	-	297,047
Loans and advances to customers	135,644	131,899	392,081	2,843,963	387,472	3,891,059
Investment securities held to maturity	199,833	4,586,260	494,976	2,353,285	-	7,634,354
Other financial assets	18,673	-	-	-	-	18,673
Total financial assets	**4,133,094**	**4,718,159**	**887,057**	**5,494,295**	**387,472**	**15,620,077**
Non-financial assets	**-**	**-**	**-**	**-**	**-**	**1,348,172**
Total assets	**4,133,094**	**4,718,159**	**887,057**	**5,494,295**	**387,472**	**16,968,249**
Liabilities						
Due to other banks	1,026	-	-	-	-	1,026
Customer accounts	5,131,438	821	95,426	10,388		5,238,073
Other financial liabilities	12,648	-	-	-	-	12,648
Total financial liabilities	**5,145,112**	**821**	**95,426**	**10,388**	**-**	**5,251,747**
Non-financial liabilities	**-**	**-**	**-**	**-**	**-**	**111,436**
Total liabilities	**5,145,112**	**821**	**95,426**	**10,388**	**-**	**5,363,183**
Net liquidity gap on remaining maturities	**(1,012,018)**	**4,717,338**	**791,631**	**5,483,907**	**387,472**	**10,368,330**
Aggregate liquidity gap at 31 December 2011	**(1,012,018)**	**3,705,320**	**5,508,969**	**6,275,538**	**5,871,379**	

28. Management of Capital

The Bank actively manages the capital adequacy to cover risk inherent in the business. The Bank's capital adequacy is monitored using, among other measures, the ratios established by the NBRK in supervising the Bank.

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

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

NBRK capital adequacy ratio. NBRK requires banks to maintain a tier 1 capital adequacy ratio of at least 6% of total assets and total capital adequacy ratio of at least 12% of risk-weighted assets. In 2012 and 2011, risk-weighted assets calculated in accordance with the NBRK methodology were derived from the Bank's financial statements prepared in accordance with NBRK methodology.

At 31 December 2012 and 31 December 2011, the Bank's capital adequacy ratios on this basis were as follows:

In thousands of Kazakhstani Tenge	31 December 2012	31 December 2011
Tier 1 capital		
Charter capital	15,000,000	10,000,000
Provisions	621,510	575,551
Retained earnings of prior years	88,932	30,030
Deferred tax liability	61,949	58,265
Intangible assets	(1,234)	(8,531)
Total tier 1 capital	**15,771,157**	**10,655,315**
Tier 2 capital		
Retained earnings of current year	704,086	305,448
Revaluation reserves	209,902	225,062
General reserves	-	55,793
Deferred tax liability	8,470	5,773
Total tier 2 capital	**922,458**	**592,076**
Total equity	**16,693,615**	**11,247,391**

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of credit, market, operational and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank's K1, K1-2 and K2 ratios were:

	31 December 2012	31 December 2011
K1	0.70%	0.64%
K1-2	1.13%	1.48%
K2	1.20%	1.56%

The Bank does not have any external requirements established in respected of its capital.

29. Contingencies and Commitments

Tax legislation. The tax and customs legislation within the Republic of Kazakhstan is subject to varying interpretations and frequent changes. Management's interpretation of the legislation applicable to the transactions and activity of the Bank may be challenged by the relevant authorities. The Kazakhstani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Republic of Kazakhstan and the changes in the approach of the Kazakhstani tax authorities, that such transfer prices could be challenged. Given the brief nature of the current transfer pricing rules of Kazakhstan, the impact of any such challenge cannot be reliably estimated; However, it may be significant to the financial position and/or the overall operations of the entity.

Kazakhstan tax legislation does not provide clear guidance on certain tax issues. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Capital expenditure commitments. At 31 December 2012 the Bank had contractual capital expenditure commitments in respect software and other intangible assets in the amount of Tenge 106,162 thousand (31 December 2011: nil).

Compliance with covenants. The Bank is not subject to any covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Undrawn credit lines represent unused portions of credit facilities approved for which credit agreements have been signed with clients. The Bank does not have a legal commitment to extend unused credit lines.

Commitments to extend credit represent the Bank's unconditional commitment to extend credit to clients.

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Liabilities on future placement of customer loans	2,929,389	1,845,848
Guarantees issued	744,354	1,136,616
Letters of credit	171,186	83,318
Total contractual commitments	**3,844,929**	**3,065,782**

29. Contingencies and Commitments (Continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was Tenge 2,929,389 thousand at 31 December 2011 (31 December 2011: Tenge 1,845,848 thousand). Credit related commitments are denominated in the following currencies:

In thousands of Kazakhstani Tenge	2012	2011
Tenge	407,032	856,733
US Dollars	3,437,897	2,209,049
Total	**3,844,929**	**3,065,782**

30. Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortized cost.

Fair values of financial instruments carried at amortized cost are as follows:

	2012		2011	
In thousands of Kazakhstani Tenge	**Total fair value**	**Carrying value**	**Total fair value**	**Carrying value**
FINANCIAL ASSETS				
Cash and cash equivalents				
Cash on hand	1,165,323	1,165,323	931,138	931,138
Cash balances with the NBRK (other than mandatory reserves)	2,140,907	2,140,907	1,847,229	1,847,229
Mandatory reserves with the NBRK	157,878	157,878	143,948	143,948
Correspondent accounts with other banks	381,271	381,271	856,629	856,629
Due from other banks				
Current placements with other banks with original maturity of above three months	301,731	301,731	297,047	297,047
Loans and advances to customers				
Loans issued to major customers	5,068,546	5,065,552	1,041,550	1,041,550
Loans issued to enterprises of small and medium business	2,081,221	2,072,035	1,047,771	1,047,771
Consumer loans	2,148,259	2,148,259	1,284,744	1,277,047
Mortgage loans	509,093	509,093	516,994	516,994
Investments securities held to maturity				
Notes of the National Bank of the Republic of Kazakhstan	499,063	499,511	5,283,169	5,300,000
Bonds of the Ministry of Finance of the Republic of Kazakhstan	2,540,935	2,648,029	2,336,132	2,334,354
Other financial assets				
Fee and commissions receivable from customers	10,878	10,878	4,746	4,746
Other	7,182	7,182	6,926	6,926
TOTAL FINANCIAL ASSETS RECOGNISED AT AMORTISED COST	**17,012,287**	**17,107,649**	**15,598,023**	**15,605,379**

30. Fair Value of Financial Instruments (Continued)

In thousands of Kazakhstani Tenge	2012 Total fair value	2012 Carrying value	2011 Total fair value	2011 Carrying value
FINANCIAL LIABILITIES				
Due to other banks				
Long-term placements with other banks	1,026	1,026	1,026	1,026
Customer accounts				
Current/settlement accounts state and public organizations	185,342	185,342	177,985	177,985
Current/settlement accounts of other legal entities	3,433,532	3,433,532	3,612,045	3,612,045
Term deposits of other legal entities	105,582	105,582	114,732	114,732
Current/settlement accounts individuals	1,666,718	1,666,718	1,241,094	1,241,094
Term deposits of individuals	74,638	74,638	92,217	92,217
Other financial liabilities				
Settlements with customers	13,703	13,703	12,648	12,648
TOTAL FINANCIAL LIABILITIES RECOGNISED AT AMORTISED COST	**5,480,541**	**5,480,541**	**5,251,747**	**5,251,747**

Corporate loans were granted by the Bank at the rates similar to the market with an adjustment to a credit risk associated with a borrower, therefore it is considered the carrying value of such loans is equal to their fair value.

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Effective 1 January 2009, the Bank adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

In thousands of Kazakhstani Tenge	Note	31 December 2012 Quoted price in an active market (Level 1)	31 December 2012 Valuation technique with inputs observable in markets (Level 2)	31 December 2011 Quoted price in an active market (Level 1)	31 December 2011 Valuation technique with inputs observable in markets (Level 2)
FINANCIAL ASSETS					
Repurchase receivable	10	3,947,949	-	-	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE		**3,947,949**	**-**	**-**	**-**

30. Fair Value of Financial Instruments (Continued)

(c) Reconciliation of movements in instruments belonging to level 3 of the fair value hierarchy.

No derivatives were included as Level 3 instruments since they are traded in an active market.

(d) The methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value is best evidenced by an active quoted market price of the instrument. Where quoted market prices are not available, the Bank uses valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The total net fair value gain estimated determined using valuation techniques and recognized in profit or loss was nil for 2012 (2011: nil).

Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Loans and receivables carried at amortized cost. Fair value of floating rate instruments is usually equal to their carrying value. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. Analysis of these discount rates is presented below:

	2012	2011
Loans and advances to customers		
Loans issued to major customers	4%-16% p.a.	6%-15% p.a.
Loans to small and medium enterprises	4%-16% p.a.	10%-18% p.a.
Consumer loans	8%-16% p.a	6%-20% p.a.
Mortgage loans	8%-16% p.a	3%-20% p.a.

For loans and advances to customers, fair value incorporates expected future losses while the carrying value (amortized cost and related impairment) includes only incurred losses at the end of the reporting period.

31. Reconciliation of Financial Instruments Classes to Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments:* Recognition of Measurement, the Bank classifies its financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

In thousands of Kazakhstani Tenge	**Loans and receivables**	**Assets available for sale**	**Assets at FVTPL**	**Total**
31 December 2012				
FINANCIAL ASSETS				
Cash and cash equivalents	3,845,379	-	-	3,845,379
Due from other banks	301,731	-	-	301,731
Loans and advances to customers	9,794,939	-	-	9,794,939
Repurchase receivables	-	-	3,147,540	3,147,540
Investment securities held to maturity	3,947,949	-	-	3,947,949
Other financial assets	11,059	7,001	-	18,060
TOTAL FINANCIAL ASSETS	**17,901,057**	**7,001**	**3,147,540**	**21,055,598**
31 December 2011				
FINANCIAL ASSETS				
Cash and cash equivalents	3,778,944	-	-	3,778,944
Due from other banks	297,047	-	-	297,047
Loans and advances to customers	3,891,059		-	3,891,059
Investment securities held to maturity	7,634,354	-	-	7,634,354
Other financial assets	11,672	7,001	-	18,673
TOTAL FINANCIAL ASSETS	**15,613,076**	**7,001**	**-**	**15,620,077**

All of the Bank's financial assets except Repurchase receivables are carried at amortized cost as at 31 December 2012 and 31 December 2011.

All liabilities in the statement of financial position are recorded at amortized cost.

32. Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2012 the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	**Shareholders**	**Key management personnel**	**Entities under common control**	**Total**
Cash and cash equivalents	15,797	-	-	**15,797**
Due from other banks	-	-	301,731	**301,731**
Loans and advances to customers	-	82,077	-	**82,077**
Customer accounts	-	3,625	102,679	**106,304**

The income and expense items with related parties for 2012 were as follows:

In thousands of Kazakhstani Tenge	**Key management personnel**	**Total**
Interest income	25,871	**25,871**

At 31 December 2011 the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	**Shareholders**	**Key management personnel**	**Entities under common control**	**Total**
Cash and cash equivalents	-	75,426	-	**75,426**
Due from other banks	-	-	297,047	**297,047**
Loans and advances to customers	-	712	-	**712**
Customer accounts	4,767	-	1,026	**5,793**

The income and expense items with related parties for 2011 were as follows:

In thousands of Kazakhstani Tenge	**Key management personnel**	**Total**
Interest income	7,231	**7,231**

Key management compensation is presented below:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Current payments:		
- Salaries and other current payments	50,090	53,807
- Social security payments	4,975	1,930

33. Events After the End of the Reporting Period

No significant events occurred after the reporting date.