JOINT STOCK COMPANY BANK CENTERCREDIT

Consolidated Financial Statements
for the year ended 31 December 2012

JOINT STOCK COMPANY BANK CENTERCREDIT

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012	1
INDEPENDENT AUDITORS' REPORT	2-3
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012:	
Consolidated income statement	4
Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8-9
Notes to the consolidated financial statements	10-77

JOINT STOCK COMPANY BANK CENTERCREDIT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

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

Management is also responsible for:

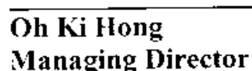
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position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

The consolidated financial statements for the year ended 31 December 2012 were authorized for issue on 15 February 2013 by the Management Board of the Group.

On behalf of the Management Board of the Group:

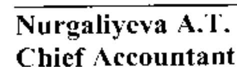
Lee V.S.
Chairman

15 February 2013
Almaty



Oh Ki Hong
Managing Director

15 February 2013
Almaty



Nurgaliyeva A.T.
Chief Accountant

15 February 2013
Almaty

Deloitte

Deloitte, LLP
36 Al Farabi Ave.,
Almaty, 050059,
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit:

We have audited the accompanying consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

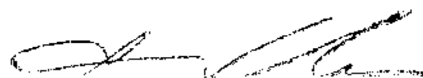
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.

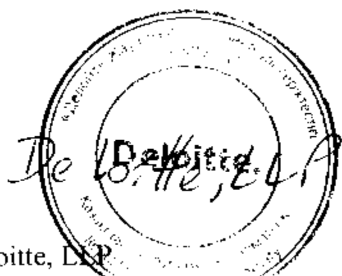
Member of Deloitte Touche Tohmatsu Limited

Opinion

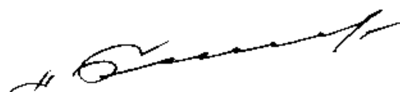
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Joint Stock Company Bank CenterCredit and its subsidiaries as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with International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



Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice 78586
Australia



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



Nurlan Bekenov
Qualified Auditor
Certificate of competence № 0082 dated 13 June 1994
General Director
Deloitte, LLP

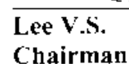
15 February 2013
Almaty

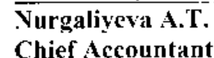
JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012
(in Kazakhstani tenge and in millions, except for earnings per share which is in tenge)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	4, 28	73,631	87,558
Interest expense	4, 28	(54,154)	(62,057)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		19,477	25,501
Provision for impairment losses on interest bearing assets	5	(11,932)	(18,379)
NET INTEREST INCOME		7,545	7,122
Net gain on financial assets and liabilities at fair value through profit or loss	6	634	877
Net realized gain/(loss) on disposal and impairment of investments available-for-sale	7	94	(975)
Net loss on repurchase of debt securities issued	23	(1,483)	-
Net gain on foreign exchange operations	8	3,849	4,044
Fee and commission income	9	20,059	18,652
Fee and commission expense	9	(1,797)	(1,955)
(Provision)/recovery of provision for impairment losses on other transactions	5	(1,400)	586
Other (expenses)/income		(18)	90
NET NON-INTEREST INCOME		19,938	21,319
OPERATING INCOME		27,483	28,441
OPERATING EXPENSES	10, 28	(26,882)	(25,812)
OPERATING PROFIT BEFORE INCOME TAX		601	2,629
Income tax (expense)/benefit	11	(251)	102
NET PROFIT		350	2,731
Attributable to:			
Owners of the parent		222	2,579
Non-controlling interest		128	152
		350	2,731
EARNINGS PER SHARE			
Basic (KZT)	12	1.10	12.79
Diluted (KZT)	12	1.10	12.79

On behalf of the Management Board of the Group:





Lee V.S.
Chairman

15 February 2013
Almaty

Oh Ki Hong
Managing Director

15 February 2013
Almaty

Nurgaliyeva A.T.
Chief Accountant

15 February 2013
Almaty

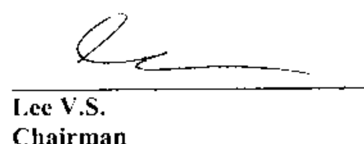
The notes on pages 10-77 form an integral part of these consolidated financial statements.

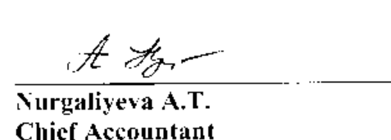
JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in Kazakhstani tenge and in millions)

	Year ended 31 December 2012	Year ended 31 December 2011
NET PROFIT	350	2,731
OTHER COMPREHENSIVE LOSS		
Net change in fair value of investments available-for-sale	(540)	(90)
(Gain)/loss transferred to income statement on sale of investments available for sale	(94)	2
Net loss on investments available-for-sale	(634)	(88)
Exchange differences on translation of foreign operations	593	(594)
OTHER COMPREHENSIVE LOSS	(41)	(682)
TOTAL COMPREHENSIVE INCOME	309	2,049
Attributable to:		
Owners of the parent	181	1,897
Non-controlling interest	128	152
TOTAL COMPREHENSIVE INCOME	309	2,049

On behalf of the Management Board of the Group:





Lee V.S.	**Oh Ki Hong**	**Nurgaliyeva A.T.**
Chairman	**Managing Director**	**Chief Accountant**
15 February 2013	15 February 2013	15 February 2013
Almaty	Almaty	Almaty

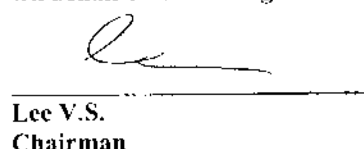
The notes on pages 10-77 form an integral part of these consolidated financial statements.

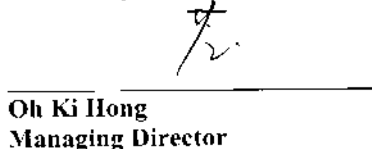
JOINT STOCK COMPANY BANK CENTERCREDIT

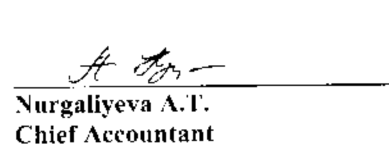
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in Kazakhstani tenge and in millions)

	Notes	31 December 2012	31 December 2011
ASSETS:			
Cash and cash equivalents	13, 28	149,129	148,771
Financial assets at fair value through profit or loss	14	25,178	16,331
Investments available-for-sale	15	57,549	86,369
Investments held to maturity	16	26,373	20,778
Due from banks	17	2,036	6,010
Loans to customers and banks	18, 28	789,096	764,806
Current income tax assets		2,148	2,713
Deferred income tax assets	11	2,036	2,008
Other assets	19	11,058	10,747
Property, equipment and intangible assets	20	23,214	23,384
TOTAL ASSETS		1,087,817	1,081,917
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and financial institutions	21, 28	106,176	106,176
Customer and banks accounts	22, 28	790,550	727,334
Debt securities issued	23	65,204	121,565
Other liabilities	24	5,520	6,642
Subordinated bonds	25	33,249	33,392
Total liabilities		1,000,699	995,109
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	26	69,798	69,797
Investments available-for-sale fair value reserve		32	666
Foreign currency translation reserve		(26)	(619)
Statutory reserves		3,723	1,633
Retained earnings		12,385	14,253
Total equity attributable to owners of the parent		85,912	85,730
Non-controlling interest		1,206	1,078
Total equity		87,118	86,808
TOTAL LIABILITIES AND EQUITY		1,087,817	1,081,917
Book value per ordinary share (KZT)	12	452	449
Book value per preference share (KZT)	12	300	300

On behalf of the Management Board of the Group:







Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

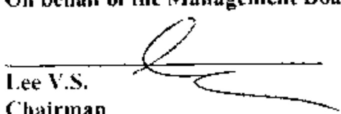
The notes on pages 10-77 form an integral part of these consolidated financial statements.

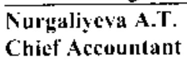
JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(in Kazakhstani tenge and in millions)

	Share capital	Investments available-for-sale fair value reserve	Foreign currency translation reserve	Statutory reserves	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
31 December 2010	69,841	754	(25)	-	13,307	83,877	904	84,781
Net profit	-	-	-	-	2,579	2,579	152	2,731
Net change in fair value of investments available-for-sale	-	(88)	-	-	-	(88)	-	(88)
Exchange differences on translation of foreign operations	-	-	(594)	-	-	(594)	-	(594)
Total comprehensive (loss)/income	-	(88)	(594)	-	2,579	1,897	152	2,049
Transfer to statutory reserve	-	-	-	1,633	(1,633)	-	-	-
Purchase of treasury shares	(44)	-	-	-	-	(44)	-	(44)
Changes in non-controlling interest	-	-	-	-	-	-	22	22
31 December 2011	69,797	666	(619)	1,633	14,253	85,730	1,078	86,808
Net profit	-	-	-	-	222	222	128	350
Net change in fair value of investments available-for-sale	-	(634)	-	-	-	(634)	-	(634)
Exchange differences on translation of foreign operations	-	-	593	-	-	593	-	593
Total comprehensive (loss)/income	-	(634)	593	-	222	181	128	309
Transfer to statutory reserve	-	-	-	2,090	(2,090)	-	-	-
Sale of treasury shares	1	-	-	-	-	1	-	1
31 December 2012	69,798	32	(26)	3,723	12,385	85,912	1,206	87,118

On behalf of the Management Board of the Group:





Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

The notes on pages 10-77 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in Kazakhstani tenge and in millions)

	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from financial assets at fair value through profit or loss	1,126	946
Interest received from investments available-for-sale	2,531	2,777
Interest received from investments held to maturity	1,406	2,805
Interest received on due from banks	303	518
Interest received on loans to customers and banks	69,288	74,210
Penalties received from loans to customers	1,384	866
Interest paid on due to banks and financial institutions	(6,857)	(8,012)
Interest paid on customer and banks accounts	(32,696)	(41,778)
Interest paid on debt securities issued	(11,333)	(14,486)
Interest paid on subordinated bonds	(2,977)	(3,632)
Fee and commission received	20,089	18,634
Fee and commission paid	(2,033)	(1,704)
Other (expense)/ income received	(18)	264
Operating expenses paid	(26,279)	(24,167)
Cash inflow from operating activities before changes in operating assets and liabilities	13,934	7,241
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Financial assets at fair value through profit or loss	(8,140)	(1,890)
Due from banks	3,966	(4,347)
Loans to customers and banks	(39,174)	(78,564)
Other assets	757	258
Increase/(decrease) in operating liabilities:		
Due to banks and financial institutions	25	(40,232)
Customer and banks accounts	61,142	(41,380)
Other liabilities	(1,729)	(235)
Cash inflow/(outflow) from operating activities before taxation	30,781	(159,149)
Income tax received/(paid)	286	(764)
Net cash inflow/(outflow) from operating activities	31,067	(159,913)

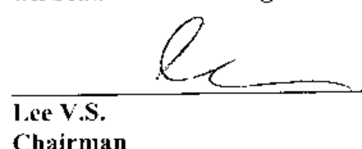
JOINT STOCK COMPANY BANK CENTERCREDIT

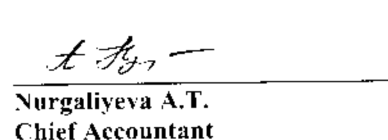
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

(in Kazakhstani tenge and in millions)

	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds on sale of investments available-for-sale	113,165	250,952
Purchase of investments available-for-sale	(86,758)	(241,027)
Proceeds on maturity of investments held to maturity	9,889	246,381
Purchase of investments held to maturity	(13,630)	(100,623)
Purchase of property, equipment and intangible assets	(2,098)	(3,979)
Proceeds on sale of property and equipment	10	1,158
Net cash inflow from investing activities	20,578	152,862
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of treasury shares	1	-
Purchase of treasury shares	-	(44)
Repayment of debt securities issued	(56,122)	(52,954)
Proceeds from debt securities issued	2,221	859
Repayment of subordinated bonds issued	-	(2,000)
Net cash outflow from financing activities	(53,900)	(54,139)
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	2,613	798
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	358	(60,392)
CASH AND CASH EQUIVALENTS, beginning of the year (Note 13)	148,771	209,163
CASH AND CASH EQUIVALENTS, end of the year (Note 13)	149,129	148,771

On behalf of the Management Board of the Group:





Lee V.S. **Chairman**	**Oh Ki Hong** **Managing Director**	**Nurgaliyeva A.T.** **Chief Accountant**
15 February 2013 Almaty	15 February 2013 Almaty	15 February 2013 Almaty

The notes on pages 10-77 form an integral part of these consolidated financial statements.

1. ORGANIZATION

JSC Bank CenterCredit ("the Bank") is a Joint Stock Company ("JSC"), which was incorporated in the Republic of Kazakhstan and started its operations in 1988. The Bank is regulated by the legislation of the Republic of Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") and the Committee for control and supervision of the financial market and financial organizations of the NBRK ("the FMSC"). The Bank conducts its business under license number 248, renewed on 13 December 2007 by the FMSC. On 27 August 2008, Kookmin Bank (South Korea) purchased 23% of the Bank's issued ordinary share capital. As at 31 December 2012, Kookmin Bank's share was 41.93% and the International Financial Corporation's ("IFC") share was 10% of the issued capital of the Bank.

The Bank's primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, loan origination activities and guarantees.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF").

The registered address is: 98 Panfilov Street, Almaty, the Republic of Kazakhstan.

As at 31 December 2012 and 2011, the Bank had 20 branches in the Republic of Kazakhstan.

The Bank is a parent company of a banking group (the "Group") which consists of the following subsidiaries consolidated in its consolidated financial statements:

Name	Country of operation	31 December 2012	31 December 2011	Type of operation
JSC APF Capital	Republic of Kazakhstan	75.06%	75.06%	Pension fund management
LLP Center Leasing	Republic of Kazakhstan	90.75%	90.75%	Finance lease
JSC BCC Invest	Republic of Kazakhstan	100%	100%	Brokerage and dealer activity
CenterCredit International B.V.	Netherlands	100%	100%	Issuance of capital on international financial markets
LLC Bank BCC-Moscow	Russian Federation	100%	100%	Banking services

JSC Accumulated Pension Fund Capital ("APF Capital") was established as a closed joint stock company in October 2001, in accordance with legislation of the Republic of Kazakhstan.

In December 2003, APF Capital was registered as a joint stock company. APF Capital manages pension contribution inflows and the accumulation of individual pension accounts in accordance with the requirements of legislative authorities of the Republic of Kazakhstan.

In September 2002, LLP Center Leasing was established as a limited liability partnership in accordance with the legislation of the Republic of Kazakhstan. The main activity of LLP Center Leasing is leasing operations, which are carried out in accordance with Article 10 on financial leasing of the Republic of Kazakhstan.

In May 1998, JSC BCC Invest was established as a limited liability partnership (previously named "LLP KIB ASSET MANAGEMENT") in accordance with legislation of the Republic of Kazakhstan. On 26 September 2006, LLP KIB ASSET MANAGEMENT was registered as a joint stock company. The main activity of JSC BCC Invest consists of management of assets of mutual funds and management of investment portfolios.

CenterCredit International B.V. was registered in January 2006 in Rotterdam, Netherlands, as a special purpose entity. Its main activity was to raise capital on international financial markets. In December 2012, the Board of Directors of the Group decided to liquidate this entity.

In August 2006, the Bank received permission from the FMSC for establishment of its subsidiary LLC Bank BCC-Moscow. On 21 March 2008, LLC Bank BCC-Moscow received its license from the Central Bank of Russian Federation. The main activity of LLC Bank BCC-Moscow consists of banking services.

As at 31 December 2012 and 2011 the following ultimate beneficial shareholders owned individually more than 5% of the issued shares of the Group:

	31 December 2012 %	31 December 2011 %
Kookmin Bank	41.93	41.93
Baiseitov B.R.	24.84	25.10
IFC	10.00	10.00
Other (individually hold less than 5%)	23.23	22.97
Total	100.00	100.00

The consolidated financial statements were authorized for issue by the Management Board of the Group on 15 February 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in millions of Kazakhstani tenge ("KZT millions"), unless otherwise indicated. These consolidated financial statements have been prepared on the accrual basis of accounting under the historical cost convention, except for the measurement of investments available-for-sale, financial assets and liabilities at fair value through profit or loss, and derivative financial instruments at fair value.

The Group maintains its accounting records in accordance with the accounting policies authorized by the Resolution of the Board of Directors of the Group.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 33.

Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

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

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

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income. Penalties for late interest payments are classified within interest income.

Recognition of fee and commission income and expense

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances on correspondent and time deposit accounts. For the purposes of determining cash flows, cash and cash equivalents include cash and balances with the NBRK and due from banks with original maturities of 90 days or less. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, investments held to maturity, investments available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'net gain/(loss) on financial assets and liabilities at fair value through profit or loss' line item in the consolidated income statement.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. Fair value is determined in the manner described in Note 30.

Investments available-for-sale

Investments available-for-sale are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in other comprehensive income, except for impairment losses, foreign exchange gains or losses on monetary debt investments and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled to the consolidated income statement.

The Group uses quoted market prices to determine the fair value for the Group's debt securities held as investments available-for-sale (equity securities are not material) where available. If the market for investments is not active, the Group establishes fair value by using valuation techniques including discounted future cash flows and option pricing models. When valuation techniques are used, the input data is based on market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty, recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Dividends earned on investments available-for-sale are included in other income in the consolidated income statement.

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

Investments held to maturity

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

If the Group were to sell or reclassify more than an insignificant amount of investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as investments available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements and lending transactions

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

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

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks and loans to customers and banks.

The difference between the sale and repurchase price is treated as interest expense in the consolidated income statement and accrued over the life of the repo agreement using the effective interest rate method.

The Group enters into repos and reverse repos agreements using the automated system of the Kazakhstan Stock Exchange ("KASE") in accordance with the trading rules established by KASE (the "Rules"). According to the Rules the automated repos and reverse repos are concluded using open sale methods. For open sale methods the counterparty remains undefined and all risks the Group undertakes, including credit and settlement risks, are with KASE.

Loans to customers and banks

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

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statements is transferred from equity to the consolidated income statement.

In respect of equity securities classified as investments available-for-sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of debt securities classified as investments available-for-sale, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Individual assessment of impairment of loans to customers

Individual assessment of impairment losses is calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held and the timing of anticipated receipts. The impairment allowances on individually significant loans are reviewed at least quarterly and more regularly if circumstances required.

Collective assessment of impairment of loans to customers

The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default on each assets (or pool of assets) and loss given default by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans

Overdue loans are written off against the allowance for impairment losses based on the decision of the Group's Credit Committee, after the Group has exercised all possible measures for recovery of the overdue debt, and the possibility of recovery of these amounts is low or does not exist. Subsequently, if in the assessment of the Credit Committee, a loan previously written off is deemed recoverable, the amounts previously written off are recorded in loans to customers and banks and the related allowance for impairment loss accounts. Due to the inherent uncertainty of recovery of such loans, the amount recovered will be reflected in the consolidated income statement only when realized.

Derecognition of financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether of not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including due to banks and financial institutions, customer and bank accounts, debt securities issued and subordinated debt, are initially recognized at fair value plus related transaction costs that directly relate to the issuance of the financial liabilities. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in consolidated income statement.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 14. Derivative financial instruments entered into by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive to the Group and as liabilities when it is negative to the Group. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Non-current assets held for sale

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

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

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss.

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

Buildings and other real estate	1.25-2.5%
Furniture and computer equipment	7-20%
Intangible assets	12-60%

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

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

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share capital

Share capital is recognized at historical cost.

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

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is charged to share capital (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

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

Financial guarantee contracts issued and letters of credit

A financial guarantee or letters of credit contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts and letters of credit issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Contingencies

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

Fiduciary activities

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

Retirement and other benefit obligations

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the historical rate at the date of the transaction. Exchange differences on monetary items are recognized in the income statement in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KZT using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Rates of exchange

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

	31 December 2012	31 December 2011
Tenge/1 US Dollar	150.74	148.40
Tenge/1 Euro	199.22	191.72
Tenge/1 JPY	1.75	1.91

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- 'Investment available-for-sale' reserve which comprises changes in fair value of available-for-sale investments;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Statutory reserve' which reflects the difference between provisions calculated in accordance with local requirements and provisions calculated under IFRS. The difference is attributable to fundamental methodological deviations including the impact of discounted future cash flows and the impact which certain forms of collateral have on the level of provision. This reserve is required by legislation of the Republic of Kazakhstan and is created through appropriations of retained earnings.

Offsetting of financial assets and liabilities

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

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the Group's revenue is included in reportable segments.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Investments held-to-maturity

The management has reviewed the Group's investments held-to-maturity in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. Details of these assets are set out in Note 16.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for impairment of loans and receivables

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

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

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

As at 31 December 2012 and 2011 the gross loans to customers totalled KZT 920,891 million and KZT 880,235 million, respectively, and allowance for impairment losses amounted to KZT 137,420 million and KZT 124,536 million, respectively.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Valuation of financial instruments

As described in Note 30, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 30 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Recoverability of deferred tax assets

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax to be recovered. The carrying value of deferred tax assets amounted to KZT 2,036 million and KZT 2,008 million as at 31 December 2012 and 2011, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements

Amendments to IFRSs affecting presentation and disclosure only

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*

The Group has applied the amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

See Note 21 for disclosures for all transferred financial assets that are not derecognized, existing at the reporting date. In accordance with the transitional provisions set out in the amendments to IFRS 7 *Financial instruments: Disclosures*, the Group has not provided comparative information for the disclosures required by the amendments.

Amendments to IAS 12 *Income Taxes* "Deferred tax: Recovery of Underlying Assets"

The Group has applied the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" did not have an effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[3];
- IFRS 10 *Consolidated Financial Statements*[2];
- IFRS 11 *Joint Arrangements*[2];
- IFRS 12 *Disclosure of Interest in Other Entities*[2];
- IFRS 13 *Fair Value Measurement*[1];
- Amendments to IFRS 7 *Financial Instruments: Disclosures* - "Disclosures Offsetting Financial Assets and Financial Liabilities"[1];
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"[3];
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* – "Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance"[1];
- IAS 19 (as revised in 2011) *Employee Benefits*[1];
- IAS 27 (as revised in 2011) *Separate Financial Statements*[2];
- IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*[2];
- Amendments to IAS 32 *Financial Instruments: Presentation* – "Offsetting Financial Assets and Financial Liabilities"[4];
- Amendments to IFRSs – *Annual Improvements to IFRSs 2009-2011 cycle*.

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

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments*, issued in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

Key requirements of IFRS 9 *Financial instruments*:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of

principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 *Financial Instruments*, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 *Financial Instruments* requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.
- Phases two and three of the financial instruments project, being the impairment of financial assets and hedge accounting phases respectively, are still a work in progress. The IASB is also considering limited improvements to IFRS 9 regarding the classification and measurement of financial instruments.

The Group management anticipates that IFRS 9 *Financial Instruments* in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 *Financial Instruments* until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

Key requirements of these five Standards are described below.

IFRS 10 *Consolidated Financial Statements* replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10 Consolidated Financial Statements. Under IFRS 10 Consolidated Financial Statements, there is only one basis for consolidation, that is, control. In addition, IFRS 10 Consolidated Financial Statements includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 Consolidated Financial Statements to deal with complex scenarios.

IFRS 10 requires investors to reassess whether or not they have control over their investees on transition to IFRS 10. In general, IFRS 10 requires retrospective application, with certain limited transitional provisions.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 *Joint Arrangements* deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11 *Joint Arrangements*. Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 *Joint Arrangements* are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 *Interests in Joint Ventures* can be accounted for using the equity method of accounting or proportional consolidation. IFRS 11 requires retrospective application with specific transitional provisions.

IFRS 12 *Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interest in Other Entities* were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

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

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 *Fair Value Measurement* are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 *Fair Value Measurement* to cover all assets and liabilities within its scope. IFRS 13 should be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of IFRS 13 need not be applied in comparative information provided for periods before initial application of the Standard.

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

Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation – "Offsetting Financial Assets and Financial Liabilities and the related disclosures"

The amendments to IAS 32 *Financial Instruments: Presentation* clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The disclosures should be provided retrospectively for all comparative periods.

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012)

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

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

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

Amendments to IAS 32 *Financial Instruments: Presentation*

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

Amendments to IAS 1 *Presentation of Financial statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period

Amendments to IAS 34 *Interim Financial Reporting*

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

4. NET INTEREST INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired assets	34,233	40,290
- interest income on unimpaired assets	35,540	43,454
Interest income on financial assets recorded at fair value	3,858	3,814
Total interest income	73,631	87,558
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers and banks	66,834	79,375
Interest on investments held to maturity	1,260	2,841
Interest on due from banks	295	662
Penalties on loans to customers and banks	1,384	866
Total interest income on financial assets recorded at amortized cost	69,773	83,744
Interest income on financial assets recorded at fair value comprises:		
Interest income on investments available-for-sale	2,659	2,799
Interest income on financial assets at fair value through profit or loss	1,199	1,015
Total interest income on financial assets recorded at fair value	3,858	3,814
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	54,154	62,057
Total interest expense	54,154	62,057
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer and banks accounts	34,770	38,014
Interest on debt securities issued	9,770	13,193
Interest on due to banks and financial institutions	6,832	7,498
Interest on subordinated bonds	2,782	3,352
Total interest expense on financial liabilities recorded at amortized cost	54,154	62,057
Net interest income before provision for impairment losses on interest bearing assets	19,477	25,501

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Consumer loans	Corporate loans	Credit cards	Total* (Note 18)
31 December 2010	12,069	93,679	41	105,789
Additional provision recognized	2,852	15,520	7	18,379
Write-off of assets	(4,827)	(5,494)	-	(10,321)
Recoveries of assets previously written off	1,933	8,506	-	10,439
Exchange rate difference	38	212	-	250
31 December 2011	12,065	112,423	48	124,536
Additional provision recognized	1,881	9,877	174	11,932
Write-off of assets	(237)	(314)	(180)	(731)
Recoveries of assets previously written off	328	55	-	383
Exchange rate difference	253	1,047	-	1,300
31 December 2012	14,290	123,088	42	137,420

*In order to reconcile provision for impairment losses on interest bearing assets in consolidated income statement, amount of provision on loans to customers and banks should be considered together.

The movements in provision for impairment losses on other transactions were as follows:

	Investments held to maturity (Note 16)	Property, equipment and intangible assets (Note 20)	Other assets (Note 19)	Guarantees and letters of credit (Note 24)	Total
31 December 2010	749	5,639	6,766	1,050	14,204
Recovery of provision	(5)	-	(525)	(56)	(586)
Write-off of assets	(638)	(5,639)	(6,144)	-	(12,421)
Recoveries of assets previously written off	-	-	1,052	-	1,052
Exchange rate difference	-	-	-	(26)	(26)
31 December 2011	106	-	1,149	968	2,223
Additional provision recognised	-	-	483	917	1,400
Write-off of assets	-	-	(531)	(17)	(548)
Recoveries of assets previously written off	-	-	130	-	130
Exchange rate difference	-	-	11	(89)	(78)
31 December 2012	106	-	1,242	1,779	3,127

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

	Year ended 31 December 2012	Year ended 31 December 2011
Realized gain on trading operations	338	487
Unrealized gain on fair value adjustment	234	24
Realized gain/(loss) on operations with derivative financial instruments	48	(204)
Unrealized gain on operations with derivative financial instruments	14	570
Total net gain on financial assets and liabilities at fair value through profit or loss	634	877

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

7. NET REALIZED GAIN/(LOSS) ON DISPOSAL AND IMPAIRMENT OF INVESTMENTS AVAILABLE-FOR-SALE

	Year ended 31 December 2012	Year ended 31 December 2011
Net gain/(loss) on disposal of investments available-for-sale	94	(2)
Impairment loss on investments available-for-sale	-	(973)
Total net realized gain/(loss) on disposal and impairment of investments available-for-sale	94	(975)

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2012	Year ended 31 December 2011
Dealing, net	4,355	3,759
Translation differences, net	(506)	285
Total net gain on foreign exchange operations	3,849	4,044

9. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2012	Year ended 31 December 2011
Fee and commission income:		
Cash operations	4,500	3,970
Settlements	4,379	4,028
Payment cards	3,585	3,002
Guarantees	2,977	3,065
Trust operations	1,952	1,865
Foreign exchange operations	1,018	1,056
Custodian activities	559	565
Internet-banking operations	364	318
Documentary operations	172	389
Other	553	394
Total fee and commission income	20,059	18,652
Fee and commission expense:		
Settlements	808	715
Custodian activities	510	537
Documentary operations	101	464
Brokerage services	90	25
Foreign exchange operations	40	23
Purchase and sale of securities	23	12
Rating agencies services	7	21
Legal services	2	31
Financial activities	66	52
Other	150	75
Total fee and commission expense	1,797	1,955

10. OPERATING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	11,016	10,542
Operating leases expenses	3,335	3,434
Deposit Insurance Fund expenses	2,923	2,666
Taxes other than income tax	2,182	2,141
Depreciation and amortization	2,144	1,815
Administrative expenses	1,548	1,317
Security expenses	656	668
Telecommunications	646	633
Advertising costs	600	629
Property and equipment maintenance	352	300
Business trip expenses	294	258
Professional services	229	296
Other	957	1,113
Total operating expenses	26,882	25,812

11. INCOME TAXES

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

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses such as business development expenses and a tax free regime for certain income such as income on finance lease and income from operations with state securities and securities listed on the Kazakhstan Stock Exchange.

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

In December 2012, changes in the Tax Code were introduced that affect taxation of the Group. Thus, Kazakhstan's banks are required to calculate dynamic provisions and adjust taxable base subject to dynamic provision amount changes. As of the date of the report, the rules for calculating dynamic provisions was not approved by the NBRK and the management of the Bank calculated deferred tax based on a draft version of rules published by the NBRK.