

**Mortgage Organisation**  
**Kazakhstan Mortgage Company JSC**

Consolidated Financial Statements  
for the year ended 31 December 2012

## **Contents**

Independent Auditors' Report	
Consolidated Income Statement	5
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Cash Flows	8-9
Consolidated Statement of Changes in Equity	10
Notes to the Consolidated Financial Statements	11-54



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## Independent Auditors' Report

To the Board of Directors of Mortgage Organisation Kazakhstan Mortgage Company JSC

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

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

*Basis for Qualified Opinion*

As at 31 December 2012 and 31 December 2011, the Group has not separated and measured at fair value a foreign currency written option feature embedded in a loan payable, which is required by International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The effect of this departure from International Financial Reporting Standards on derivative liability, other borrowed funds, accumulated losses, net gain on financial instruments at fair value through profit or loss, income tax benefit (expense), profit (loss) for the year and earnings (loss) per share as at and for the years ended 31 December 2012 and 31 December 2011 have not been determined.

*Qualified Opinion*

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

*Emphasis of Matter*

During the year the Group changed its accounting treatment for the loan received from the Ministry of Finance of the Republic of Kazakhstan. The reason for and the effects of this change are described in Note 2 (e) to the consolidated financial statements. We have audited the adjustments described in Note 2 (e) that were applied to restate the 2011 financial statements and the statement of financial position as at 31 December 2010. In our opinion, such adjustments are appropriate and have been properly applied.

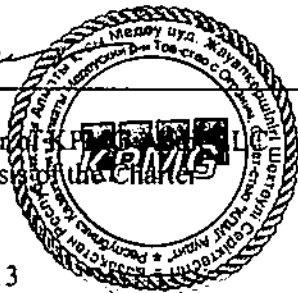
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Irmatov R. I.  
Certified Auditor  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate  
No МФ-0000053 of 6 January 2012



**KPMG Audit LLC**

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

\_\_\_\_\_  
Nigay A. N.  
General Director  
acting on the basis of the Charter



28 February 2013

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Income Statement for the year ended 31 December 2012*

		2012	Restated
	Note	KZT'000	2011 KZT'000
Interest income	4	7,289,738	7,982,104
Interest expense	4	(8,309,698)	(9,416,385)
<b>Net interest expense</b>		<b>(1,019,960)</b>	<b>(1,434,281)</b>
Fee and commission income		3,526	3,864
Fee and commission expense		(14,658)	(12,784)
<b>Net fee and commission expense</b>		<b>(11,132)</b>	<b>(8,920)</b>
Net (loss) gain on available-for-sale financial assets		(194,440)	20,713
Net foreign exchange loss		(171,579)	(48,960)
Other operating income		42,151	120,282
<b>Operating loss</b>		<b>(1,354,960)</b>	<b>(1,351,166)</b>
Impairment recoveries (losses)	5	396,670	(3,761,697)
General administrative expenses	6	(1,342,089)	(1,240,356)
<b>Loss before income tax</b>		<b>(2,300,379)</b>	<b>(6,353,219)</b>
Income tax benefit (expense)	7	2,448,484	(45,348)
<b>Profit (loss) for the year</b>		<b>148,105</b>	<b>(6,398,567)</b>
Basic and diluted earnings (loss) per share, in KZT	21(e)	56	(2,422)

The consolidated financial statements as set out on pages 5 to 54 were approved by Management on 28 February 2013 and were signed on its behalf by:



Chairman of the Management Board

Toktarkozha A. T.  
 Chief Accountant

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Comprehensive Income for the year ended 31 December 2012*

	2012 KZT'000	Restated 2011 KZT'000
<b>Profit (loss) for the year</b>	<u>148,105</u>	<u>(6,398,567)</u>
<b>Other comprehensive income, net of income tax</b>		
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	(718,028)	622,058
- Net change in fair value transferred to profit or loss	194,440	(20,713)
<b>Other comprehensive income for the year, net of income tax</b>	<u>(523,588)</u>	<u>601,345</u>
<b>Total comprehensive loss for the year</b>	<u>(375,483)</u>	<u>(5,797,222)</u>

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Financial Position as at 31 December 2012*

		2012	Restated 2011	Restated 2010
	Note	KZT'000	KZT'000	KZT'000
<b>ASSETS</b>				
Cash and cash equivalents	8	13,826,675	3,453,838	13,664,083
Placements with banks and other financial institutions	9	12,521,213	10,574,941	5,624,025
Available-for-sale financial assets	10	10,242,198	8,587,968	6,878,845
Loans to customers	11	51,472,092	55,535,523	62,610,240
Held-to-maturity investments	12	12,559,883	13,473,205	14,733,129
Current tax asset		628,864	505,111	390,998
Property and equipment	13	2,259,219	2,313,793	2,481,524
Investment property	14	663,719	605,082	-
Deferred tax asset	7	2,424,963	-	21,827
Assets held for sale	15	1,337,929	-	-
Other assets	16	250,072	327,737	898,398
<b>Total assets</b>		<b>108,186,827</b>	<b>95,377,198</b>	<b>107,303,069</b>
<b>LIABILITIES</b>				
Debt securities issued	17	51,140,625	55,523,652	61,958,989
Subordinated debt securities issued	18	4,473,652	-	-
Other borrowed funds	19	30,610,965	17,517,788	17,221,439
Deferred tax liability	7	-	23,521	-
Other liabilities	20	151,367	126,536	107,274
<b>Total liabilities</b>		<b>86,376,609</b>	<b>73,191,497</b>	<b>79,287,702</b>
<b>EQUITY</b>				
	21			
Share capital		28,920,000	28,920,000	28,920,000
Share premium		12,661	12,661	12,661
Treasury shares		(2,597,422)	(2,597,422)	(2,597,422)
Additional paid-in capital		6,998,161	6,998,161	6,998,161
Reserve capital		2,630,820	2,630,820	2,598,418
Revaluation reserve for available-for-sale financial assets		(617,816)	(94,228)	(695,573)
Accumulated losses		(13,536,186)	(13,684,291)	(7,220,878)
<b>Total equity</b>		<b>21,810,218</b>	<b>22,185,701</b>	<b>28,015,367</b>
<b>Total equity and liabilities</b>		<b>108,186,827</b>	<b>95,377,198</b>	<b>107,303,069</b>

7

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

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Cash Flows for the year ended 31 December 2012*

	2012 KZT'000	Restated 2011 KZT'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Loss before income tax</b>	<b>(2,300,379)</b>	<b>(6,353,219)</b>
<i>Adjustments for non-cash items:</i>		
Depreciation and amortisation	99,112	190,585
Impairment (recoveries) losses	(396,670)	3,761,697
Interest income	(7,289,738)	(7,982,104)
Interest expense	8,309,698	9,416,385
Net foreign exchange loss	171,579	48,960
Net loss (gain) on available-for-sale financial assets	194,440	(20,713)
Loss on disposal of investment property	4,618	3,877
	<b>(1,207,340)</b>	<b>(934,532)</b>
<b>(Increase) decrease in operating assets</b>		
Placements with banks and other financial institutions	(1,984,246)	(4,793,894)
Loans to customers	2,708,465	3,513,679
Other assets	(52,055)	25,161
<b>Increase (decrease) in operating liabilities</b>		
Other liabilities	24,831	(79,596)
<b>Net cash used in operating activities before interest and income tax paid</b>	<b>(510,345)</b>	<b>(2,269,182)</b>
Income tax paid	(123,753)	(114,113)
Interest received	7,529,458	7,607,458
Interest paid	(6,513,785)	(7,978,408)
<b>Cash flows from (used in) operations</b>	<b>381,575</b>	<b>(2,754,245)</b>



*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Cash Flows for the year ended 31 December 2012*

	<b>2012</b>	<b>Restated</b>
	<b>KZT'000</b>	<b>2011</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(3,209,218)	(1,645,347)
Sales of available-for-sale financial assets	987,009	1,298,592
Acquisition of held-to maturity investments	-	(480,000)
Redemption of held-to-maturity investments	898,100	1,023,460
Purchases of property and equipment	(40,873)	(4,268)
Sales of investment property	40,002	24,972
<b>Cash flows (used in) from investing activities</b>	<b>(1,324,980)</b>	<b>217,409</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from debt securities issued	7,004	2,301,575
Repurchase/redemption of debt securities issued	(5,778,297)	(9,942,540)
Receipts from subordinated debt securities issued	4,457,535	-
Receipts of other borrowed funds	14,300,000	-
Repayment of other borrowed funds	(1,670,000)	-
Dividends paid	-	(32,444)
<b>Cash flows from (used in) financing activities</b>	<b>11,316,242</b>	<b>(7,673,409)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,372,837</b>	<b>(10,210,245)</b>
Cash and cash equivalents at the beginning of the year	3,453,838	13,664,083
<b>Cash and cash equivalents at the end of the year (Note 8)</b>	<b>13,826,675</b>	<b>3,453,838</b>

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

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2012*

	Share capital	Share premium	Treasury shares	Additional paid in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
<b>KZT'000</b>								
Balance as at 1 January 2011, as previously reported	28,920,000	12,661	(2,597,422)	-	2,598,418	(695,573)	(6,724,573)	21,513,511
Restated (Note 2(e))	-	-	-	6,998,161	-	-	(496,305)	6,501,856
<b>Balance as at 1 January 2011, restated</b>	<b>28,920,000</b>	<b>12,661</b>	<b>(2,597,422)</b>	<b>6,998,161</b>	<b>2,598,418</b>	<b>(695,573)</b>	<b>(7,220,878)</b>	<b>28,015,367</b>
Total comprehensive loss	-	-	-	-	-	-	(6,398,567)	(6,398,567)
Loss for the year, restated	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	622,058	-	622,058
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	-	-	622,058	-	622,058
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	-	-	-	(20,713)	-	(20,713)
Total other comprehensive income	-	-	-	-	-	601,345	-	601,345
<b>Total comprehensive loss for the year, restated</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>601,345</b>	<b>(6,398,567)</b>	<b>(5,797,222)</b>
Dividends declared	-	-	-	-	-	-	(32,444)	(32,444)
Transfer to reserve capital	-	-	-	-	32,402	-	(32,402)	-
<b>Balance as at 31 December 2011, restated</b>	<b>28,920,000</b>	<b>12,661</b>	<b>(2,597,422)</b>	<b>6,998,161</b>	<b>2,630,820</b>	<b>(94,228)</b>	<b>(13,684,291)</b>	<b>22,185,701</b>
<b>Total comprehensive income</b>								
Income for the year	-	-	-	-	-	-	148,105	148,105
Other comprehensive income	-	-	-	-	-	(718,028)	-	(718,028)
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	-	-	(718,028)	-	(718,028)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	-	-	-	194,440	-	194,440
Total other comprehensive income	-	-	-	-	-	(523,588)	-	(523,588)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(523,588)</b>	<b>148,105</b>	<b>(375,483)</b>
<b>Balance as at 31 December 2012</b>	<b>28,920,000</b>	<b>12,661</b>	<b>(2,597,422)</b>	<b>6,998,161</b>	<b>2,630,820</b>	<b>(617,816)</b>	<b>(13,536,186)</b>	<b>21,810,218</b>

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

## **1 Background**

### **(a) Principal activities**

These consolidated financial statements include the financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") and its fully-owned subsidiaries, United Payment Systems LLC and Kazakh Housing and Construction Corporation JSC (together referred to as the "Group").

The Company was established on 29 December 2000 in accordance with resolution number 469 of the National Bank of the Republic of Kazakhstan (the "NBRK") dated 20 December 2000. The principal activity of the Company is issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license #5.1.69 on banking lending transactions.

The activities of the Company are regulated by the Committee for the control and supervision of the financial market and financial organisations of the NBRK (the "FMSC") and the NBRK.

The Company's official address is 98, Karasay Batyr st., 050012, Almaty, Kazakhstan. The Company has a representative office in Astana.

On 26 November 2012 an International Rating Agency Fitch Ratings upgraded the Company's long-term foreign currency issuer rating to BB+ (31 December 2011: BB) and long-term local currency issuer rating to BBB- (31 December 2011: BB+).

The long-term local currency issuer rating assigned by Moody's Investors Service assigned as B2 on 29 September 2011 was recalled during 2012.

On 20 December 2012 Rating Agency Regional Financial Centre of Almaty City JSC assigned to debt securities of the Company issued on Kazakhstan Stock Exchange credit ratings between BBB1 and BBB2, and to the Company itself credit rating P2.

Under the realisation of the Program "Affordable Housing-2020" the Company established a subsidiary company, United Payment Systems LLC (state registration certificate of a legal entity № 1266-1910-02-TOO dated 9 July 2012). The main functions of the subsidiary are communications with potential lessees, conclusion of rent and utilities (maintenance) agreements, collection and arrangement of lease payments and payments relating to servicing of current mortgage transactions, and control over completeness and timeliness of cash flows.

United Payment Systems LLC established a subsidiary in the form of the joint-stock company, Kazakhstan Housing Construction Corporation JSC (state registration certificate of a legal entity № 1559-1910-02-AO dated 6 August 2012). In accordance with the Decree #821 of the Government of the Republic of Kazakhstan dated 21 June 2012 the main functions of the subsidiary are organisation and holding of necessary tenders, engineering supervision on all stages of construction, acceptance and setting into exploitation, and once it finished, supporting of transfer of leased property to the Company.

### **(b) Shareholders**

As at 31 December 2012 the Committee of the State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan (the "Committee") owned 99.99% (31 December 2011: 99.99%) of the Company's voting shares.

On 1 June 2012 the Committee transferred the rights of possession and use, without the right of disposal for 1,202,004 of the Company's voting shares (41.56% out of the total number of issued and outstanding shares) to the Committee for Construction, Housing and Utilities.

## **1 Background, continued**

### **(c) Kazakhstan business environment**

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

## **2 Basis of preparation**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

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

### **(c) Functional and presentation currency**

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

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

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

### **(d) Use of estimates and judgments**

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

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

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

- Change in application of accounting policy – Note 2 (e)
- Income tax benefit (expense) – Note 7
- Available-for-sale financial assets – Note 10
- Loans to customers - Note 11
- Held-to-maturity investments – Note 12.

## 2 Basis of preparation, continued

### (e) Change in application of accounting policy

During the preparation of consolidated financial statements as at and for the year ended 31 December 2012, management of the Group reassessed accounting treatment of the initial recognition of the loan from the Ministry of Finance of the Republic of Kazakhstan received in 2007, affecting 31 December 2011 and 2010 corresponding figures. The comparative information has also been restated to conform to changes in presentation in the current year.

At receipt, in December 2007, the loan was initially recognised at nominal value as it had been considered repayable on demand due to certain contractual conditions imposed by the lender. In 2012 the Group reassessed the probability of meeting these conditions and concluded that the conditions had been met at the date of receipt of the loan, as they were closely aligned with the Group's operating objectives. Accordingly, the Group reassessed the loan as being repayable on its contractual maturity, in December 2027. The fair value of the loan at initial recognition was therefore re-estimated by discounting the contractual future cash flows on the loan using management's estimate of a long term market borrowing rate for the Company. This borrowing rate of 8% was estimated with reference to the effective interest rates on the Group's other fixed rate borrowings in December 2007. The resulting difference of KZT 6,998,161 thousand between the fair value of the proceeds received and the fair value of the loan obligation was recorded as additional paid-in capital with effect from 26 December 2007. Interest expense was also re-calculated for all the periods affected.

The effect of the change in application of accounting policy on the corresponding figures can be summarised as follows:

KZT'000	As previously reported	Effect of the change in application of accounting policy	As restated
<b>Income statement for the year ended 31 December 2011</b>			
Interest expense	(9,223,968)	(192,417)	(9,416,385)
Net interest expense	(1,241,864)	(192,417)	(1,434,281)
Operating loss	(1,158,749)	(192,417)	(1,351,166)
Loss before income tax	(6,160,802)	(192,417)	(6,353,219)
Loss for the year	<u>(6,206,150)</u>	<u>(192,417)</u>	<u>(6,398,567)</u>
<b>Statement of comprehensive income for the year ended 31 December 2011</b>			
Total comprehensive loss for the year	<u>(5,604,805)</u>	<u>(192,417)</u>	<u>(5,797,222)</u>
	<u>(5,604,805)</u>	<u>(192,417)</u>	<u>(5,797,222)</u>
<b>Statement of financial position as at 31 December 2011</b>			
<b>LIABILITIES</b>			
Other borrowed funds	23,827,227	(6,309,439)	17,517,788
<b>Total liabilities</b>	<u>79,500,936</u>	<u>(6,309,439)</u>	<u>73,191,497</u>
<b>EQUITY</b>			
Additional paid-in capital	-	6,998,161	6,998,161
Accumulated losses	(12,995,569)	(688,722)	(13,684,291)
<b>Total equity</b>	<u>15,876,262</u>	<u>6,309,439</u>	<u>22,185,701</u>
<b>Statement of cash flows for the year ended 31 December 2011</b>			
Loss before income tax	(6,160,802)	(192,417)	(6,353,219)
<i>Adjustments for non-cash items:</i>			
Interest expense	9,223,968	192,417	9,416,385
<b>Cash flows used in operations</b>	<u>(2,733,532)</u>	<u>-</u>	<u>(2,733,532)</u>

## 2 Basis of preparation, continued

### (e) Change in application of accounting policy, continued

KZT'000	As previously reported	Effect of the change in application of accounting policy	As restated
<b>Statement of financial position as at 31 December 2010</b>			
<b>LIABILITIES</b>			
Other borrowed funds	23,723,295	(6,501,856)	17,221,439
<b>Total liabilities</b>	<b>85,789,558</b>	<b>(6,501,856)</b>	<b>79,287,702</b>
<b>EQUITY</b>			
Additional paid-in capital	-	6,998,161	6,998,161
Accumulated losses	(6,724,573)	(496,305)	(7,220,878)
<b>Total equity</b>	<b>21,513,511</b>	<b>6,501,856</b>	<b>28,015,367</b>

## 3 Significant accounting policies

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

### (a) Basis of consolidation

#### (i) *Subsidiaries*

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

#### (ii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### (b) Foreign currency

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

### **3 Significant accounting policies, continued**

#### **(c) Cash and cash equivalents**

Cash and cash equivalents include cash, the Group's current accounts in the commercial banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### **(d) Financial instruments**

##### **(i) Classification**

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

### **3 Significant accounting policies, continued**

#### **(d) Financial instruments, continued**

##### **(i) Classification, continued**

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

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

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

##### **(ii) Recognition**

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

##### **(iii) Measurement**

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

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

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments which are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

##### **(iv) Amortised cost**

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

##### **(v) Fair value measurement principles**

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

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



### **3 Significant accounting policies, continued**

#### **(d) Financial instruments, continued**

##### **(v) Fair value measurement principles, continued**

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

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

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

##### **(vi) Gains and losses on subsequent measurement**

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

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

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

### **3 Significant accounting policies, continued**

#### **(d) Financial instruments, continued**

##### **(vii) Derecognition**

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

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

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

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

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

The Group writes off assets deemed to be uncollectible.

##### **(viii) Derivative financial instruments**

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

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

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

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

##### **(ix) Offsetting**

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

### **3 Significant accounting policies, continued**

#### **(e) Property and equipment**

##### **(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

##### **(ii) Depreciation**

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

Building	40 years
Computer equipment	3 years
Vehicles	7 years
Other	5-10 years

#### **(f) Intangible assets**

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is 3 years.

#### **(g) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

#### **(h) Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

#### **(i) Impairment**

##### **(i) Financial assets carried at amortised cost**

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

### **3 Significant accounting policies, continued**

#### **(i) Impairment, continued**

##### **(i) *Financial assets carried at amortised cost, continued***

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

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

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

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

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

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

##### **(ii) *Financial assets carried at cost***

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

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

### **3 Significant accounting policies, continued**

#### **(i) Impairment, continued**

##### **(iii) Available-for-sale financial assets**

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

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

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

##### **(iv) Non financial assets**

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

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

#### **(j) Provisions**

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

#### **(k) Share capital**

##### **(i) Ordinary shares**

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

##### **(ii) Treasury shares**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

### **3 Significant accounting policies, continued**

#### **(k) Share capital, continued**

##### **(iii) Dividends**

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

#### **(l) Taxation**

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

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

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

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

#### **(m) Income and expense recognition**

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

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

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

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **(n) Segment reporting**

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

### 3 Significant accounting policies, continued

#### (o) New standards and interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

#### 4 Net interest expense

	2012 KZT'000	Restated 2011 KZT'000
<b>Interest income</b>		
Loans to customers	5,039,275	5,492,838
Available-for-sale financial assets	911,051	801,197
Placements with banks and other financial institutions	724,737	928,673
Held-to-maturity investments	614,675	759,396
	<u>7,289,738</u>	<u>7,982,104</u>
<b>Interest expense</b>		
Debt securities issued	(6,505,356)	(7,311,611)
Subordinated debt securities issued	(156,397)	-
Other borrowed funds	(1,647,945)	(2,104,774)
	<u>(8,309,698)</u>	<u>(9,416,385)</u>
<b>Net interest expense</b>	<u>(1,019,960)</u>	<u>(1,434,281)</u>

Included within various line items under interest income for the year ended 31 December 2012 is a total of KZT 311,893 thousand (2011: KZT 274,578 thousand) accrued on impaired financial assets.

#### 5 Net impairment recoveries (losses)

	2012 KZT'000	2011 KZT'000
Loans to customers (Note 11)	229,507	(3,687,658)
Held-to-maturity investments (Note 12)	94,093	(247,903)
Available-for-sale financial assets (Note 10)	46,319	189,935
Other assets (Note 16)	26,751	(16,071)
	<u>396,670</u>	<u>(3,761,697)</u>

#### 6 General administrative expenses

	2012 KZT'000	2011 KZT'000
Employee compensation	647,380	597,760
Payroll related taxes	63,580	59,310
<b>Personnel expenses</b>	<u>710,960</u>	<u>657,070</u>
Depreciation and amortisation	98,897	190,585
Advertising and marketing	88,790	26,479
Professional services	66,092	69,778
Taxes other than on income	54,585	45,550
Technical services for software	47,628	46,689
Insurance of mortgage loans	47,047	47,064
Utilities	30,270	25,889
Security	23,974	18,474
Technical maintenance	23,084	23,407
Communications and information services	20,974	22,192
Occupancy	20,140	12,681
State duties	13,822	17,671
Travel	13,579	5,208
Other	82,247	31,619
	<u>1,342,089</u>	<u>1,240,356</u>



## 7 Income tax benefit (expense)

	2012 KZT'000	Restated 2011 KZT'000
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	2,448,484	(45,348)
<b>Total income tax benefit (expense)</b>	<b>2,448,484</b>	<b>(45,348)</b>

In 2012, the applicable tax rate for current and deferred tax is 20% (2011: 20%).

### Reconciliation of effective tax rate for the year ended 31 December:

	2012 KZT'000	%	Restated 2011 KZT'000	%
Loss before income tax	(2,300,379)	100	(6,353,219)	100
Income tax at the applicable tax rate	460,076	(20)	1,270,644	(20)
(Non-deductible costs) non-taxable income	(78,691)	4	24,848	-
Change in unrecognised deferred tax assets	2,067,099	(90)	(1,340,840)	21
	<b>2,448,484</b>	<b>(106)</b>	<b>(45,348)</b>	<b>1</b>

### Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets (liabilities) as at 31 December 2012 and 2011. These deferred tax assets are recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

The deductible temporary differences do not expire under current tax legislation. The tax losses carry-forward expire in 2019-2022.

As at 31 December 2012, the Group reassessed unrecognised deferred tax assets and recognised a deferred tax asset of KZT 2,385,167 thousand relating to previously unrecognised tax losses carried forward of KZT 2,067,099 thousand and to current year losses carried forward of KZT 318,068 thousand, to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered. Management believes that the Group will be able to earn sufficient future taxable profit based on the realisation of the government programme "Affordable housing - 2020" under the Decree #821 of the Government of the Republic of Kazakhstan dated 21 June 2012.

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

- implied rate of interest on finance lease receivables – 7% p.a.
- volume of construction property leased under the programme will gradually increase from 210,000 square meters in 2014 to 530,000 square meters in 2017 and will stay at this level for 4 years

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

- a decrease in volume of leased property by 15% p.a. could decrease the amount of deferred tax asset to KZT 1,845,792 thousand
- a decrease in implied rate of interest on finance lease by 1% p.a. could decrease the amount of deferred tax asset to KZT 1,887,159 thousand.

## 7 Income tax benefit (expense), continued

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

KZT'000	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Property and equipment	21,091	8,188	29,279
Loans to customers	(44,612)	55,129	10,517
Tax loss carry-forwards	-	2,385,167	2,385,167
	<u>(23,521)</u>	<u>2,448,484</u>	<u>2,424,963</u>

KZT'000	Balance 1 January 2011	Recognised in profit or loss	Balance 31 December 2011
Property and equipment	21,827	(736)	21,091
Loans to customers	-	(44,612)	(44,612)
	<u>21,827</u>	<u>(45,348)</u>	<u>(23,521)</u>

## 8 Cash and cash equivalents

	2012 KZT'000	2011 KZT'000
<b>Nostro accounts with other banks</b>		
- rated BBB	24	-
- rated BB	119,040	1,724,369
- rated BB-	20,283	-
- rated B+	163,164	488,371
- rated B	10,019	1,236,630
- rated B-	10,112	4,468
<b>Total nostro accounts with other banks</b>	<u>322,642</u>	<u>3,453,838</u>
<b>Term deposits with other banks</b>		
- rated BB	3,301,128	-
- rated BB-	3,901,250	-
- rated B-	6,301,655	-
<b>Total term deposits with other banks</b>	<u>13,504,033</u>	<u>-</u>
<b>Total cash and cash equivalents</b>	<u>13,826,675</u>	<u>3,453,838</u>

Credit ratings are presented by Standard&Poor's scale.

None of cash and cash equivalents are impaired or past due.

As at 31 December 2012 the Group has four banks (2011: nil) whose balances exceed 10% of equity. The gross value of these balances as at December 2012 is KZT 13,504,033 thousand (2011: nil).

## 9 Placement with banks and other financial institutions

	2012 KZT'000	2011 KZT'000
- rated B+	6,782	1,021,040
- rated B	6,541,125	6,074,239
- rated B-	3,910,000	3,479,662
- not rated	2,063,306	-
<b>Total placements with banks and other financial institutions</b>	<u>12,521,213</u>	<u>10,574,941</u>

None of the balances are impaired or past due.

As at 31 December 2012 the Group placed term deposits with interest rates ranging from 2% to 7% per annum (2011: 2% to 8.5%) and which have maturities from January 2013 to March 2014 (2011: January 2012 to March 2014).

## 9 Placement with banks and other financial institutions, continued

As at 31 December 2012 the Group has one bank (2011: one bank) whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2012 is KZT 3,910,000 thousand (2011: KZT 3,479,662 thousand).

## 10 Available-for-sale financial assets

	2012 KZT'000	2011 KZT'000
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,380,457	523,747
Corporate bonds rated from B+ to B	3,029,988	4,405,029
Corporate bonds not rated	6,607,228	4,480,986
	<u>11,017,673</u>	<u>9,409,762</u>
Impairment allowance	(775,475)	(821,794)
	<u>10,242,198</u>	<u>8,587,968</u>

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable in the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Rosa JSC ("Rosa") with a gross amount of KZT 437,743 thousand (31 December 2011: KZT 437,743 thousand). Rosa bonds were excluded from trading at KASE on 2 October 2009. The bonds of Doszhan Temir Zholy JSC ("DTZ") with a gross amount of KZT 695,232 thousand (31 December 2011: KZT 690,529 thousand) are currently in the "buffer category" according to the KASE, due to non-conformance with the listing requirements of the official list.

During the year ended 31 December 2012 the Group decreased the impairment allowance for DTZ bonds to 49% or KZT 337,732 thousand based on management's revised estimate of expected future cash flows (31 December 2011: 56% and KZT 384,051 thousand, respectively). The Group used the KASE quotes to determine at the recoverable amount of DTZ bonds.

As at 31 December 2012 and 2011 the Group considers Rosa bonds fully impaired as based on its understanding of the issuer's financial position it does not expect probable future cash flows from the asset.

### Analysis of movements in the impairment allowance:

	2012 KZT'000	2011 KZT'000
Balance at the beginning of the year	821,794	1,011,729
Net recovery	(46,319)	(189,935)
Balance at the end of the year	<u>775,475</u>	<u>821,794</u>

## 10 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise only KZT denominated mortgage loans due from individuals located in the Republic of Kazakhstan.

All loans are secured by the underlying housing real estate.

	2012 KZT'000	2011 KZT'000
Mortgage loans with recourse	16,209,558	20,027,848
Mortgage loans without recourse	38,566,076	39,010,041
Accrued interest	571,228	714,514
Gross loans to customers	<u>55,346,862</u>	<u>59,752,403</u>
Impairment allowance	(3,874,770)	(4,216,880)
Net loans to customers	<u>51,472,092</u>	<u>55,535,523</u>

Loans to customers carry interest at rates ranging from 7 to 18% per annum (2011: 7% to 18% per annum).

## 11 Loans to customers, continued

### (a) Credit quality of mortgage loans

The following table provides information on the credit quality of mortgage loans as at 31 December 2012:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
<b>Mortgage loans with recourse to the seller</b>				
- not overdue	16,092,730	-	16,092,730	-
- overdue less than 30 days	129,641	-	129,641	-
- overdue 30-89 days	77,729	-	77,729	-
- overdue 90-179 days	7,970	-	7,970	-
<b>Total mortgage loans with recourse to the seller</b>	<b>16,308,070</b>	<b>-</b>	<b>16,308,070</b>	<b>-</b>
<b>Mortgage loans without recourse to the seller</b>				
- not overdue	32,410,963	(71,590)	32,339,373	0.22
- overdue less than 30 days	937,102	(76,151)	860,951	8.13
- overdue 30-89 days	452,513	(120,090)	332,423	26.54
- overdue 90-179 days	232,097	(133,082)	99,015	57.34
- overdue more than 180 days	5,006,117	(3,473,857)	1,532,260	69.39
<b>Total mortgage loans without recourse to the seller</b>	<b>39,038,792</b>	<b>(3,874,770)</b>	<b>35,164,022</b>	<b>9.93</b>
<b>Total loans to customers</b>	<b>55,346,862</b>	<b>(3,874,770)</b>	<b>51,472,092</b>	<b>7.00</b>

The following table provides information on the credit quality of mortgage loans as at 31 December 2011:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
<b>Mortgage loans with recourse to the seller</b>				
- not overdue	19,878,603	-	19,878,603	-
- overdue less than 30 days	233,368	-	233,368	-
- overdue 30-89 days	57,772	-	57,772	-
<b>Total mortgage loans with recourse to the seller</b>	<b>20,169,743</b>	<b>-</b>	<b>20,169,743</b>	<b>-</b>
<b>Mortgage loans without recourse to the seller</b>				
- not overdue	32,580,953	(478,367)	32,102,586	1.47
- overdue less than 30 days	2,248,234	(375,300)	1,872,934	16.69
- overdue 30-89 days	574,815	(275,319)	299,496	47.90
- overdue 90-179 days	203,021	(154,034)	48,987	75.87
- overdue more than 180 days	3,975,637	(2,933,860)	1,041,777	73.80
<b>Total mortgage loans without recourse to the seller</b>	<b>39,582,660</b>	<b>(4,216,880)</b>	<b>35,365,780</b>	<b>10.65</b>
<b>Total loans to customers</b>	<b>59,752,403</b>	<b>(4,216,880)</b>	<b>55,535,523</b>	<b>7.06</b>

## 11 Loans to customers, continued

### (b) Key assumptions and judgements for estimating loan impairment

As described in Note 2, the Group uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

The significant assumption used in determining the impairment losses for mortgage loans include:

- mortgage loans with recourse overdue more than 60 days can be sold back by the Group at any time at their gross amount. Management believes that recourse counterparties are institutions of good reputation, with good credit standing
- other mortgage loans are subject to collective impairment assessment based on their past loss experience
- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past 12 months
- a delay of two years in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of sixty five to eighty per cent to the originally appraised value if the property pledged is sold through court procedures (2011: up to eighty per cent).

Movements in the loan impairment allowance for the year ended 31 December 2012 are as follows:

	2012 KZT'000	2011 KZT'000
Balance at the beginning of the year	4,216,880	702,971
Net (recovery) charge	(229,507)	3,687,658
Write-offs	(112,603)	(173,749)
<b>Balance at the end of the year</b>	<b>3,874,770</b>	<b>4,216,880</b>

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to customers as at 31 December 2012 would be KZT 1,544,163 thousand lower/higher (2011: KZT 1,666,066 thousand).

### (c) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate.

For loans with recourse to the seller, the commercial banks-partners are responsible for the monitoring of collateral on a periodic basis according to requirements of the FMSC. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers and commercial banks-partners rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The following tables provide information on real estate collateral securing mortgage loans, net of impairment:

31 December 2012 KZT'000	Loans to customers, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date
Not overdue loans	48,432,103	4,776,449	43,655,654
Overdue loans	3,039,989	246,028	2,793,961
	<b>51,472,092</b>	<b>5,022,477</b>	<b>46,449,615</b>

## 11 Loans to customers, continued

### (c) Analysis of collateral, continued

31 December 2011 KZT'000	Loans to customers, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date
Not overdue loans	51,981,189	4,348,728	47,632,461
Overdue loans	3,554,334	226,334	3,328,000
	<b>55,535,523</b>	<b>4,575,062</b>	<b>50,960,461</b>

The table above excludes the effect of overcollateralisation.

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

#### *Repossessed property*

During the year ended 31 December 2012, the Group obtained certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2012, the carrying amount of such assets was KZT 2,082,258 thousand (2011: KZT 728,170 thousand), which consisted of assets held for sale of KZT 1,337,929 thousand (2011: nil), investment property of KZT 663,719 thousand (2011: KZT 605,082 thousand) and other assets of KZT 80,610 thousand (2011: 123,088 thousand).

The Group's policy is to sell these assets as soon as it is practicable, except for investment property.

### (d) Asset securitisation

Loans to customers with the amount of principal of KZT 52,259,082 thousand (2011: KZT 52,480,783 thousand) serve as collateral for debt securities issued by the Group. As at 31 December 2012, the carrying amount of these debt securities is KZT 51,140,625 thousand (31 December 2011: KZT 55,523,652 thousand). Refer to Note 17.

### (e) Significant credit exposures

As at 31 December 2012 the Group has three banks (2011: 4) to whom the Group has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of these loans as at 31 December 2012 is KZT 8,122,284 thousand (2011: KZT 10,799,779 thousand).

### (f) Loan maturities

The maturity of the loan portfolio is presented in Note 22(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## 12 Held-to-maturity investments

	2012 KZT'000	2011 KZT'000
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	2,081,120	2,113,823
Corporate bond rated A	3,538,036	3,485,068
Corporate bonds rated from BB- to BB+	3,822,517	575,818
Corporate bonds rated from B+ to B-	1,880,978	6,150,198
Corporate bonds not rated	2,207,039	2,212,198
	<b>13,529,690</b>	<b>14,537,105</b>
Impairment allowance	(969,807)	(1,063,900)
	<b>12,559,883</b>	<b>13,473,205</b>

## 12 Held-to-maturity investments, continued

As at 31 December 2012 the Group holds bonds of one issuer, Astana Finance JSC ("Astana Finance"), who is in the restructuring process, and another issuer, Kazakhstan Kagazy JSC ("Kazakhstan Kagazy"), who is still in early stage of implementation of restructuring program inception in 2011, with a gross value of KZT 525,496 thousand and KZT 796,099 thousand, respectively.

As at 31 December 2012 the Group made an 82% or KZT 432,639 thousand (2011: 100% or KZT 526,732 thousand) impairment allowance on Astana-Finance bonds based on the revised restructuring plan of the issuer.

As at 31 December 2012 the Group made a 67% or KZT 537,168 thousand (2011: 65% or KZT 537,168 thousand) impairment allowance on Kazakhstan Kagazy bonds following the announcement of the amended payment schedule on its new debts issued according to restructuring terms and based on the analysis of the financial position of the issuer.

### Analysis of movements in the impairment allowance

	2012 KZT'000	2011 KZT'000
Balance at the beginning of the year	1,063,900	815,997
Net (recovery) charge	(94,093)	247,903
Balance at the end of the year	969,807	1,063,900

## 13 Property and equipment

KZT'000	Land	Building	Computer equipment	Vehicles	Other	Total
<i>Cost</i>						
At 1 January 2012	121,958	2,296,499	378,014	6,706	226,802	3,029,979
Additions	-	-	10,429	11,308	19,136	40,873
Disposals	-	-	-	-	(1,683)	(1,683)
At 31 December 2012	121,958	2,296,499	388,443	18,014	244,255	3,069,169
<i>Depreciation</i>						
At 1 January 2012	-	178,211	355,075	3,771	179,129	716,186
Depreciation charge	-	55,639	13,009	971	25,715	95,334
Disposals	-	-	-	-	(1,570)	(1,570)
At 31 December 2012	-	233,850	368,084	4,742	203,274	809,950
<i>Carrying value</i>						
At 31 December 2011	121,958	2,118,288	22,939	2,935	47,673	2,313,793
At 31 December 2012	121,958	2,062,649	20,359	13,272	40,981	2,259,219
<i>Cost</i>						
At 1 January 2011	121,958	2,296,499	376,303	6,706	224,245	3,025,711
Additions	-	-	1,740	-	2,528	4,268
Transfers	-	-	(29)	-	29	-
At 31 December 2011	121,958	2,296,499	378,014	6,706	226,802	3,029,979
<i>Depreciation</i>						
At 1 January 2011	-	120,799	276,105	2,812	144,471	544,187
Depreciation charge	-	57,412	78,970	959	34,658	171,999
At 31 December 2011	-	178,211	355,075	3,771	179,129	716,186
<i>Carrying amount</i>						
At 1 January 2011	121,958	2,175,700	100,198	3,894	79,774	2,481,524
At 31 December 2011	121,958	2,118,288	22,939	2,935	47,673	2,313,793

## 14 Investment property

	2012 KZT'000	2011 KZT'000
Balance at 1 January	605,082	-
Transfer from other assets	103,257	633,931
Disposals	(44,620)	(28,849)
<b>Balance at 31 December</b>	<b>663,719</b>	<b>605,082</b>

Investment property is represented by collateral on loans to customers that the Group obtained control of as a result of normal operating activity. Repossessed collateral is mainly in the form of real estate and is located in Kazakhstan. The Group leases premises to third parties under operating lease agreements.

The total amount of rental income recognised in profit or loss is KZT 27,443 thousand (2011: KZT 29,244 thousand); no direct operating expenses arise, except for property tax expense, as in accordance with the rental agreements all maintenance costs are borne by tenants.

### Fair value determination

The Group commissioned an independent appraiser to perform a valuation of investment property as at 31 December 2012.

The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar properties.

## 15 Assets held for sale

	2012 KZT'000	2011 KZT'000
Assets held for sale	1,337,929	-
	<b>1,337,929</b>	<b>-</b>

Assets held for sale represent collateral that the Group has taken over as a new owner as the result of a borrower's inability to pay out his debt (Note 11). It consists of property that the Group intends to sell during 2013.

## 16 Other assets

	2012 KZT'000	2011 KZT'000
Financial instruments at fair value through profit or loss	7	7
<b>Total other financial assets</b>	<b>7</b>	<b>7</b>
Prepayments for insurance of mortgage loans to KFGML	108,731	155,778
Foreclosed property	80,610	123,088
Other prepayments	15,447	12,679
Inventory	15,340	13,993
Intangible assets	2,182	4,156
Other	33,850	49,863
Impairment allowance	(6,095)	(31,827)
<b>Total other non-financial assets</b>	<b>250,065</b>	<b>327,730</b>
<b>Total other assets</b>	<b>250,072</b>	<b>327,737</b>

Foreclosed property comprises real estate collateral accepted by the Group in exchange for its rights and obligations under impaired mortgage loans. The Group has not yet determined of future use of this property, whether it is going to be sold or rented out.



## 16 Other assets, continued

### Analysis of movements in the impairment allowance

	2012 KZT'000	2011 KZT'000
Balance at the beginning of the year	31,827	534
Net (recovery) charge for the year	(26,751)	16,071
Recoveries of previous write-offs	1,019	15,222
<b>Balance at the end of the year</b>	<b>6,095</b>	<b>31,827</b>

## 17 Debt securities issued

Debt securities issued as at 31 December 2012 and 2011 comprised KZT denominated bonds.

Emission	Maturity date	Coupon rate	Effective rate	2012 KZT'000	2011 KZT'000
KZP02Y09C495	10.06.2016	0.7%+floating inflation index (limited to 12.0%)	15.85%	8,110,113	7,754,805
KZPC2Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	6.80%	5,072,664	5,103,835
KZPC1Y10B543	10.04.2015	6.90%	7.25%	5,041,345	5,027,157
KZ2C0Y10B319	01.10.2014	0.1%+floating inflation	9.84%	4,976,362	4,978,993
KZP03Y05C491	01.12.2012	11.00%	13.08%	-	4,958,650
KZP04Y04C492	15.07.2013	4%+floating inflation index (limited to 11%)	20.59%	4,974,929	4,653,119
KZPC4Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	13.42%	4,153,079	4,045,688
KZ2C0Y10B079	01.04.2012- 2014	0.50%+floating inflation index	7.68%	2,182,485	2,447,456
KZ2C0Y10A980	01.04.2012- 2014	1.00%+floating inflation index	8.38%	2,175,309	2,433,382
KZ2C0Y10A857	01.10.2012- 2013	0.80%+floating inflation index	8.00%	304,355	614,256
KZ2C0Y08D913	23.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%)	13.34%	7,439,146	7,189,152
KZP05Y06C494	10.06.2015	3.7%+floating rate (limited to 11%)	19.69%	6,703,718	6,317,159
KZ2C0Y08E218	02.04.2020	7.00%	6.89%	7,120	-
				<b>51,140,625</b>	<b>55,523,652</b>

These obligations are secured by loan agreements with customers and the related real estate supporting these loans (Note 11) with a principal amount of KZT 52,259,082 thousand (2011: KZT 52,480,783 thousand).

The floating inflation rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

## 18 Subordinated debt securities issued

Emission	Maturity date	Coupon rate	Effective rate	2012 KZT'000	2011 KZT'000
KZ2C0Y05E206	02.04.2017	8.00%	11.98%	4,473,652	-
				<u>4,473,652</u>	<u>-</u>

As at 31 December 2012 subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Group.

Subordinated bonds bear a fixed coupon rate.

## 19 Other borrowed funds

	2012 KZT'000	Restated 2011 KZT'000	Restated 2010 KZT'000
Loan from banks	14,306,514	-	-
Loan from foreign financial institutions	13,385,515	14,807,281	14,703,349
Due to the Government of the Republic of Kazakhstan	2,918,936	2,710,507	2,518,090
	<u>30,610,965</u>	<u>17,517,788</u>	<u>17,221,439</u>

Due to the Government of the Republic of Kazakhstan consists of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second tier banks. The loan carries a nominal interest rate of 0.1% per annum with principal repayable at maturity in December 2027. Following the restatement discussed in the Note 2(e) the loan is recognised at amortised cost applying an effective interest rate of 8% p.a.

In December 2007 the Group received a USD denominated loan from Credit Suisse International in the amount of USD 85 million at an interest rate of 7.4% per annum that was arranged by Credit Suisse London branch. In February 2008 the Group received an additional USD 15 million under the same loan agreement. The loan matures in December 2014 and was originally repayable in 9 equal semi-annual instalments starting from 21 December 2010.

In accordance with an amendment signed on 21 July 2008 the above USD denominated loan was redenominated from USD to JPY currency at an initial exchange rate of JPY: USD 107.15:1 with a corresponding change in interest rate from 7.4% to 6.4% p.a. Interest expenses are calculated on the loan principal amount of JPY 10,715,000 thousand and are payable in USD at the current exchange rate between JPY and USD. The amendment specifies a Knockout exchange rate of JPY: USD 84.95:1. Loan repayments should be made in USD applying the initial exchange rate of JPY: USD 107.15:1 to the JPY repayment amounts if the exchange rate remains above the Knockout rate for the duration of the tenor of the loan. If the exchange rate falls below the Knockout rate at any point during the life of the loan, then loan repayments should be made in USD applying the current JPY: USD exchange rate to the JPY repayment amounts.

According to the amendment signed on 15 December 2009 the interest rate increased from 6.4% to 7.7% p.a. and the knockout exchange rate of JPY: USD changed to 79.75:1.

According to the amendment signed on 21 October 2010 the interest rate increased from 7.7% to 8.3% per annum and the Knockout exchange rate of JPY: USD changed to 69.75:1. The principal is to be paid by 9 equal semi-annual instalments, starting from 21 December 2012. The first repayment was made on 10 December 2012.

In accordance with the latest amendment signed on 7 June 2012 the interest rate applicable for the period of December 2011 – December 2012 was decreased from 8.3% to 6.3% per annum. No changes to the Knockout exchange rate and/or maturity period were made.

## 19 Other borrowed funds, continued

On 10 December 2012 the interest rate became 8.3% p.a. and Credit Suisse International notified the Group of transfer of its rights on the loan to Atonline Limited. The loan from Atonline Limited was repaid ahead-of-schedule in January 2013. Refer to Note 28.

In December 2012 the Group obtained a loan from Halyk Saving Bank of Kazakhstan in the amount of KZT 14,300,000 thousand. As at 31 December 2012 the loan bears an interest rate of 8.2% and matures in December 2017.

## 20 Other liabilities

	2012 KZT'000	2011 KZT'000
Prepaid loans	88,464	98,858
Professional services	9,027	8,875
Other financial liabilities	-	11,235
<b>Total other financial liabilities</b>	<b>97,491</b>	<b>118,968</b>
Other taxes payable	22,632	7,413
Payables to employees	913	155
Other non-financial liabilities	30,303	-
<b>Total other non-financial liabilities</b>	<b>53,876</b>	<b>7,568</b>
<b>Total other liabilities</b>	<b>151,367</b>	<b>126,536</b>

## 21 Share capital

### (a) Issued capital and share premium

As at 31 December 2012 and 2011 authorised share capital comprises 2,906,200 ordinary shares, and issued and outstanding share capital comprises 2,892,000 shares. All shares have a nominal value of KZT 10,000.

### (b) Dividends

In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRSs or profit for the period if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency. As at 31 December 2012 reserves available for distribution amounted to KZT 207,299 thousand (31 December 2011: nil).

During 2012 no any dividends relating to the previous year results of the Group were declared and paid (2011: KZT 32,444 thousand).

### (c) Treasury shares

As at 31 December 2012 the Group held 249,990 of its own shares (31 December 2011: 249,990).

### (d) Reserve capital

The Group has established a capital reserve in accordance with the decision of shareholders. At 31 December 2012 the capital reserve amounted to KZT 2,630,820 thousand (31 December 2011: KZT 2,630,820 thousand). This statutory reserve is available for distribution.

During 2012, the shareholders did not make any transfer from retained earnings to this statutory reserve capital (2011: KZT 32,402 thousand).

### (e) Earnings (loss) per share

The calculation of earnings (loss) per share is based on the profit or loss for the year attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year.

## 21 Share capital, continued

### (e) Earnings (loss) per share, continued

	2012	Restated 2011
Profit (loss) for the year, in thousand of KZT	148,105	(6,398,567)
Weighted average number of ordinary shares	2,642,010	2,642,010
<b>Basic and diluted earnings (loss) per share, in KZT</b>	<b>56</b>	<b>(2,422)</b>

### (f) Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated financial statements. The book value per share is calculated dividing net assets less intangible assets by the number of outstanding ordinary shares. As at 31 December 2012 the book value per share was KZT 8,254.34 (2011: KZT 8,395.71).

## 22 Risk management

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

### (a) Risk management policies and procedures

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

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

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

The Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board.

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

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the Risk Management Committee.

## 22 Risk management, continued

### (b) Market risk, continued

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

#### (i) Interest rate risk

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

#### Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest-bearing financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
<b>31 December 2012</b>							
<b>ASSETS</b>							
Cash and cash equivalents	13,504,033	-	-	-	-	322,642	13,826,675
Placements with banks and other financial institutions	3,074,693	2,500,000	6,939,750	6,770	-	-	12,521,213
Available-for-sale financial assets	2,646,118	663,687	1,599,619	1,975,281	3,357,493	-	10,242,198
Loans to customers	12,148,674	459,489	950,661	8,856,886	29,056,382	-	51,472,092
Held-to-maturity investments	108,012	2,261,551	2,380,976	3,486,275	4,323,069	-	12,559,883
Other financial assets	-	-	7	-	-	-	7
<b>Total assets</b>	<b>31,481,530</b>	<b>5,884,727</b>	<b>11,871,013</b>	<b>14,325,212</b>	<b>36,736,944</b>	<b>322,642</b>	<b>100,622,068</b>
<b>LIABILITIES</b>							
Debt securities issued	9,128,008	37,041,897	-	4,963,720	7,000	-	51,140,625
Subordinated debt securities issued	-	97,915	-	4,375,737	-	-	4,473,652
Other borrowed funds	6,514	84,060	125	27,601,455	2,918,811	-	30,610,965
Other financial liabilities	-	-	-	-	-	97,491	97,491
<b>Total liabilities</b>	<b>9,134,522</b>	<b>37,223,872</b>	<b>125</b>	<b>36,940,912</b>	<b>2,925,811</b>	<b>97,491</b>	<b>86,322,733</b>
<b>Net position</b>	<b>22,347,008</b>	<b>(31,339,145)</b>	<b>11,870,888</b>	<b>(22,615,700)</b>	<b>33,811,133</b>	<b>225,151</b>	<b>14,299,335</b>

## 22 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
<b>31 December 2011</b>							
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	3,453,838	3,453,838
Placements with banks and other financial institutions	5,395,850	3,159,783	1,000,000	1,019,308	-	-	10,574,941
Available-for-sale financial assets	2,804,742	1,900,570	356,625	1,109,325	2,416,706	-	8,587,968
Loans to customers	15,636,554	438,572	906,192	8,592,056	29,962,149	-	55,535,523
Held-to-maturity investments	42,502	2,610,013	3,111,599	3,971,220	3,737,871	-	13,473,205
Other financial assets	-	-	-	7	-	-	7
<b>Total assets</b>	<b>23,879,648</b>	<b>8,108,938</b>	<b>5,374,416</b>	<b>14,691,916</b>	<b>36,116,726</b>	<b>3,453,838</b>	<b>91,625,482</b>
<b>LIABILITIES</b>							
Debt securities issued	8,698,807	29,792,233	12,083,080	4,949,532	-	-	55,523,652
Other borrowed funds, restated	-	61,340	1,645,139	13,101,052	2,710,257	-	17,517,788
Other financial liabilities	-	-	-	-	-	118,968	118,968
<b>Total liabilities, restated</b>	<b>8,698,807</b>	<b>29,853,573</b>	<b>13,728,219</b>	<b>18,050,584</b>	<b>2,710,257</b>	<b>118,968</b>	<b>73,160,408</b>
<b>Net position, restated</b>	<b>15,180,841</b>	<b>(21,744,635)</b>	<b>(8,353,803)</b>	<b>(3,358,668)</b>	<b>33,406,469</b>	<b>3,334,870</b>	<b>18,465,074</b>

## 22 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Average interest rates*

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

	2012		2011	
	Average effective interest rate,		Average effective interest rate,	
	%		%	
	KZT	USD	KZT	USD
<b>Interest bearing assets</b>				
Cash and cash equivalents	4.01	-	-	-
Placement with banks and other financial institutions	7.00	-	7.06	-
Financial instruments at fair value through profit or loss	5.20	-	5.20	-
Available-for-sale financial assets	9.47	-	9.76	-
Loans to customers	9.60	-	9.9	-
Held-to-maturity investments	7.12	0.22	8.9	0.22
<b>Interest bearing liabilities</b>				
Debt securities issued	11.43	-	13.00	-
Subordinated debt securities issued	11.98	-	-	-
Other borrowed funds, restated	8.12	8.30	8.00	12.16

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

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

##### *Interest rates sensitivity analysis*

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

	2012		2011, restated	
	KZT'000		KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	(1,988)	(1,988)	(19,165)	(19,165)
100 bp parallel fall	1,988	1,988	19,165	19,165

## 22 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Interest rates sensitivity analysis, continued*

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

	2012 KZT'000		2011 KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	-	(467,213)	-	(446,377)
100 bp parallel fall	-	508,701	-	487,979

### (c) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not hedge its exposure to currency risk.

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

KZT'000	USD	JPY	Total
<b>Assets</b>			
Held-to-maturity investments	3,538,036	-	3,538,036
<b>Total financial assets</b>	<b>3,538,036</b>	<b>-</b>	<b>3,538,036</b>
<b>Liabilities</b>			
Other borrowed funds	13,301,456	84,059	13,385,515
<b>Total financial liabilities</b>	<b>13,301,456</b>	<b>84,059</b>	<b>13,385,515</b>
<b>Net on and off balance sheet position as at 31 December 2012</b>	<b>(9,763,420)</b>	<b>(84,059)</b>	<b>(9,847,479)</b>
Net on and off balance sheet position as at 31 December 2011	(11,260,873)	(61,340)	(11,322,213)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2011:

KZT'000	USD	JPY	Total
<b>Assets</b>			
Held-to-maturity investments	3,485,068	-	3,485,068
<b>Total financial assets</b>	<b>3,485,068</b>	<b>-</b>	<b>3,485,068</b>
<b>Liabilities</b>			
Other borrowed funds,	14,745,941	61,340	14,807,281
<b>Total financial liabilities</b>	<b>14,745,941</b>	<b>61,340</b>	<b>14,807,281</b>
<b>Net on and off balance sheet position as at 31 December 2011</b>	<b>(11,260,873)</b>	<b>(61,340)</b>	<b>(11,322,213)</b>
Net on and off balance sheet position as at 31 December 2010	(11,171,786)	(61,562)	(11,233,348)



## 22 Risk management, continued

### (c) Currency risk, continued

A change in the value of the KZT, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012		2011	
	KZT'000		KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
5% appreciation of USD against KZT	(390,537)	(390,537)	(450,435)	(450,435)
5% depreciation of USD against KZT	390,537	390,537	450,435	450,435
5% appreciation of JPY against KZT	(3,362)	(3,362)	(2,454)	(2,454)
5% depreciation of JPY against KZT	3,362	3,362	2,454	2,454

The Group also has a knockout rate option (refer to Note 19). Management has not determined the impact of this option on the above sensitivity analysis to foreign exchange risk.

### (d) Credit risk

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

The Group's credit policy establishes:

- procedures for review and approval of loan/credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- minimum financial and collateral requirements for loan approvals
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

## 22 Risk management, continued

### (d) Credit risk, continued

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

	2012 KZT'000	2011 KZT'000
<b>ASSETS</b>		
Cash and cash equivalents	13,826,675	3,453,838
Placements with banks and other financial institutions	12,521,213	10,574,941
Available-for-sale financial assets	10,242,198	8,587,968
Loans to customers	51,472,092	55,535,523
Held-to-maturity investments	12,559,883	13,473,205
Other financial assets	7	7
<b>Total maximum exposure to on balance sheet credit risk</b>	<b>100,622,068</b>	<b>91,625,482</b>

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 11.

### (e) Liquidity risk

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

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

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

The liquidity management policy of the Group requires:

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

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

## 22 Risk management, continued

### (e) Liquidity risk, continued

The liquidity position of the Group as at 31 December 2012 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>								
Debt securities issued	345,250	-	2,000,422	7,027,568	45,952,618	8,082,927	63,408,785	51,140,625
Subordinated debt securities issued	-	-	200,280	200,280	5,875,612	-	6,276,172	4,473,652
Other borrowed funds	-	293,150	2,656,043	2,871,587	30,864,948	9,101,000	45,786,728	30,610,965
Other financial liabilities	89,017	8,474	-	-	-	-	97,491	97,491
<b>Total</b>	<b>434,267</b>	<b>301,624</b>	<b>4,856,745</b>	<b>10,099,435</b>	<b>82,693,178</b>	<b>17,183,927</b>	<b>115,569,176</b>	<b>86,322,733</b>

The position of the Group as at 31 December 2011 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>								
Debt securities issued	462,500	-	2,400,537	8,550,859	47,594,533	18,135,245	77,143,674	55,523,652
Other borrowed funds, restated	-	-	849,324	2,503,233	15,993,969	9,110,019	28,456,545	17,517,788
Other financial liabilities	109,954	8,763	18	70	163	-	118,968	118,968
<b>Total, restated</b>	<b>572,454</b>	<b>8,763</b>	<b>3,249,879</b>	<b>11,054,162</b>	<b>63,588,665</b>	<b>27,245,264</b>	<b>105,719,187</b>	<b>73,160,408</b>

## 22 Risk management, continued

### (e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

Assets	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Cash and cash equivalents	13,826,675	-	-	-	-	-	13,826,675
Placements with banks and other financial institutions	1,017,332	2,057,361	9,439,750	6,770	-	-	12,521,213
Available-for-sale financial assets	179,311	26,590	1,266,185	3,062,887	5,707,225	-	10,242,198
Loans to customers	209,829	425,630	1,991,502	12,251,741	36,593,390	-	51,472,092
Held-to-maturity investments	104,337	3,675	524,705	5,235,920	6,691,246	-	12,559,883
Current tax asset	-	-	-	-	628,864	-	628,864
Property and equipment	-	-	-	-	-	2,259,219	2,259,219
Investment property	-	-	-	-	-	663,719	663,719
Deferred tax asset	-	-	-	-	2,424,963	-	2,424,963
Assets held for sale	-	-	1,337,929	-	-	-	1,337,929
Other assets	52,515	10,394	51,275	63,188	4,606	68,094	250,072
<b>Total assets</b>	<b>15,389,999</b>	<b>2,523,650</b>	<b>14,611,346</b>	<b>20,620,506</b>	<b>52,050,294</b>	<b>2,991,032</b>	<b>108,186,827</b>
<b>Liabilities</b>							
Debt securities issued	318,398	-	5,428,421	37,962,104	7,431,702	-	51,140,625
Subordinated debt securities issued	-	-	97,915	4,375,737	-	-	4,473,652
Other borrowed funds	-	6,514	84,185	27,601,456	2,918,810	-	30,610,965
Other liabilities	142,114	9,253	-	-	-	-	151,367
<b>Total liabilities</b>	<b>460,512</b>	<b>15,767</b>	<b>5,610,521</b>	<b>69,939,297</b>	<b>10,350,512</b>	<b>-</b>	<b>86,376,609</b>
<b>Net position as at 31 December 2012</b>	<b>14,929,487</b>	<b>2,507,883</b>	<b>9,000,825</b>	<b>(49,318,791)</b>	<b>41,699,782</b>	<b>2,991,032</b>	<b>21,810,218</b>
Net position as at 31 December 2011, restated	6,032,475	3,928,344	158,978	(25,145,267)	34,174,581	3,036,590	22,185,701

## 22 Risk management, continued

### (e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

Assets	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Cash and cash equivalents	3,453,838	-	-	-	-	-	3,453,838
Placements with banks and other financial institutions	1,940,853	3,454,997	4,159,783	1,019,308	-	-	10,574,941
Available-for-sale financial assets	61,034	42,365	107,636	2,315,114	6,061,819	-	8,587,968
Loans to customers	1,086,957	400,182	1,878,806	11,931,444	40,238,134	-	55,535,523
Held-to-maturity investments	17,650	24,852	1,152,575	6,129,702	6,148,426	-	13,473,205
Current tax asset	-	-	-	10,983	494,128	-	505,111
Property and equipment	-	-	-	-	-	2,313,793	2,313,793
Investment property	-	-	-	-	-	605,082	605,082
Other assets	8,782	15,307	51,139	106,322	4,951	141,236	327,737
<b>Total assets</b>	<b>6,569,114</b>	<b>3,937,703</b>	<b>7,349,939</b>	<b>21,512,873</b>	<b>52,947,458</b>	<b>3,060,111</b>	<b>95,377,198</b>
<b>Liabilities</b>							
Debt securities issued	426,528	-	5,477,704	33,556,925	16,062,495	-	55,523,652
Other borrowed funds, restated	-	-	1,706,354	13,101,052	2,710,382	-	17,517,788
Deferred tax liability	-	-	-	-	-	23,521	23,521
Other liabilities	110,111	9,359	6,903	163	-	-	126,536
<b>Total liabilities, restated</b>	<b>536,639</b>	<b>9,359</b>	<b>7,190,961</b>	<b>46,658,140</b>	<b>18,772,877</b>	<b>23,521</b>	<b>73,191,497</b>
<b>Net position as at 31 December 2011, restated</b>	<b>6,032,475</b>	<b>3,928,344</b>	<b>158,978</b>	<b>(25,145,267)</b>	<b>34,174,581</b>	<b>3,036,590</b>	<b>22,185,701</b>
<b>Net position as at 31 December 2010, restated</b>	<b>14,302,345</b>	<b>60,213</b>	<b>(4,331,292)</b>	<b>(31,618,386)</b>	<b>46,442,605</b>	<b>3,159,882</b>	<b>28,015,367</b>

## 23 Capital management

The Decree of the NBRK #254 of 25 July 2003 establishes the Company's status as a financial agency, for which the NBRK determines statutory capital ratios.

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings/accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital) less investments into equity or subordinated debt.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the NBRK mortgage companies have to maintain:

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).

	2012 KZT'000	Restated 2011 KZT'000	Restated 2010 KZT'000
<b>Tier 1 capital</b>			
Share capital	26,335,239	26,335,239	26,335,239
General reserves	2,630,820	2,630,820	2,598,418
Additional paid-in capital	6,998,161	6,998,161	6,998,161
Intangible assets	(390)	(4,156)	(12,592)
Statutory accumulated losses	(15,067,442)	(15,018,083)	(8,229,148)
<b>Total tier 1 capital</b>	<b>20,896,388</b>	<b>20,941,981</b>	<b>27,690,078</b>
<b>Tier 2 capital</b>			
Reserves on revaluation of available-for-sale financial assets	(617,816)	(94,228)	(632,179)
Subordinated debt securities issued	2,440,773	-	-
Net profit for the current year in accordance with NBRK requirements	968,004	-	-
<b>Total tier 2 capital</b>	<b>2,790,961</b>	<b>(94,228)</b>	<b>(632,179)</b>
Investments in subsidiaries	(799,027)	-	-
<b>Total capital</b>	<b>22,888,322</b>	<b>20,847,753</b>	<b>27,057,899</b>
Total statutory assets	107,618,824	94,077,945	106,373,716
Credit risk weighted assets and contingent liabilities	91,727,939	80,256,192	82,961,466
Operational risk	51,453	344,580	671,249
<b>k1 ratio</b>	<b>19%</b>	<b>22%</b>	<b>26%</b>
<b>k1-2 ratio</b>	<b>23%</b>	<b>26%</b>	<b>33%</b>
<b>k1-3 ratio</b>	<b>25%</b>	<b>26%</b>	<b>33%</b>

## 23 Capital management, continued

As at 31 December 2012 and 2011 the minimum level of ratios as applicable to the Company are as follows:

- k1 – 6%
- k1-2 – 6%
- k1-3 – 12%.

The Company also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the Company's capital position calculated in accordance with the requirement of the Basle Accord, as at 31 December 2012 and 2011:

	2012 KZT'000	Restated 2011 KZT'000	Restated 2010 KZT'000
<b>Tier 1 capital</b>			
Share capital	26,335,239	26,335,239	26,335,239
General reserves	2,630,820	2,630,820	2,598,418
Additional paid-in capital	6,998,161	6,998,161	6,998,161
Accumulated losses	(13,476,992)	(13,684,291)	(7,220,878)
<b>Total tier 1 capital</b>	<b>22,487,228</b>	<b>22,279,929</b>	<b>28,710,940</b>
<b>Tier 2 capital</b>			
Reserves on revaluation of available-for-sale financial assets	(617,816)	(94,228)	(695,573)
<b>Total tier 2 capital</b>	<b>(617,816)</b>	<b>(94,228)</b>	<b>(695,573)</b>
<b>Total capital</b>	<b>21,869,412</b>	<b>22,185,701</b>	<b>28,015,367</b>
<b>Risk-weighted assets</b>			
Banking book	87,285,428	95,377,198	90,215,821
Trading book	9,845,494	11,322,214	11,171,786
<b>Total risk weighted assets</b>	<b>97,130,922</b>	<b>106,699,412</b>	<b>101,387,607</b>
<b>Total capital expressed as a percentage of risk-weighted assets (total capital ratio)</b>	<b>23%</b>	<b>21%</b>	<b>28%</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)</b>	<b>23%</b>	<b>21%</b>	<b>28%</b>

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

The Company is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord imposed by covenants under certain liabilities incurred by the Company. The Capital Adequacy Ratio shall at all times be no less than the higher of (i) 8%; (ii) the equivalent minimum ratio as set out in the Basle Paper; or (iii) such higher figure as is required by law. The Company has complied with these capital requirements as at 31 December 2012 and 2011.

## 24 Contingencies

### (a) Insurance

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

### (b) Litigation

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

### (c) Taxation contingencies

The taxation system in the Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

## 25 Related party transactions

### (a) Transactions with the members of the Management Board and Board of Directors

Total remuneration included in personnel expenses is as follows (refer to Note 6):

	2012 KZT'000	2011 KZT'000
Members of the Board of Directors	9,388	8,112
Members of the Management Board	74,525	44,907
	<b>83,913</b>	<b>53,019</b>

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

The outstanding balances and average interest rates as at 31 December 2012 and 2011 for transactions with the members of the Management Board and the Board of Directors are as follows:

	2012 KZT'000	Average interest rate	2011 KZT'000	Average interest rate
<b>Consolidated statement of financial position</b>				
Loans to customers	80,378	7.7%	17,002	8.5%



## 25 Related party transactions, continued

**(a) Transactions with the members of the Management Board and Board of Directors, continued**

Amounts included in profit or loss in relation to transactions with the members of the Management Board and the Board of Directors for the year ended 31 December are as follows:

	2012 KZT'000	2011 KZT'000
Profit or loss		
Interest income	4,497	447

**(b) Transaction with other related parties**

Other related parties include the Ministry of Finance of the Republic of Kazakhstan and other State organisations.

The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as of 31 December 2012 and 2011:

	2012 KZT'000	2012 KZT'000	Restated 2011 KZT'000	2011 KZT'000
	Ministry of Finance	State organisations	Ministry of Finance	State organisations
<b>Income Statement</b>				
Interest income	132,023	241,637	73,168	346,401
Interest expense	(217,448)	(2,396,691)	(201,437)	(2,544,931)
Net loss on financial instruments at fair value through profit or loss	(197,645)	-	-	-
Impairment recoveries	-	46,319	-	178,355
Other income	-	931	-	-
General administrative expenses	(110,364)	(107,110)	(108,109)	(37,655)
Income tax benefit (expense)	2,448,484	-	(45,348)	-
<b>Statement of Comprehensive Income</b>				
<b>Other comprehensive income</b>				
Net change in fair value of available-for-sale financial assets	(138,784)	-	(131,820)	-

The balances with related parties as of 31 December 2012 include:

	Ministry of Finance		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Placements with banks	-	-	3,919,493	7.0
Available-for-sale financial assets	1,380,457	2.9	357,501	6.4
Held-to maturity investments	2,081,120	3.5	-	-
Deferred tax asset	2,424,963	-	-	-
Current tax asset	628,864	-	-	-
Other assets	1,794	-	119,636	-
Debt securities issued	-	-	18,826,919	11.4
Subordinated debt securities issued	-	-	89	12.0
Other borrowed funds	2,918,936	8.0	-	-
Other liabilities	22,626	-	1,450	-
Revaluation reserve for available-for-sale financial assets	(270,604)	-	-	-

## 25 Related party transactions, continued

### (b) Transaction with other related parties, continued

The balances with related parties as of 31 December 2011 include:

	Restated		State organisations	
	Ministry of Finance	Average interest rate, %	KZT'000	Average interest rate, %
	KZT'000	rate, %	KZT'000	interest rate, %
Placements with banks	-	-	3,479,662	7.0
Available-for-sale financial assets	523,747	3.0	306,478	8.8
Held-to maturity investments	2,113,823	3.5	-	-
Current tax asset	505,111	-	-	-
Other assets	1,321	-	167,709	-
Debt securities issued	-	-	20,638,171	8.1
Other borrowed funds	2,710,507	8.0	-	-
Deferred tax liability	23,521	-	-	-
Other liabilities	7,413	-	1,220	-
Revaluation reserve for available-for-sale financial assets	(131,820)	-	-	-

## 26 Financial assets and liabilities: fair values and accounting classification

### (a) Accounting classifications and fair values

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	13,826,675	-	-	13,826,675	13,826,675
Placements with banks and other financial institutions	-	-	12,521,213	-	-	12,521,213	12,521,213
Available-for-sale financial assets	-	-	-	10,242,198	-	10,242,198	10,242,198
Loans customers	-	-	51,472,092	-	-	51,472,092	53,442,216
Held-to-maturity investments:							
Government bonds	-	2,081,120	-	-	-	2,081,120	1,934,905
Corporate bonds	-	10,478,763	-	-	-	10,478,763	10,142,634
Other financial assets	7	-	-	-	-	7	7
	<b>7</b>	<b>12,559,883</b>	<b>77,819,980</b>	<b>10,242,198</b>	<b>-</b>	<b>100,622,068</b>	<b>102,109,848</b>
Debt securities issued	-	-	-	-	51,140,625	51,140,625	54,766,642
Subordinated debt securities issued	-	-	-	-	4,473,652	4,473,652	5,009,784
Other borrowed funds	-	-	-	-	30,610,965	30,610,965	30,610,965
Other financial liabilities	-	-	-	-	97,491	97,491	97,491
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>86,322,733</b>	<b>86,322,733</b>	<b>90,484,882</b>

## 26 Financial assets and liabilities: fair values and accounting classification, continued

### (a) Accounting classifications and fair values, continued

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	3,453,838	-	-	3,453,838	3,453,838
Placements with banks and other financial institutions	-	-	10,574,941	-	-	10,574,941	10,574,941
Available-for-sale financial assets	-	-	-	8,587,968	-	8,587,968	8,587,968
Loans customers	-	-	55,535,523	-	-	55,535,523	59,754,270
Held-to-maturity investments:							
Government bonds	-	2,113,823	-	-	-	2,113,823	2,074,000
Corporate bonds	-	11,359,382	-	-	-	11,359,382	10,658,143
Other financial assets	7	-	-	-	-	7	7
	<b>7</b>	<b>13,473,205</b>	<b>69,564,302</b>	<b>8,587,968</b>	<b>-</b>	<b>91,625,482</b>	<b>95,103,167</b>
Debt securities issued	-	-	-	-	55,523,652	55,523,652	60,899,151
Other borrowed funds, restated	-	-	-	-	17,517,788	17,517,788	17,517,788
Other financial liabilities	-	-	-	-	118,968	118,968	118,968
	-	-	-	-	<b>73,160,408</b>	<b>73,160,408</b>	<b>78,535,907</b>

## **26 Financial assets and liabilities: fair values and accounting classification, continued**

### **(a) Accounting classifications and fair values, continued**

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and securities for which there is no active market.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

### **(b) Fair value hierarchy**

The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

## 26 Financial assets and liabilities: fair values and accounting classification, continued

### (b) Fair value hierarchy, continued

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

	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
<b>Financial assets</b>			
Financial instruments at fair value through profit or loss	7	-	7
Available-for-sale financial assets	10,242,198	-	10,242,198
	<u>10,242,205</u>	<u>-</u>	<u>10,242,205</u>

As at 31 December 2012 and 31 December 2011, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

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

	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
<b>Financial assets</b>			
Financial instruments at fair value through profit or loss	7	-	7
Available-for-sale financial assets	8,281,490	306,478	8,587,968
	<u>8,281,497</u>	<u>306,478</u>	<u>8,587,975</u>

The following table shows reconciliation for the year ended 31 December 2012 and 2011 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3 Year ended 31 December 2012	Level 3 Year ended 31 December 2011
<b>Available for sale financial assets - debt instruments</b>		
Balance at beginning of the year	306,478	-
Transfers into level 3	-	176,333
Total gains or losses recognised in profit or loss:		
interest income	45,201	42,127
impairment recovery	46,319	178,355
Settlements	(36,120)	(90,337)
Transfers from Level 3	(361,878)	-
Balance at end of the year	<u>-</u>	<u>306,478</u>

## 27 Segment reporting

The Group's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Segment Reporting*. The Group's assets are concentrated in the Republic of Kazakhstan, and the Group's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Group, the Chairman of the Management Board, only receives and reviews the information on the Group as a whole.

## 28 Events after the reporting date

On 10 January 2013 the Group fully repaid the loan to Atonline Limited for the total amount of USD 108,889 thousand. The loss recognised as a result of ahead-of-schedule repayment is KZT 3,689,198 thousand.

On 8 February 2013 shareholders of the Group approved increase in the number of authorised shares on 10,775,400 shares with a total quantity being 13,681,600 shares.