Home Credit Bank JSC

Financial Statements

for the year ended 31 December 2012

Contents

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Independent Auditors' Report

To the Board of Directors of Home Credit Bank JSC

We have audited the accompanying financial statements of "Home Credit Bank" (the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the 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 Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Kim Y. V.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate No.
MF-0000042 of 8 August 2011

KPMG Audit LLC

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

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

1 March 2013

	Note	2012 KZT'000	2011 KZT'000
Interest income	4	15,790,425	10,017,504
Interest expense	4	(2,703,649)	(869,418)
Net interest income		**13,086,776**	**9,148,086**
Fee and commission income	5	10,969,339	4,634,947
Fee and commission expense	6	(772,880)	(578,575)
Net fee and commission income		**10,196,459**	**4,056,372**
Net gain/(loss) on financial instruments at fair value through profit or loss		109,315	(12,126)
Net foreign exchange loss	7	(220,609)	(1,469)
Other operating income		5,078	8,476
Operating income		**23,177,019**	**13,199,339**
Net impairment losses	8	(3,564,826)	(529,306)
General administrative expenses	9	(6,958,758)	(4,916,621)
Profit before income tax		**12,653,435**	**7,753,412**
Income tax expense	10	(2,985,102)	(1,707,512)
Profit and total comprehensive income for the year		**9,668,333**	**6,045,900**

The financial statements as set out on pages 5 to 44 were approved by the Board of Directors on 1 March 2013.

Pavel Maco
Chairman of the Board

Zhanat Suleimenova
Chief Accountant

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

	Note	2012 KZT'000	2011 KZT'000
ASSETS			
Cash and cash equivalents	11	6,940,542	4,016,543
Mandatory reserve with the National Bank of the Republic of Kazakhstan	11	1,659,002	778,647
Loans and advances to banks		1,411	-
Financial instruments at fair value through profit or loss	12	177,450	-
Loans to customers	13	66,859,261	32,544,453
Current tax asset		-	137,873
Property, equipment and intangible assets	14	1,052,822	751,296
Other assets	15	2,373,973	1,162,424
Total assets		**79,064,461**	**39,391,236**
LIABILITIES			
Financial instruments at fair value through profit or loss	12	44,860	2,340
Deposits and balances from banks	16	7,757,859	1,462,930
Current accounts and deposits from customers	17	28,557,550	14,237,933
Subordinated borrowings	18	640,686	2,201,178
Other borrowed funds	18	16,414,512	6,548,046
Current tax liability		20,690	-
Deferred tax liability	10	82,978	52,851
Other liabilities	19	3,244,156	2,253,121
Total liabilities		**56,763,291**	**26,758,399**
EQUITY			
Share capital	20	5,199,503	5,199,503
Statutory reserve capital		7,347,876	1,301,976
Retained earnings		9,753,791	6,131,358
Total equity		**22,301,170**	**12,632,837**
Total liabilities and equity		**79,064,461**	**39,391,236**

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

	2012 KZT'000	2011 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	14,594,394	9,980,743
Interest payments	(2,070,964)	(797,543)
Fee and commission receipts	10,305,021	4,447,017
Fee and commission payments	(788,980)	(585,287)
Net payments from financial instruments at fair value through profit or loss	(25,615)	(9,786)
Net payments from foreign exchange transactions	(19,098)	(11,931)
Other income receipts	5,078	8,476
General administrative expenses	(6,768,936)	(4,734,369)
Increase in operating assets		
Mandatory reserve with the National Bank of the Republic of Kazakhstan	(880,355)	(658,237)
Loans and advances to banks	(1,411)	-
Loans to customers	(35,977,470)	(18,836,406)
Other assets	(16,673)	(83,485)
Decrease in operating liabilities		
Deposits and balances from banks	6,056,872	213,149
Current accounts and deposits from customers	14,300,765	8,932,486
Other liabilities	19,178	45,742
Net cash used in operating activities before income tax paid	**(1,268,194)**	**(2,089,431)**
Income tax paid	(2,796,412)	(1,641,488)
Cash flows used in operations	**(4,064,606)**	**(3,730,919)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(610,933)	(460,747)
Sales of property and equipment and intangible assets	9,942	3,067
Cash flows used in investing activities	**(600,991)**	**(457,680)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of subbordinated borrowings	(1,560,000)	-
Receipts of other borrowed funds	10,575,847	6,529,600
Repayments of other borrowed funds	(1,475,700)	(1,300,000)
Cash flows from financing activities	**7,540,147**	**5,229,600**
Net increase in cash and cash equivalents	**2,874,550**	**1,041,001**
Effect of changes in exchange rates on cash and cash equivalents	49,449	10,462
Cash and cash equivalents as at the beginning of the year	4,016,543	2,965,080
Cash and cash equivalents as at the end of the year (Note 11)	**6,940,542**	**4,016,543**

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

KZT'000	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total equity**
Balance as at 1 January 2011	5,199,503	75,750	1,311,684	6,586,937
Profit and total comprehensive income for the year	-	-	6,045,900	6,045,900
Transfer to statutory reserve capital	-	1,226,226	(1,226,226)	-
Balance as at 31 December 2011	**5,199,503**	**1,301,976**	**6,131,358**	**12,632,837**
Balance as at 1 January 2012	5,199,503	1,301,976	6,131,358	12,632,837
Profit and total comprehensive income for the year	-	-	9,668,333	9,668,333
Transfer to statutory reserve capital	-	6,045,900	(6,045,900)	-
Balance as at 31 December 2012	**5,199,503**	**7,347,876**	**9,753,791**	**22,301,170**

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

1 Background

(a) Organisation and operations

Private Bank FTD was established in 1993 and subsequently renamed Bank Alma-Ata in December 1994. In December 1995, the Bank was re-registered as Open Joint Stock Company International Bank Alma-Ata. Due to a change in legislation, the Bank was re-registered as a joint stock company in November 2004. On 4 November 2008, International Bank Alma-Ata JSC was renamed as Home Credit Bank JSC.

The principal activities of the Bank are retail lending, deposit taking and customer accounts maintenance, issuing guarantees, cash and settlement operations and foreign exchange. The activities of the Bank are regulated by the Committee for the Control and Supervision of the Financial Markets and Organisations of the National Bank of the Republic of Kazakhstan (“the FMSC”). The Bank holds banking licence #1.1.188 received from the Financial Markets and Organisations Supervisory and Regulatory Agency (“the FMSA”) on 28 November 2008.

The registered address of the Bank’s head office is 248, Furmanov Street, Almaty, Republic of Kazakhstan, 050059. The Bank has a branch in Astana.

As at 31 December 2012 and 2011 the Bank was owned by Richard Benysek (90.01%) and Home Credit B.V. (9.99%). As at 31 December 2011 and 2012 Home Credit and Finance Bank, a bank incorporated in the Russian Federation, was a holder of a call option enabling it to purchase the 90.01% ownership stake from Richard Benysek. The option is exercisable until 31 December 2014, and its exercise is subject to obtaining regulatory approvals. Due to regulatory uncertainties, as at 31 December 2011 the ability to meet the conditions required to exercise the option was remote and beyond the control of Home Credit and Finance Bank. Therefore, as at 31 December 2011 Richard Benysek exercised control over the Bank and was the Bank’s ultimate controlling owner.

The call option became exercisable after the changes in Kazakh legislation in December 2012, as a result of which the approval of the National Bank of the Republic of Kazakhstan is no longer required for a foreign bank holding to acquire subsidiary banks in the Republic of Kazakhstan, provided that the holding has a rating at least equal to BB-. Therefore, as at 31 December 2012 Home Credit and Finance Bank exercised control over the Bank. The ultimate controlling owner is Petr Kellner, who exercises control over Home Credit and Finance Bank through PPF Group N.V. registered in the Netherlands.

(b) Kazakhstan business environment

The Bank’s operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue being developed, 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 financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

2 Basis of preparation, continued

(c) Functional and presentation currency

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

The KZT is also the presentation currency for the purposes of these financial statements. Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in loan impairment estimates – note 13.

3 Significant accounting policies

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

Certain comparative amounts have been reclassified to conform with the current year presentation (see 3(k)).

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank 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 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.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the National Bank of the Republic of Kazakhstan ("the NBRK") and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies, continued

(c) 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 as effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss, continued

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

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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 statement of financial position when the Bank 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 that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value 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 Bank 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

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, 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 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 Bank 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 Bank 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 Bank 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 amortization process.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition

The Bank 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 Bank 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 Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its 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 Bank 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 Bank 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.

The Bank writes off assets deemed to be uncollectible.

(viii) Derivative financial instruments

Derivative financial instruments include swaps and foreign exchanges forward contracts. 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.

Although the Bank uses derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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.

(d) 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.

3 Significant accounting policies, continued

(d) Property and equipment, continued

(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. The estimated useful lives are as follows:

Computers	3-4 years;
Vehicles	7 years;
Leasehold improvements	7-10 years;
Other assets	3-7 years.

(e) 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 lives are 2-7 years.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank 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 Bank 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 Bank 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.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement 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 uncollectable, it is written off against the related allowance for loan impairment. The Bank 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) 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 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.

(g) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

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

3 Significant accounting policies, continued

(g) Credit related commitments, continued

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

(h) 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) Dividends

The ability of the Bank 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.

(i) 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 on 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.

3 Significant accounting policies, continued

(j) Income and expense recognition

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

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

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

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.

(k) Comparative information

Prior period reclassification

During the preparation of the Bank’s financial statements for the year ended 31 December 2012, management made certain reclassifications affecting the 2011 corresponding figures to conform to the presentation of the financial statements for the year ended 31 December 2012.

Management believes that this presentation is more appropriate presentation in accordance with IFRS. The effect of reclassifications on the corresponding figures can be summarised as follows:

KZT’000	**As reclassified**	**Effect of reclassifications**	**As previously reported**
Statement of comprehensive income for the year ended 31 December 2011			
Interest income	10,017,504	448,031	9,569,473
Fee and commission expense	(578,575)	(259,594)	(318,981)
General administrative expenses	(4,916,621)	(188,437)	(4,728,184)

KZT’000	**As reclassified**	**Effect of reclassifications**	**As previously reported**
Statement of cash flows for the year ended 31 December 2011			
Interest receipts	9,980,743	448,031	9,532,712
Fee and commission payments	(585,287)	(259,594)	(325,693)
General administrative expenses payments	(4,734,369)	(188,437)	(4,545,932)

In the statement of comprehensive income for the year ended 31 December 2011, a charge of KZT 448,031 thousand reclassified from interest income to fee and commission expense represents commission paid to other companies for collection of repayments of the Bank’s loans to customers. A charge of KZT 188,437 thousand reclassified from fee and commission expense to general administrative expenses represent commission paid to collectors. Management considers that the presentation of these amounts within fee and commission expense and general administrative expenses more appropriately reflects the substance of the underlying transactions.

The above reclassifications do not impact the net results for the year or equity.

3 Significant accounting policies, continued

(k) Comparative information, continued

Prior period reclassification, continued

Management has considered the requirement, in the case of changes in classifications to provide three statements of financial position and related notes, and determined that the changes in classifications do not impact the net financial position.

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations were not yet effective as at 31 December 2012, and were not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standard on its financial position or 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 Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank’s 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 Bank does not intend to adopt this standard early.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- IFRS 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.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

3 Significant accounting policies, continued

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

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 KZT'000	2011 KZT'000
Interest income		
Loans to customers	15,790,365	10,016,059
Cash and cash equivalents	60	1,445
	15,790,425	**10,017,504**
Interest expense		
Current accounts and deposits from customers	1,411,284	489,541
Other borrowed funds	797,995	37,367
Deposits and balances from banks	365,644	127,484
Subbordinated borrowings	128,726	215,026
	2,703,649	**869,418**
	13,086,776	**9,148,086**

Included within loans to customers under interest income for the year ended 31 December 2012 is a total of KZT 602,219 thousand (2011: KZT 189,703 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2012 KZT'000	2011 KZT'000
Insurance agent commissions	8,737,710	3,664,437
Fees from retailers	1,317,271	398,013
Contractual penalties from customers	652,696	414,963
Transfer operations	40,142	55,980
Cash withdrawal	29,204	53,689
Other	192,316	47,865
	10,969,339	**4,634,947**

6 Fee and commission expense

	2012 KZT'000	2011 KZT'000
Commission paid to partners	700,381	529,460
Card processing	20,529	14,893
Settlement	18,980	16,470
Deposit insurance fund contributions	14,942	7,340
Other	18,048	10,412
	772,880	**578,575**

7 Net foreign exchange loss

	2012 KZT'000	2011 KZT'000
Trading gain	13,736	30,803
Foreign currency loss	(234,345)	(32,272)
	(220,609)	**(1,469)**

8 Impairment losses

	2012 KZT'000	2011 KZT'000
Loans to customers	(3,563,988)	(530,081)
Other assets	(838)	775
	(3,564,826)	**(529,306)**

9 General administrative expenses

	2012 KZT'000	2011 KZT'000
Employee compensation and payroll related taxes	3,349,342	2,526,697
Professional services	681,929	490,102
Information technology	514,218	391,886
Advertising and marketing	488,354	215,993
Telecommunication and postage	487,756	285,103
Occupancy	407,224	223,229
Taxes other than on income	342,548	239,971
Depreciation and amortisation	280,802	193,065
Travel expenses	211,185	164,041
Other	195,400	186,534
	6,958,758	**4,916,621**

10 Income tax expense

	2012 KZT'000	2011 KZT'000
Current year tax expense	2,904,864	1,683,394
Current tax expense under provided in prior years	50,111	23,229
Deferred taxation movement due to origination and reversal of temporary differences	30,127	889
Total income tax expense	**2,985,102**	**1,707,512**

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

Reconciliation of effective tax rate:

	2012 KZT'000	%	2011 KZT'000	%
Profit before income tax	**12,653,435**	**100.0**	**7,753,412**	**100.0**
Income tax at the applicable tax rate	2,530,687	20.0	1,550,682	20.0
Non-deductible costs	404,304	3.2	133,601	1.7
Under provided in prior years	50,111	0.4	23,229	0.3
	2,985,102	**23.6**	**1,707,512**	**22.0**

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 liabilities as at 31 December 2012 and 2011. These deferred tax liabilities are recognised in these financial statements.

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

2012 KZT'000	**Balance 1 January 2012**	**Recognised in profit or loss**	**Balance 31 December 2012**
Property, equipment and intangible assets	(24,097)	863	(23,234)
Other assets	(46,452)	(55,844)	(102,296)
Other liabilities	17,698	24,854	42,552
	(52,851)	**(30,127)**	**(82,978)**

2011 KZT'000	**Balance 1 January 2011**	**Recognised in profit or loss**	**Balance 31 December 2011**
Property, equipment and intangible assets	(20,750)	(3,347)	(24,097)
Other assets	(46,202)	(250)	(46,452)
Other liabilities	14,990	2,708	17,698
	(51,962)	**(889)**	**(52,851)**

11 Cash and cash equivalents

	2012 KZT'000	2011 KZT'000
Cash on hand	427,363	376,679
Nostro accounts with the National Bank of the Republic of Kazakhstan	7,910,651	4,180,954
Nostro accounts with other banks:		
- rated A- to A+	216,769	167,994
- rated BBB	24,123	-
- rated BBB-	7,593	13,106
- rated from BB- to BB+	1,726	51,910
- rated below B+	9,359	2,618
- not rated	1,960	1,929
Mandatory reserve requirements with the National Bank of the Republic of Kazakhstan	(1,659,002)	(778,647)
	6,940,542	**4,016,543**

Under Kazakhstan legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. The mandatory reserve requirements are not considered to be cash equivalents due to restrictions on their withdrawability.

As at 31 December 2012 none of cash equivalents are impaired or past due (31 December 2011: nil).

As at 31 December 2012 and 2011 the Bank had exposure towards one banking counterparty exceeding 10% of the Bank's equity. The gross value of this balance as at 31 December 2012 and 2011 was KZT 7,910,651 thousand and KZT 4,180,954 thousand, respectively.

12 Financial instruments at fair value through profit or loss

	2012 KZT'000	2011 KZT'000
ASSETS		
Derivative financial instruments		
Foreign currency contracts	177,450	-
	177,450	**-**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	44,860	2,340
	44,860	**2,340**

The table below summarises, by major currencies, the contractual amounts of outstanding swap contracts with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains or losses on these unmatured contracts are recognised in profit or loss as net gain/(loss) on financial instruments at fair value through profit or loss.

	Notional amount		Weighted average contractual exchange rates	
	2012 KZT'000	2011 KZT'000	2012	2011
Buy EUR sell KZT				
Between 3 and 12 months	2,838,750	-	189.25	-
Buy USD sell KZT				
Less than 3 months	4,123,130	5,789,940	152.71	148.46

13 Loans to customers

	2012 KZT'000	2011 KZT'000
Loans to individuals		
Cash loans	38,776,612	15,383,795
Consumer loans	32,132,030	18,395,001
Credit cards	35,474	34,546
Total loans to individuals	**70,944,116**	**33,813,342**
Impairment allowance	(4,084,855)	(1,268,889)
Net loans to individuals	**66,859,261**	**32,544,453**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Cash loans KZT'000	Consumer loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the year	530,075	704,554	34,260	1,268,889
Net charge/(reversal)	2,077,584	1,528,917	(42,513)	3,563,988
(Write-offs)/recovery	(281,254)	(477,296)	10,528	(748,022)
Balance at the end of the year	**2,326,405**	**1,756,175**	**2,275**	**4,084,855**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Cash loans KZT'000	Consumer loans KZT'000	Credit cards KZT'000	Mortgage loans KZT'000	Total KZT'000
Balance at the beginning of the year	218,980	443,863	40,501	81,241	784,585
Net charge/(reversal)	99,115	445,465	(14,499)	-	530,081
Recovery/(write-offs)	211,980	(184,774)	8,258	(81,241)	(45,777)
Balance at the end of the year	**530,075**	**704,554**	**34,260**	**-**	**1,268,889**

(a) Credit quality of loans to individuals

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans KZT'000
Loans to individuals				
- not overdue	63,112,729	(365,855)	62,746,874	0.58
- overdue less than 90 days	4,319,132	(1,435,742)	2,883,390	33.24
- overdue 90-360 days	3,507,788	(2,280,138)	1,227,650	65.00
- overdue more than 360 days	4,467	(3,120)	1,347	69.85
Total loans to individuals	**70,944,116**	**(4,084,855)**	**66,859,261**	**5.76**

13 Loans to customers, continued

(a) Credit quality of loans to individuals, continued

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans KZT'000
Loans to individuals				
- not overdue	31,237,156	(188,900)	31,048,256	0.60
- overdue less than 90 days	1,645,600	(450,723)	1,194,877	27.39
- overdue 90-360 days	929,799	(628,764)	301,035	67.62
- overdue more than 360 days	787	(502)	285	63.79
Total loans to individuals	**33,813,342**	**(1,268,889)**	**32,544,453**	**3.75**

As at 31 December 2012 there were no renegotiated loans included in the loan portfolio (31 December 2011: nil).

(b) Key assumptions and judgments for estimating the loan impairment

The Bank estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to individuals include loss migration rates which are consistent with recent experience and can be estimated based on the historical loss migration pattern for the past twelve months.

Changes in these estimates could have effect on the loan impairment provision. For example, if the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to individuals as at 31 December 2012 would be KZT 668,593 thousand lower/higher (2011: KZT 325,445 thousand).

(c) Loan collateral

The recoverability of loans is primarily dependent on the creditworthiness of the borrowers. Loans to customers are not secured.

(d) Significant credit exposures

As at 31 December 2012 the Bank has no exposures towards borrowers exceeding 10% of the Bank's equity (31 December 2011: nil).

(e) Loan maturities

The maturity of the loan portfolio is presented in note 21(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Property, equipment and intangible assets

KZT'000	Computers	Vehicles	Leasehold improve-ments	Other	Intangible assets	Total
Cost						
Balance at 1 January 2012	423,435	67,969	120,357	273,181	323,982	1,208,924
Additions	203,510	49,847	5	167,511	171,496	592,369
Disposals	(16,245)	(9,926)	-	(17,643)	-	(43,814)
At 31 December 2012	**610,700**	**107,890**	**120,362**	**423,049**	**495,478**	**1,757,479**
Depreciation and amortisation						
Balance at 1 January 2012	(189,769)	(14,426)	(43,069)	(144,167)	(66,197)	(457,628)
Depreciation and amortisation for the year	(129,517)	(16,188)	(11,886)	(69,037)	(54,174)	(280,802)
Disposals	11,336	7,738	-	14,699	-	33,773
Balance at 31 December 2012	**(307,950)**	**(22,876)**	**(54,955)**	**(198,505)**	**(120,371)**	**(704,657)**
Carrying amounts						
At 31 December 2012	**302,750**	**85,014**	**65,407**	**224,544**	**375,107**	**1,052,822**
Cost						
Balance at 1 January 2011	200,906	28,787	120,357	185,309	249,404	784,763
Additions	232,805	45,394	-	94,818	83,308	456,325
Disposals	(10,276)	(6,212)	-	(6,946)	(8,730)	(32,164)
At 31 December 2011	**423,435**	**67,969**	**120,357**	**273,181**	**323,982**	**1,208,924**
Depreciation and amortisation						
Balance at 1 January 2011	(109,774)	(14,546)	(29,700)	(104,062)	(35,578)	(293,660)
Depreciation and amortisation for the year	(89,502)	(6,092)	(13,369)	(45,788)	(38,314)	(193,065)
Disposals	9,507	6,212	-	5,683	7,695	29,097
Balance at 31 December 2011	**(189,769)**	**(14,426)**	**(43,069)**	**(144,167)**	**(66,197)**	**(457,628)**
Carrying amounts						
At 31 December 2011	**233,666**	**53,543**	**77,288**	**129,014**	**257,785**	**751,296**
At 1 January 2011	**91,132**	**14,241**	**90,657**	**81,247**	**213,826**	**491,103**

There were no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2012 (2011: nil).

15 Other assets

	2012 KZT'000	2011 KZT'000
Other receivables	1,014,372	187,930
Total other financial assets	**1,014,372**	**187,930**
Prepayments	1,054,037	750,072
Materials	143,306	69,546
Prepayment of taxes other than income tax	61,149	45,156
Receivables from employees	15,746	21,959
Other	85,512	87,761
Impairment allowance	(149)	-
Total other non-financial assets	**1,359,601**	**974,494**
Total other assets	**2,373,973**	**1,162,424**

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

	2012 KZT'000	2011 KZT'000
Balance at the beginning of the year	-	16,075
Net charge/(reversal)	838	(775)
Write-offs	(689)	(15,300)
	149	**-**

As at 31 December 2012 and 2011 no overdue receivables were included in other assets.

As at 31 December 2012 and 2011 the Bank had no exposures towards debtors exceeding 10% of the Bank's equity.

16 Deposits and balances from banks

	2012 KZT'000	2011 KZT'000
Vostro accounts	107,083	38,711
Term deposits	7,650,776	1,424,219
	7,757,859	**1,462,930**

As at 31 December 2012 the Bank has deposits from one counterparty (31 December 2011: one counterparty) exceeding 10% of the Bank's equity. Such balances totalled KZT 7,757,859 thousand as at 31 December 2012 (31 December 2011: KZT 1,462,930 thousand).

17 Current accounts and deposits from customers

	2012 KZT'000	2011 KZT'000
Current accounts and demand deposits		
- Retail	6,407,903	3,734,506
- Corporate	3,807,988	1,606,641
Term deposits		
- Retail	2,405,604	1,012,005
- Corporate	15,936,055	7,884,781
	28,557,550	**14,237,933**

As at 31 December 2012 the Bank has balances with one customer (31 December 2011: four customers) exceeding 10% of the Bank's equity. Such balances totalled KZT 8,047,562 thousand as at 31 December 2012 (31 December 2011: KZT 7,059,168 thousand).

18 Other borrowed funds and subordinated borrowings

A summary of terms of other borrowed funds and subordinated borrowings as at 31 December 2012 and 31 December 2011 is presented below:

	Issue date	Maturity date	Currency	Interest rate	31 December 2012 KZT'000	31 December 2011 KZT'000
Subordinated borrowings from shareholders	29/06/2009	30/12/2016	KZT	variable	**640,686**	**2,201,178**
Other borrowed funds						
Air Bank A.S.	16/04/2012	31/10/2014	KZT	variable	6,491,318	-
Home Credit and Finance Bank	28/11/2011	26/07/2013	USD	7.25%	5,287,208	6,548,046
Home Credit and Finance Bank	5/09/2012	4/03/2013	KZT	13.10%	1,559,692	-
ING Bank B.V.	12/06/2012	12/06/2013	EUR	5.22%	3,076,294	-
					16,414,512	**6,548,046**

Subordinated borrowings

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

19 Other liabilities

	2012 KZT'000	2011 KZT'000
Payables to partners	2,210,380	1,498,173
Payables for services	385,596	180,274
Amounts due to collectors	-	16,110
Total other financial liabilities	**2,595,976**	**1,694,557**
Payables to employees	443,021	382,526
Taxes payable other than income tax	145,682	133,331
Vacation reserve	58,720	38,040
Other non-financial liabilities	757	4,667
Total other non-financial liabilities	**648,180**	**558,564**
Total other liabilities	**3,244,156**	**2,253,121**

Payables to partners represent the Bank's liabilities to organisations which either sell goods on bank credit or deliver financial means to the Bank's customers.

20 Share capital

(a) Issued capital

As at 31 December 2012 the authorised share capital comprised 160,240 ordinary shares (31 December 2011: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2011: 34,890 ordinary shares).

(b) Dividends

In accordance with Kazakhstan legislation the distributable reserves are limited to the balance of retained earnings as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. As at 31 December 2012 the Bank had retained earnings, including profit for the current year, of KZT 9,753,791 thousand (31 December 2011: KZT 6,131,358 thousand).

No dividends were declared for the year ended 31 December 2012 (2011: nil).

20 Share capital, continued

(c) Statutory reserve capital

In accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSA on 31 January 2011, the Bank should establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities (as defined in the Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FMSA on 25 December 2006) during the preceding year. Such percentage increase should be not less than 10% and not more than 100%.

During 2012 the shareholders approved a transfer of KZT 6,045,900 thousand from retained earnings to this statutory reserve capital (2011: KZT 1,226,226 thousand).

The statutory reserve capital is non-distributable.

21 Risk management

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

(a) Risk management policies and procedures

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

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

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk 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.

21 Risk management, continued

(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 optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Board. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank 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 Bank 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 and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. A summary of the interest gap position for major financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2012					
ASSETS					
Loans to customers	7,096,846	6,858,310	21,200,428	31,703,677	66,859,261
	7,096,846	**6,858,310**	**21,200,428**	**31,703,677**	**66,859,261**
LIABILITIES					
Deposits and balances from banks	3,887,931	318,750	3,444,095	-	7,650,776
Term deposits from customers	4,897,711	7,591,929	4,284,673	1,567,346	18,341,659
Subordinated borrowings	640,686	-	-	-	640,686
Other borrowed funds	1,559,692	7,613,402	7,241,418	-	16,414,512
	10,986,020	**15,524,081**	**14,970,186**	**1,567,346**	**43,047,633**
Net position as at 31 December 2012	**(3,889,174)**	**(8,665,771)**	**6,230,242**	**30,136,331**	**23,811,628**

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2011					
ASSETS					
Loans to customers	1,896,069	5,903,239	12,172,515	12,572,630	32,544,453
	1,896,069	**5,903,239**	**12,172,515**	**12,572,630**	**32,544,453**
LIABILITIES					
Deposits and balances from banks	-	314,153	1,110,066	-	1,424,219
Term deposits from customers	3,188,319	418,485	3,968,869	1,321,113	8,896,786
Subordinated borrowings	2,201,178	-	-	-	2,201,178
Other borrowed funds	-	-	6,548,046	-	6,548,046
	5,389,497	**732,638**	**11,626,981**	**1,321,113**	**19,070,229**
Net position as at 31 December 2011	**(3,493,428)**	**5,170,601**	**545,534**	**11,251,517**	**13,474,224**

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented 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 rates (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 KZT'000	2011 KZT'000
100 bp parallel fall	58,093	(2,490)
100 bp parallel rise	(58,093)	2,490

(ii) Currency risk

The Bank 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 foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

21 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	2,631,689	4,233,739	75,114	6,940,542
Mandatory reserve with the National Bank of the Republic of Kazakhstan	1,659,002	-	-	1,659,002
Loans and advances to banks	1,411	-	-	1,411
Loans to customers	66,859,261	-	-	66,859,261
Other financial assets	1,014,372	-	-	1,014,372
Total assets	**72,165,735**	**4,233,739**	**75,114**	**76,474,588**
LIABILITIES				
Deposits and balances from banks	7,757,859	-	-	7,757,859
Current accounts and deposits from customers	25,033,910	3,495,679	27,961	28,557,550
Subordinated borrowings	640,686	-	-	640,686
Other borrowed funds	8,051,010	5,287,208	3,076,294	16,414,512
Other financial liabilities	2,595,976	-	-	2,595,976
Total liabilities	**44,079,441**	**8,782,887**	**3,104,255**	**55,966,583**
Net position as at 31 December 2012	**28,086,294**	**(4,549,148)**	**(3,029,141)**	**20,508,005**
The effect of derivatives held for risk management	**(6,961,880)**	**4,078,270**	**3,016,200**	**132,590**
Net position after derivatives held for risk management purposes	**21,124,414**	**(470,878)**	**(12,941)**	**20,640,595**

21 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	2,434,573	1,526,540	55,430	4,016,543
Mandatory reserve with the National Bank of the Republic of Kazakhstan	778,647	-	-	778,647
Loans to customers	32,544,453	-	-	32,544,453
Other financial assets	187,930	-	-	187,930
Total assets	**35,945,603**	**1,526,540**	**55,430**	**37,527,573**
LIABILITIES				
Deposits and balances from banks	1,462,930	-	-	1,462,930
Current accounts and deposits from customers	12,748,133	1,478,300	11,500	14,237,933
Subordinated borrowings	2,201,178	-	-	2,201,178
Other borrowed funds	-	6,548,046	-	6,548,046
Other financial liabilities	1,692,220	2,337	-	1,694,557
Total liabilities	**18,104,461**	**8,028,683**	**11,500**	**26,144,644**
Net position as at 31 December 2011	**17,841,142**	**(6,502,143)**	**43,930**	**11,382,929**
The effect of derivatives held for risk management	**(5,789,940)**	**5,787,600**	**-**	**(2,340)**
Net position after derivatives held for risk management purposes	**12,051,202**	**(714,543)**	**43,930**	**11,380,589**

A weakening 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 Bank 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 KZT'000	2011 KZT'000
10% appreciation of USD against KZT	(37,670)	(57,163)
10% appreciation of other currencies against KZT	(1,035)	3,514

A strengthening of the KZT against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

21 Risk management, continued

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank 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 Board of Directors.

The 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;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail loan applications are originated by Bank's own Sales Department workforce, or by employees of counterparties (retailers), using automated system of loan origination and approval, reviewed by the Retail Lending Department through the use of scoring models. The Bank's Risk Department processes the applications including data verification based on procedures approved by the Bank's Credit policy.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks. Monitoring of the portfolio is done on regular basis to assess its performance.

The Bank'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.

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

	2012 KZT'000	2011 KZT'000
ASSETS		
Cash equivalents	6,513,179	3,639,864
Mandatory reserve with the National Bank of the Republic of Kazakhstan	1,659,002	778,647
Loans and advances to banks	1,411	-
Financial instruments at fair value through profit or loss	177,450	-
Loans to customers	66,859,261	32,544,453
Other financial assets	1,014,372	187,930
Total maximum exposure	**76,224,675**	**37,150,894**

For analysis of the concentration of credit risk in respect of loans to customers refer to Note 13.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 23.

21 Risk management, continued

(d) Liquidity risk

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

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

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

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

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

The following tables show the undiscounted cash flows on financial assets and liabilities and credit-related commitments on the basis of their remaining contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

21 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2012 is 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	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	107,083	3,973,279	327,331	3,769,761	-	8,177,454	7,757,859
Current accounts and deposits from customers	12,353,375	2,794,929	7,771,654	4,545,745	1,758,283	29,223,986	28,557,550
Subordinated borrowings	5,141	10,283	15,424	30,848	825,088	886,784	640,686
Other borrowed funds	-	1,593,518	5,750,514	5,572,692	4,787,441	17,704,165	16,414,512
Other financial liabilities	385,596	2,210,380	-	-	-	2,595,976	2,595,976
Derivative liabilities							
- Inflow	-	(4,078,270)	(3,016,200)	-	-	(7,094,470)	(7,094,470)
- Outflow	-	4,123,130	2,838,750	-	-	6,961,880	6,961,880
Total liabilities	**12,851,195**	**10,627,249**	**13,687,473**	**13,919,046**	**7,370,812**	**58,455,775**	**55,833,993**
Credit related commitments	**115,317**	**-**	**-**	**-**	**-**	**115,317**	**115,317**

21 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2011 is 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	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	71,638	303,500	27,793	1,143,136	-	1,546,067	1,462,930
Current accounts and deposits from customers	6,576,186	1,841,623	432,007	4,203,575	1,497,312	14,550,703	14,237,933
Subordinated borrowings	18,851	35,347	53,020	106,040	2,850,968	3,064,226	2,201,178
Other borrowed funds	-	-	-	6,753,487	-	6,753,487	6,548,046
Other financial liabilities	180,274	1,514,283	-	-	-	1,694,557	1,694,557
Derivative liabilities							
- Inflow	(5,787,600)	-	-	-	-	(5,787,600)	(5,787,600)
- Outflow	5,789,940	-	-	-	-	5,789,940	5,789,940
Total liabilities	**6,849,289**	**3,694,753**	**512,820**	**12,206,238**	**4,348,280**	**27,611,380**	**26,146,984**
Credit related commitments	**227,176**	**-**	**-**	**-**	**-**	**227,176**	**227,176**

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

	2012 KZT'000	2011 KZT'000
On demand and less than 1 month	2,134,400	1,362,755
From 1 to 3 months	2,763,311	1,825,564
From 3 to 6 months	7,591,929	418,485
From 6 to 12 months	4,284,673	3,968,869
More than 1 year	1,567,346	1,321,113
	18,341,659	**8,896,786**

21 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Non-derivative assets							
Cash and cash equivalents	6,940,542	-	-	-	-	-	6,940,542
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	1,659,002	-	1,659,002
Loans and advances to banks	-	-	-	1,411	-	-	1,411
Loans to customers	824,136	2,076,167	28,058,738	31,703,677	-	4,196,543	66,859,261
Property, equipment and intangible assets	-	-	-	-	1,052,822	-	1,052,822
Other assets	270,899	916,458	485,832	700,635	-	149	2,373,973
Total non-derivative assets	**8,035,577**	**2,992,625**	**28,544,570**	**32,405,723**	**2,711,824**	**4,196,692**	**78,887,011**
Non-derivative liabilities							
Deposits and balances from banks	107,083	3,887,931	3,762,845	-	-	-	7,757,859
Current accounts and deposits from customers	12,350,291	2,763,311	11,876,602	1,567,346	-	-	28,557,550
Subordinated borrowings	686	-	-	640,000	-	-	640,686
Other borrowed funds	-	1,559,692	10,983,573	3,871,247	-	-	16,414,512
Current tax liability	-	-	20,690	-	-	-	20,690
Deferred tax liability	-	-	-	82,978	-	-	82,978
Other liabilities	449,805	2,755,564	38,787	-	-	-	3,244,156
Total non-derivative liabilities	**12,907,865**	**10,966,498**	**26,682,497**	**6,161,571**	**-**	**-**	**56,718,431**
Net position	**(4,872,288)**	**(7,973,873)**	**1,862,073**	**26,244,152**	**2,711,824**	**4,196,692**	**22,168,580**

21 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Non-derivative assets							
Cash and cash equivalents	4,016,543	-	-	-	-	-	4,016,543
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	778,647	-	778,647
Loans to customers	579,027	1,317,042	16,828,645	12,572,630	-	1,247,109	32,544,453
Current tax assets	-	-	137,873	-	-	-	137,873
Property, equipment and intangible assets	-	-	-	-	751,296	-	751,296
Other assets	230,473	229,141	290,424	412,386	-	-	1,162,424
Total non-derivative assets	**4,826,043**	**1,546,183**	**17,256,942**	**12,985,016**	**1,529,943**	**1,247,109**	**39,391,236**
Non-derivative liabilities							
Deposits and balances from banks	62,930	-	1,400,000	-	-	-	1,462,930
Current accounts and deposits from customers	6,703,902	1,825,564	4,387,354	1,321,113	-	-	14,237,933
Subordinated borrowings	1,178	-	-	2,200,000	-	-	2,201,178
Other borrowed funds	-	-	6,548,046	-	-	-	6,548,046
Deferred tax liabilities	-	-	-	52,851	-	-	52,851
Other liabilities	298,677	1,641,173	313,271	-	-	-	2,253,121
Total non-derivative liabilities	**7,066,687**	**3,466,737**	**12,648,671**	**3,573,964**	**-**	**-**	**26,756,059**
Net position	**(2,240,644)**	**(1,920,554)**	**4,608,271**	**9,411,052**	**1,529,943**	**1,247,109**	**12,635,177**

22 Capital management

The FMSC sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSC banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2012 and 2011, this minimum level of tier 1 capital to total assets was 6% and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 12%. The Bank was in compliance with the statutory capital requirements as at 31 December 2012 and 2011.

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

	2012 KZT'000	2011 KZT'000
Tier 1 capital		
Share capital	5,199,503	5,199,503
Statutory reserve capital of prior periods	1,301,976	75,750
Retained earnings of prior periods	6,131,358	1,311,684
Intangible assets	(375,107)	(257,785)
Total tier 1 capital	**12,257,730**	**6,329,152**
Tier 2 capital		
Profit for the year	9,668,333	6,045,900
Subordinated borrowings	640,000	2,200,000
Total tier 2 capital	**10,308,333**	**8,245,900**
Total capital	**22,566,063**	**14,575,052**
Total risk weighted assets, unaudited	**68,991,760**	**43,752,962**
Total capital as a percentage of risk-weighted assets (total capital ratio), unaudited	**32.7%**	**33.3%**
Total tier 1 capital as a percentage of risk-weighted assets (tier 1 capital ratio) , unaudited	**17.8%**	**14.5%**

23 Commitments

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

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

23 Commitments, continued

	2012 KZT'000	2011 KZT'000
Contracted amount		
Loan and credit line commitments	105,403	223,768
Guarantees	9,914	3,408
	115,317	**227,176**

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

As at 31 December 2012 the Bank had no exposures towards customers exceeding 10% of the Bank's equity (31 December 2011: nil).

24 Operating leases

The Bank leases a number of premises under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. All lease agreements are concluded on the terms that allow the Bank to cancel the lease at any time during the lease term. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

As at 31 December 2012 the Bank had no non-cancelable operating lease payables (31 December 2011: nil). During the year ended 31 December 2012 KZT 407,224 thousand was recognised as an expense in statement of comprehensive income in respect of operating leases (2011: KZT 223,229 thousand).

25 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 Bank does not have full coverage for its equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Republic of 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 who 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 Kazakhstan suggest that the tax authorities are taking more assertive position in their interpretation and enforcement of tax legislation.

25 Contingencies, continued

(c) Taxation contingencies, continued

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, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

As at 31 December 2012 the Bank's ultimate controlling owner was Petr Kellner, whereas as at 31 December 2011 the Bank's ultimate controlling owner was Richard Benysek. Please refer to Note 1(a) for details.

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

Total remuneration included in personnel expenses for the years ended 31 December 2012 and 2011 is as follows:

	2012 KZT'000	2011 KZT'000
Members of the Board of Directors	109,085	92,444
Members of the Management Board	131,644	90,558
	240,729	**183,002**

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

	31 December 2012 KZT'000	Average interest rate, %	31 December 2011 KZT'000	Average interest rate, %
Statement of Financial Position				
LIABILITIES				
Current accounts and deposits from customers	-	-	6,760	8.63

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

	2012 KZT'000	2011 KZT'000
Statement of comprehensive income		
Interest expense	7	590

(c) Transactions with other related parties

Other related parties as at 31 December 2012 included subsidiaries and associates of the ultimate controlling owner.

26 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2012 with other related parties were as follows (there were no balances with other related parties as at 31 December 2011):

	31 December 2012 KZT'000	Average interest rate, %
Statement of Financial Position		
ASSETS		
Other Assets		
-In KZT	565,575	-
-In EUR	701,752	-
LIABILITIES		
Financial instruments at fair value through profit and loss		
-In KZT	44,860	-
Deposits and balances from banks		
-In KZT	7,757,859	12.08%
Current accounts and deposits from customers		
-In KZT	937,830	6.75%
Subordinated borrowings		
-In KZT	640,686	9.64%
Other borrowed funds		
-In KZT	8,051,010	11.74%
-In USD	5,287,208	7.25%
Other liabilities		
-In KZT	18,727	-

27 Financial assets and liabilities: fair values and accounting classifications

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

KZT'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	6,513,179	-	6,513,179	6,513,179
Mandatory reserve with the National Bank of the Republic of Kazakhstan	1,659,002	-	1,659,002	1,659,002
Loans and advances to banks	1,411	-	1,411	1,411
Loans to customers	66,859,261	-	66,859,261	66,859,261
Other financial assets	1,014,372	-	1,014,372	1,014,372
	76,047,225	**-**	**76,047,225**	**76,047,225**
Deposits and balances from banks	-	7,757,859	7,757,859	8,124,573
Current accounts and deposits from customers	-	28,557,550	28,557,550	29,196,047
Subordinated liabilities	-	640,686	640,686	692,932
Other borrowed funds	-	16,414,512	16,414,512	16,814,770
Other financial liabilities	-	2,595,976	2,595,976	2,595,976
	-	**55,966,583**	**55,966,583**	**57,424,298**

27 Financial assets and liabilities: fair values and accounting classifications, 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	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	3,639,864	-	3,639,864	3,639,864
Mandatory reserve with the National Bank of the Republic of Kazakhstan	778,647		778,647	778,647
Loans to customers	32,544,453	-	32,544,453	32,544,453
Other financial assets	187,930	-	187,930	187,930
	37,150,894	**-**	**37,150,894**	**37,150,894**
Deposits and balances from banks	-	1,462,930	1,462,930	1,557,879
Current accounts and deposits from customers	-	14,237,933	14,237,933	14,874,461
Subordinated liabilities	-	2,201,178	2,201,178	2,626,283
Other borrowed funds	-	6,548,046	6,548,046	6,549,721
Other financial liabilities	-	1,626,077	1,626,077	1,626,077
	-	**26,076,164**	**26,076,164**	**27,234,421**

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

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.

28 Events after the reporting period

In January 2013 Home Credit and Finance Bank exercised the call option described in Note 1(a) and became the owner of the 90.01% ownership share in the Bank. In addition, in January 2013 Home Credit and Finance Bank purchased the 9.99% ownership share in the Bank from Home Credit B.V. As a result of these transactions, Home Credit and Finance Bank became the 100% owner of the Bank.