Kazyna Capital Management JSC

Consolidated financial statements

Year ended 31 December 2012
with independent auditors' report

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Independent auditors' report

To the Shareholder and Board of Directors of Kazyna Capital Management Joint Stock Company

We have audited the accompanying consolidated financial statements of JSC Kazyna Capital Management and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Kazyna Capital Management 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.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

15 April 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

(Thousands of Tenge)

	Notes	*2012*	*2011*
Assets			
Cash and cash equivalents	5	**237,941**	1,835,103
Amounts due from credit institutions	6	**27,625,165**	27,985,959
Financial instruments at fair value through profit or loss	7	**12,917,499**	7,026,120
Investment securities:			
- available-for-sale	8	**40,477,128**	41,166,632
- held-to-maturity	8	**1,588,222**	–
Derivative financial instrument	8	**32,280**	–
Trade accounts receivable	9	**117,741**	9,018
Property and equipment	10	**31,880**	43,160
Intangible assets		**10,962**	12,952
Current corporate income tax assets	11	**42,879**	288,620
Deferred corporate income tax assets	11	**14,057**	5,060
Other assets		**10,140**	12,101
Total assets		83,105,894	78,384,725
Liabilities			
Trade and other payables		**55,664**	58,038
Total liabilities		55,664	58,038
Equity			
Share capital	12	**67,040,000**	67,040,000
Revaluation reserve for available-for-sale securities		**404,261**	(777,829)
Foreign currency translation reserve		**133,752**	6,534
Retained earnings		**15,467,777**	12,054,964
Total equity attributable to shareholder of the Group		83,045,790	78,323,669
Non-controlling interest		**4,440**	3,018
Total equity		83,050,230	78,326,687
Total equity and liabilities		83,105,894	78,384,725

Signed and authorised for release on behalf of the Management Board of the Group

B.I. Zhangurazov Chairman of the Board

I.L. Kim Chief Accountant

15 April 2013

The accompanying notes on pages 6 to 32 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

(Thousands of Tenge)

	Notes	*2012*	*2011*
Interest income			
Amounts due from credit institutions		**1,414,475**	1,982,370
Investment securities:		**2,593,386**	2,048,766
Net interest income		**4,007,861**	4,031,136
Non-interest income			
Net gains from transactions with investment securities available-for-sale		**446,455**	255,516
Dividend income from investments made	13	**458,465**	15,566
Net gains/(losses) from foreign currency			
- translation differences		**1,001,257**	187,646
- dealing		**(12,909)**	(2,685)
Other income		**35,258**	13,056
		1,928,526	469,099
Non-interest expenses			
Net losses, less gains, from financial instruments at fair value through profit or loss	14	**(214,724)**	(56,140)
Personnel expenses	15	**(268,853)**	(304,804)
Depreciation of property and equipment and amortization of intangible assets		**(19,103)**	(16,510)
Administrative and other operating expenses	15	**(309,912)**	(331,990)
		(812,592)	(709,444)
Net non-interest income/(expense)		**1,115,934**	(240,345)
Profit before income tax expense		**5,123,795**	3,790,791
Income tax expenses	11	**(720,495)**	(454,546)
Profit for the reporting year		**4,403,300**	3,336,245
Attributable to:			
- shareholder of the Group		**4,416,219**	3,344,688
- non-controlling interests		**(12,919)**	(8,443)

The accompanying notes on pages 6 to 32 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(Thousands of Tenge)

	Notes	*2012*	*2011*
Profit for the reporting year		**4,403,300**	3,336,245
Other comprehensive income			
Unrealised gains/(losses) on investment securities available-for-sale, net of tax		**1,610,751**	(454,653)
Realised gains on investment securities available-for-sale reclassified to the income statement		**(436,837)**	(255,516)
Foreign exchange revaluation		**127,218**	21,864
Deferred corporate income tax benefit	11	**8,176**	–
Other comprehensive income for the year, net of tax		**1,309,308**	(688,305)
Total comprehensive income		**5,712,608**	2,647,940
Attributable to:			
- shareholder of the Group		**5,725,527**	2,656,383
- non-controlling interests		**(12,919)**	(8,443)

The accompanying notes on pages 6 to 32 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(Thousands of Tenge)

	Attributable to shareholders of the Group						
	Share capital	***Retained earnings***	***Foreign currency revaluation reserve***	***Revaluation reserve for available-for-sale securities***	***Total***	***Non-controlling interest***	***Total equity***
At 31 December, 2010	67,040,000	9,046,613	(15,330)	(67,660)	76,003,623	11,461	76,015,084
Comprehensive income for the year	–	3,344,688	21,864	(710,169)	2,656,383	(8,443)	2,647,940
Dividends to the shareholder of the Group (Note 12)	–	(336,336)	–	–	(336,336)	–	(336,336)
At 31 December, 2011	67,040,000	12,054,964	6,534	(777,829)	78,323,669	3,018	78,326,687
Comprehensive income for the year	–	**4,416,219**	**127,218**	**1,182,090**	**5,725,527**	**(12,919)**	**5,712,608**
Acquisition of non-controlling interest (Note 1)	–	–	–	–	–	**14,341**	**14,341**
Dividends to the shareholder of the Group (Note 12)	–	**(1,003,406)**	–	–	**(1,003,406)**	–	**(1,003,406)**
At 31 December, 2012	**67,040,000**	**15,467,777**	**133,752**	**404,261**	**83,045,790**	**4,440**	**83,050,230**

The accompanying notes on pages 6 to 32 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(Thousands of Tenge)

	Notes	2012	2011
Cash flows from operating activities			
Interest received		**4,027,733**	4,060,066
Personnel expenses paid		**(263,126)**	(311,977)
Other operating expenses paid		**(308,484)**	(323,255)
Realised gains less losses from dealing in foreign currencies		**157,787**	(2,685)
Gains from financial instruments at fair value through profit or loss		**343,842**	15,566
Other operating income received		**–**	13,236
Cash flows from operating activities before changes in operating assets and liabilities		**3,957,752**	3,450,951
Net (increase)/ decrease in operating assets			
Amounts due from credit institutions		**340,922**	1,946,100
Financial instruments at fair value through profit or loss		**(6,106,102)**	(4,131,964)
Other assets		**(16,978)**	4,283
Net (increase)/ decrease in operating liabilities			
Other liabilities		**(9,530)**	(938)
Net cash flows from operating activities before income tax		**(1,833,936)**	1,268,432
Income tax paid		**(475,575)**	(310,645)
Net cash flows (used in) / from operating activities		**(2,309,511)**	957,787
Cash flows from investing activities			
Purchase of investment securities		**(15,991,639)**	(29,193,122)
Proceeds from sale and redemption of investment securities		**19,039,575**	14,175,106
Purchase of held-to-maturity investment securities		**(1,562,618)**	–
Proceeds from redemption of held-to-maturity investment securities		**–**	4,431,669
Purchase of property and equipment	10	**(3,174)**	(15,902)
Purchase of intangible assets		**(2,800)**	(6,006)
Net cash from / (used in) investing activities		**1,479,344**	(10,608,255)
Cash flows from financing activities			
Proceeds from issue of share capital		**15,603**	–
Dividends paid to shareholders of the Group	12	**(1,003,406)**	(336,336)
Net cash used in financing activities		**(987,803)**	(336,336)
Effect of exchange rate changes on cash and cash equivalents		**220,808**	720
Net decrease of cash and cash equivalents		**(1,597,162)**	(9,986,084)
Cash and cash equivalents, beginning of the year		**1,835,103**	11,821,187
Cash and cash equivalents, ending of the year	5	**237,941**	1,835,103

The accompanying notes on pages 6 to 32 are an integral part of these financial statements.

1. Principal activities

Kazyna Capital Management Joint Stock Company ("the Company") and its subsidiaries (together referred to as "the Group") was established by the Government of the Republic of Kazakhstan in accordance with the legislation of the Republic of Kazakhstan as the joint stock company on 7 March 2007. As at 31 December 2012 and 2011, Sovereign Wealth Fund "Samruk-Kazyna" JSC owned 100% shares of the Company. The ultimate principal shareholder of the Group is the Government of the Republic of Kazakhstan.

The principal activities of the Group are the establishment of and participation in investment funds and investments in financial instruments.

Legal address of the Company's Head Office is 291/3a, Dostyk ave., Almaty, Republic of Kazakhstan. Actual address: 447 Dostyk str., Almaty, 050020, Republic of Kazakhstan.

As at 31 December 2012 the Group has six subsidiaries (2011: five):

Name	*Country of incorporation*	*Principal activities*	*Ownership, %*	
			2012	*2011*
Kazakhstan-Tajikistan fund of direct investments JSC	Republic of Kazakhstan	Participation in investment projects	**80.00**	80.00
Kazyna Seriktes B.V.	Netherlands	Investments in Falah Growth Fund	**99.90**	99.90
Kazyna Investment Holding Cooperatief U.A.	Netherlands	Investments in Falah Growth Fund	**100.00**	100.00
Nurzhol Energy LLP	Republic of Kazakhstan	Investments in Macquarie Renaissance Infrastructure Fund	**100.00**	100.00
MRIF CASP C.V.	Netherlands	Investments in Macquarie Renaissance Infrastructure Fund	**99.00**	99.00
Kyrgyz-Kazakhstan Investment Fund JSC	Republic of Kazakhstan	Participation in investment projects	**100.00**	–

All of the above subsidiaries, except for Kyrgyz-Kazakhstan Investment Fund JSC (established in 2012), were founded by the Group before 2011.

During 2012 Kazakhstan-Tajikistan fund of direct investments JSC has increased the share capital, resulting in increase of non-controlling interest of the Company in Kazakhstan-Tajikistan fund of direct investments JSC by KZT 14,341 thousand.

2. Basis of preparation

General

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are presented in thousands of Kazakh Tenge ("Tenge" or "KZT"), unless otherwise is stated.

The financial statements have been prepared under the historical cost convention except for certain investment securities, financial instruments available-for-sale and derivative financial instrument that have been measured at fair value.

3. Summary of accounting policies

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous reporting year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following IFRS amendments effective as of 1 January 2012:

- Amendment to IAS 12 *Income Tax – Deferred Taxes – Recovery of Underlying Assets;*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – A Significant Hyperinflation and Cancellation of Fixed Dates for Companies Applying IFRS for the First Time;*
- Amendments to IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements.*

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

The adoption of these standards is described below:

Amendment to IAS 12 Income Tax – Deferred Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Besides, the amendment introduces a requirement to calculate deferred tax on non-depreciable assets revalued as per revaluation model in IAS 16 only on the basis of the asset sale assumption. The amendment becomes effective for annual periods beginning on or after 1 January 2012. This amendment did not have any impact on the financial position, financial performance or information disclosed by the Group.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – A Significant Hyperinflation and Cancellation of Fixed Dates for Companies Applying IFRS for the First Time

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. This amendment did not have any impact on the financial position, financial performance or information disclosed by the Group.

Amendment to IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements.

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendments require disclosures of continuing involvement in derecognised assets to enable the users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The Group does not have assets with similar characteristics for this reason the amendment did not have an effect on the financial statements.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. If necessary, the accounting policies of subsidiaries are changed to bring it into conformity with the accounting policies of the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

3. Summary of accounting policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Those investment funds in which the Group has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, at initial recognition are recorded as financial instruments at fair value through profit or loss in accordance with the scope exemption in IFRS 28 *Investments in Associates of Investment Funds.*

Initial recognition is made at fair value on the transaction date with subsequent measurement at fair value as at or prior the reporting date. All changes in the fair value of investment funds are recorded in the consolidated income statement.

Interest in joint ventures

The Group has an interest in a joint venture which is a jointly controlled operation, whereby the venturers have a contractual arrangement that establishes a joint control over the economic activities of the venture. The agreement requires unanimous agreement for financial and operating decisions among the venturers.

Those investment funds which are jointly controlled by the Group, at initial recognition are recorded as financial instruments through profit or loss in accordance with the scope exemption in IFRS 31 *Interest in Joint Ventures.*

Initial recognition is made at fair value on the transaction date with subsequent measurement at fair value as at or prior the reporting date. All changes in the fair value of investment funds are recorded in the consolidated income statement.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. At initial recognition financial assets are measured at fair value. Plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date the asset is delivered to or received from the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

'Day 1" profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognized in the consolidated income statement when the investments are impaired, as well as through the amortization process.

(Thousands of Tenge)

3. Summary of accounting policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

Financial assets available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. At which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Fair value determination

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or places deposits for various periods of time with other banks. Amounts from credit institutions with fixed maturity are subsequently measured at amortized cost using an effective interest rate. Amounts without fixed maturity are carried at amortized cost based on expected maturity of such assets. Amounts due from credit institutions are recorded less any allowances for impairment.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities lent to counterparties are retained in the consolidated statement of financial position. In this case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as other assets when their fair value is positive and as other liabilities when it is negative.

Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies (dealing), depending on the nature of the instrument.

Derivatives embedded in other financial instruments are accounted for separately and recorded at fair value if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not held for trading or revalued at fair value though profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Rent

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(Thousands of Tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized from the consolidated statement of financial position where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Kazakhstan also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses within taxes other than corporate income taxes.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

3. Summary of accounting policies (continued)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Computer hardware	From 3 to 6 years
Vehicles	From 4 to 7 years
Other	From 2 to 10 years

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives and recorded within profit or loss. The useful lives of intangible assets are 5 years.

Share capital

Share capital

Ordinary shares are shown within equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional capital.

Dividends on common shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event in accordance with IAS 10 *Subsequent Events* and are appropriately disclosed.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

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

(Thousands of Tenge)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as trading and available-for-sale instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Foreign currency translation

The financial statements are presented in Kazakhstani Tenge, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by the Kazakhstan Stock Exchange (the "KASE") at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in gains less losses from foreign currencies dealing.

Below are the exchange rates at 31 December which have been used by the Group when preparing the financial statements:

	2012	*2011*
KZT/USD	**150.74**	148.40
KZT/EURO	**199.22**	191.72
KZT/GBR	**243.72**	228.80

Future changes in accounting policy

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In the course of subsequent stages IASB will review hedging accounting and impairment of financial assets. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

3. Summary of accounting policies (continued)

Future changes in accounting policy (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements* provides a unified control model that is applicable to all types of entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 eliminates the possibility of accounting for jointly controlled entities using the proportionate consolidation. Instead, the jointly controlled entities that meet the definition of joint ventures are accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 combines the disclosure requirements that were previously contained in IAS 27 as related to consolidated financial statements, as well as IAS 31 and IAS 28. These disclosure requirements apply to shares of the company's participation in subsidiaries, joint venture, associates and structured companies. With respect to such companies were introduced a number of new disclosure requirements. The Group will have to disclose more information on consolidated and non-consolidated structured companies, where it participates or which are funded by it. However, the standard will not have any impact on the financial position or performance of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 becomes effective for financial years beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. This amendment is not expected to have any impact on the Group's financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed – IAS 28 *Investments in Associates and Joint Ventures.* Revised standard describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 19 Employee Benefits (amendment)

The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment makes significant changes in accounting for employee benefits, in particular it removes the possibility of deferred recognition in plan assets and liabilities (corridor mechanism). In addition, the amendment limits the change in net pension assets (liabilities) recognized in profit or loss, by net interest income (expense) and costs of services. The amendment will not have any impact on the financial position or performance of the Group.

3. Summary of accounting policies (continued)

Future changes in accounting policy (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (amendment)

The amendment to IAS 1 changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, net loss or income on financial assets available-for-sale) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation.* The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendments will not have any impact on the financial position or performance of the Group. The amendments are effective for annual periods beginning on or after 1 January 2013.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right of offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

The amendments are effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require firs-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the financial statements of the Group.

Improvement to IFRSs

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Group:

IFRS 1 First-time Adoption of International Financial Reporting Standards. This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements. This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment. This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments: Presentation. This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes.*

IAS 34 Interim Financial Reporting. The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss comprise unquoted equity securities of ten investment funds. These investment funds are at the stage of the investment period and post-investment perod. It is impossible to measure reliably the fair value of investments at the stage of the investment period, for which the market does not exist and no trading operations were recently held. The majority of investment funds have already commenced operating activities and net investments in 2012 amounted to KZT 6,049,962 thousand (2011: KZT 4,153,830 thousand). For this reason the management of the Group believes that the fair value of these investments as at 31 December 2012 significantly differs from their carrying amount, which represents the sum of actual investments made. Upon termination of the investment period it is possible to measure the fair value of the investment fund more precisely and the Group begins to measure the fair value using the method of net asset value. The carrying amount of the investment fund, for which the investment period has expired, measured using this method as at 31 December 2012 was KZT 590,234 thousand (2011: 413,783).

Movement of Aureos Cantral Asia Fund LLC equity is presented below:

	Total equity	*Total equity attributable to the Group*
At 31 December, 2011	2,943,337	420,309
Comprehensive income for the year	**410,658**	**58,642**
Issue of shares	**779,296**	**111,284**
At 31 December 2012	**4,133,292**	**590,234**

Taxation

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2012	*2011*
Current accounts with other financial organizations	**237,941**	335,036
Time deposits with contractual maturities less than 90 days as of the origination date	–	1,500,067
	237,941	1,835,103

Total amount of cash and cash equivalents denominated in foreign currencies was 160,852 KZT thousand as at the end of 2012 (2011: KZT 124,279 thousand). Detailed analysis of cash and cash equivalents in presented in Note 17.

(Thousands of Tenge)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	*2011*
Deposits with SB Sberbank of Russia JSC	**13,159,944**	12,493,959
Deposits with Kaspi Bank JSC	**9,452,000**	6,024,000
Deposits with Tsesnabank JSC	**3,040,358**	9,468,000
Deposits with SB Alpha-Bank JSC	**1,000,571**	–
Deposits with Eurasian Bank JSC	**972,292**	–
	27,625,165	27,985,959

Amounts due from credit institutions comprise term deposits with maturity over 90 days as of the origination date. As at 31 December 2012, due from credit institutions denominated in foreign currencies totalled KZT 12,738,592 thousand (2011: KZT 14,461,056 thousand).

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss as at 31 December 2012 and 2011 comprise unquoted equity securities of the following investment funds and managing companies:

	Holding, %	*2012*	*2011*
Macquarie Renaissance Infrastructure Fund L.P	4.76%	**2,770,275**	1,529,914
ADM KCRF L.P.	49.50%	**2,697,051**	1,542,263
CITIC-KAZYNA Investment L.P.	49.50%	**2,368,054**	652,331
Wolfenson Capital Partners L.P.	9.94%	**2,266,768**	1,774,686
Falah Growth Fund L.P.	10.00%	**1,341,988**	111,704
Kazakhstan Growth Fund L.P.	49.50%	**597,622**	877,456
Aureos Central Asia Fund LLC	14.28%	**590,234**	413,783
VTB Capital I2BFInnovation Fund, L.P.	49.00%	**161,524**	–
Kazakhstan Hong Kong Development Fund	25.00%	**110,518**	110,518
CITIC Kazyna G.P.	50.00%	**12,506**	12,506
Kazakhstan Hong Kong General Partner B.V.	25.00%	**872**	872
CITIC Kazyna Manager Ltd	49.50%	**87**	87
		12,917,499	7,026,120

During the investment period of up to five years, the above mentioned investment funds receive funds from the Group in the amount of 1.5% to 2.25% of the total amount of investment liabilities to pay for the management services. Such services include search and cost-effectiveness analysis of potential projects, due diligence, search of additional financing sources. In accordance with the contractual terms and conditions of these investment funds, costs of services are a part of investment liabilities and repayable in case of acquisition of income by the investment fund. The management believes that these costs are directly associated with the activities of the funds and form an intergral part of investments of the Group. In this connection, the Group includes these costs into the cost of investments. As at 31 December 2012, the investment period of these funds has not terminated other than Aureos Central Asia Fund LLC for which the investment period was over on 31 December 2011. In this connection, the Group revalued the fair value of this investment under the net asset value method. As a result, the Group recognized income from change in the cost of investments in this fund in the amount of KZT 66,766 thousand within net gains / losses from operations with financial instruments at fair value through profit or loss. In 2012 it was decided to discontinue the activities of Kazakhstan Growth Fund L.P. and transfer the investment portfolio and fund liabilities to ADM KCRF Investment Limited management company, therefore a new Kazakhstan Growth Fund L.P. management agreement was signed. In accordance with a new agreement, the Group has the right to get its share of income without the amount of management services, which was paid by the Group before the date of a new agreement. In this connection, the amount of management expenses was written off in the amount of KZT 281,489 thousand. As at 31 December 2012 Kazakhstan Growth Fund L.P. continues its investment period.

Initial recognition is made at fair value on the transaction date with subsequent measurement at fair value as at or prior the reporting date. All changes in the fair value of investment funds are recorded in the consolidated income statement.

(Thousands of Tenge)

7. Financial instruments at fair value through profit or loss (continued)

Financial activity of each fund is described below:

2012

Funds	*Holding, %*	*Country*	*Activities*	*Group share in net income/ (loss)*	*Total assets*	*Total liabilities*	*Net assets*
Macquarie Renaissance Infrastructure Fund L.P.	4.76%	Great Britain	Investments	**8,955**	**26,706,907**	**33,163**	**26,673,744**
Wolfenson Capital Partners L.P.	9.94%	Cayman Islands	Investments	**(143,912)**	**16,497,758**	**86,992**	**16,410,766**
ADM KCRF L.P	49.50%	Netherlands	Investments	**(199,292)**	**4,928,236**	**128,621**	**4,799,615**
Kazakhstan Growth Fund L.P	49.50%	Cayman Islands	Investments	**(47,680)**	**703,414**	**9,309**	**694,105**
CITIC-KAZYNA Investment L.P	49.90%	Cayman Islands	Investments	**(461,085)**	**5,813,334**	**3,266,942**	**2,546,392**
Aureos Central Asia Fund LLC	14.28%	Republic of Mauritius	Investments	**58,509**	**4,133,292**	**–**	**4,133,292**
Falah Growth Fund L.P.	10.00%	Cayman Islands	Investments	**(38,923)**	**11,199,786**	**31,092**	**11,168,694**
Kazakhstan Hong Kong Development Fund	25.00%	Netherlands	Investments	**(107,628)**	**55,447**	**30,873**	**24,574**
Citic-Kazyna G.P.	50.00%	Cayman Islands	Fund management	**(1,725)**	**22,092**	**22,064**	**28**
Kazakhstan-Hong Kong General Partner B.V.	25.00%	Netherlands	Fund management	**(2,337)**	**7,719**	**13,444**	**(5,725)**
CITIC Kazyna Manager Ltd	49.50%	Cayman Islands	Fund management	**40,187**	**374,986**	**139,948**	**235,038**
VTB Capital I2BFInnovation Fund, L.P.	49.00%	Russian Federation	Investments	**(79,642)**	**7,606**	**5,349**	**2,257**

2011

Funds	*Holding, %*	*Country*	*Activities*	*Group share in net income/ (loss)*	*Total assets*	*Total liabilities*	*Net assets*
Macquarie Renaissance Infrastructure Fund L.P.	4.76%	Great Britain	Investments	(24,031)	12,190,763	306,891	11,883,872
Wolfenson Capital Partners LP	9.94%	Cayman Islands	Investments	(93,634)	12,112,355	110,945	12,001,410
ADM KCRF L.P	49.50%	Netherlands	Investments	(280,681)	2,712,119	151,107	2,561,012
Kazakhstan Growth Fund L.P	49.99%	Cayman Islands	Investments	(195,418)	878,583	68,256	810,327
CITIC-KAZYNA Investment L.P	49.90%	Cayman Islands	Investments	(351,095)	196,068	177,309	18,759
Aureos Central Asia Fund LLC	14.28%	Republic of Mauritius	Investments	(53,366)	2,901,542	3,900	2,897,642
Falah Growth Fund L.P.	10.00%	Cayman Islands	Investments	(26,062)	29,781	7,744	22,037
Kazakhstan Hong Kong Development Fund	25.00%	Netherlands	Investments	(87,500)	102,480	7,274	95,206
Citic-Kazyna G.P.	50.00%	Cayman Islands	Fund management	–	–	–	–
Kazakhstan-Hong Kong General Partner B.V.	25.00%	Netherlands	Fund management	(1,170)	26,775	29,999	(3,224)
CITIC Kazyna Manager Ltd	49.50%	Cayman Islands	Fund management	–	–	–	–

(Thousands of Tenge)

8. Investment securities:

Available-for-sale investment securities comprise:

	2012	*2011*
Bonds of the Ministry of Finance of the Republic of Kazakhstan	**10**	511,115
Corporate bonds of issuers in the Republic of Kazakhstan	**27,923,911**	23,292,383
Corporate bonds of issuers in the Russian Federation	**8,530,538**	14,468,175
Other corporate bonds	**4,022,669**	2,894,959
Available-for-sale securities	**40,477,128**	41,166,632

As at 31 December 2012 concentration of available-for-sale investment securities purchased at the active market on five large issuers amounted to KZT 21,874,910 thousand or 54.99% of the total amount of available-for-sale securities (2011: KZT 20,240,089 thousand or 49.00%).

Held-to-maturity securities comprise:

	2012	*2011*
Corporate bonds of issuer in the Republic of Kazakhstan	**1,588,222**	–
Held-to-maturity securities	**1,588,222**	–

Held to maturity securities are presented as pledge under the currency swap agreement. These securities continue to be recorded in the consolidated statement of financial position. According to the currency swap agreement, Deutche Bank accepts bonds payments in Malaysian Ringgits and pays the Company in Kazakhstani Tenge. The fair value of currency swap as at 31 December 2012 was KZT 32,280 thousand (as at 31 December 2011 – KZT 0).

9. Trade accounts receivable

Trade accounts receivable include receivables from the following counteragents:

	2012	*2011*
CITIC Kazyna Manager Ltd.	**117,741**	–
CITIC-KAZYNA Investment L.P	–	9,018
	117,741	9,018

10. Property and equipment

The movements in property and equipment were as follows:

	Computer hardware	*Motor vehicles*	*Other*	*Total*
Cost				
31 December 2010	23,750	10,170	28,458	62,378
Additions	1,982	12,000	1,920	15,902
Disposals	(186)	–	–	(186)
31 December 2011	25,546	22,170	30,378	78,094
Additions	**2,383**	–	**791**	**3,174**
Disposal	**(4,125)**	–	**(841)**	**(4,966)**
31 December 2012	**23,804**	**22,170**	**30,328**	**76,302**
Accumulated depreciation				
31 December 2010	(6,726)	(848)	(13,863)	(21,437)
Charge for the year	(3,987)	(2,521)	(6,996)	(13,504)
Disposal	7			7
31 December 2011	(10,706)	(3,369)	(20,859)	(34,934)
Charge for the year	**(9,593)**	**(2,771)**	**(1,949)**	**(14,313)**
Disposal	**4,125**	–	**700**	**4,825**
31 December 2012	**(16,174)**	**(6,140)**	**(22,108)**	**(44,422)**
Net book value				
31 December 2010	17,024	9,322	14,595	40,941
31 December 2011	14,840	18,801	9,519	43,160
31 December 2012	**7,630**	**16,030**	**8,220**	**31,880**

The initial cost of fully depreciated property and equipment that are in use as at 31 December 2012 is KZT 4,128 thousand (31 December 2011: KZT 1,233 thousand).

(Thousands of Tenge)

11. Taxation

Corporate income tax ("CIT") expenses comprise the following:

	2012	*2011*
Current corporate income tax expenses	**694,033**	479,621
Deferred corporate income tax benefit/expense – origination and reversal of temporary differences	**(821)**	(213)
Adjustment of deferred tax expense recognized in other comprehensive expense	**8,176**	–
Adjustment of corporate income tax for the previous period	**19,107**	(24,862)
Corporate income tax expense	**720,495**	454,546

Income of the Group and its subsidiaries is subject to corporate income tax in the Republic of Kazakhstan except for Kazyna Seriktes B.V, Kazyna Investment Holding Cooperatief U.A. and MRIF CASP C.V., which are subject to corporate income tax in Netherlands.

In accordance with the changes to the tax legislation of the Republic of Kazakhstan, the applicable corporate income tax (CIT) rate in 2012 and 2011 is fixed at 20%.

As at 31 December 2012 the Group had current CIT assets in the amount of KZT 42,879 thousand (31 December 2011: KZT 288,620 thousand).

A reconciliation of CIT expense based on statutory rates with actual is as follows:

	2012	*2011*
Profit before corporate income tax expense	**4,869,785**	3,790,791
Statutory tax rate, %	**20.00%**	20.00%
Income tax at statutory income tax rate	**973,957**	758,158
Non-taxable income from state securities and securities included in the official listing of Kazakhstan Stock Exchange (KASE)	**(354,485)**	(315,843)
Change in the fair value of financial instruments at fair value through profit or loss	**87,299**	–
Non-taxable dividend income	**(23,509)**	–
Adjustment of corporate income tax for the previous period	**19,107**	(24,862)
Change in unrecognized deferred tax assets	**15,628**	24,312
Non-deductible expenses	**3,470**	10,705
Other	**(972)**	2,076
Corporate income tax expense	**720,495**	454,546

Deferred corporate income tax reflects net tax effect of temporary differences between carrying amount of assets and liabilities for financial statements purposes and the amount to be determined for tax purposes. Tax effect of temporary differences as at 31 December 2012 and 2011, is as follows:

	2010	*Temporary differences recorded in CIS**	*2011*	*Temporary differences recorded in CIS**	*Temporary differences recorded in CSCI***	*2012*
Tax effect of deductible temporary differences						
Tax loss carry forward	42,620	24,312	66,932	15,628	–	**82,560**
Available-for-sale investment securities	–	–	–	–	8,176	**8,176**
Trade accounts payable	4,298	1,825	6,123	(651)	–	**5,472**
Property and equipment	549	(549)	–	409	–	**409**
Unrecognised deferred tax asset	(42,620)	(24,312)	(66,932)	(15,628)	–	**(82,560)**
Net deferred tax asset	4,847	1,276	6,123	(242)	8,176	**14,057**
Tax effects of taxable temporary differences						
Property and equipment	–	(1,063)	(1,063)	1,063	–	–
Deferred tax liability	–	(1,063)	(1,063)	1,063	–	–
Deferred tax asset	4,847	213	5,060	821	8,176	**14,057**

* *CIS – consolidated income statement*

** *CSCI – consolidated statement of comprehensive income*

Tax losses carry forward represent losses of subsidiaries Deferred tax assets were not recognized with respect to this item due to low probability that in future the taxable income will flow to the Group against which these tax benefits could be utilized.

12. Equity

	Ordinary shares		
	Number of authorized ordinary shares	*Number of issued ordinary shares*	*Cost in thousands of Tenge*
At 31 December 2010 and 2011	53,040,000	53,040,000	67,040,000
At 31 December 2012	**53,040,000**	**53,040,000**	**67,040,000**

In 2012, at the general meeting of Shareholders, the Group declared and distributed dividends for 2011 financial year in the amount of KZT 1,003,406 thousand (2011: KZT 336,336 thousand).

13. Dividend income from investments made

Dividend income from investments made represent income from investments into the funds of Wolfenson Capital Partners L.P. in the amount of KZT 221,330 thousand (2011: KZT 15,566 thousand), Kazakhstan Growth Fund L.P. in the amount of KZT 2,044 thousnad (2011: KZT 0) and CITIC Kazyna Manager Ltd in the amount of KZT 235,091 thousand (2011: KZT 0).

14. Net losses, less gains, from financial instruments at fair value through profit or loss

Net losses, less gains, from financial instruments at fair value through profit or loss include:

	2012	*2011*
Change in the fair value of Aureos Central Asia Fund LLC	**66,765**	(56,140)
Change in the fair value of Kazakhstan Growth Fund L.P.	**(281,489)**	–
	(214,724)	(56,140)

15. Personnel and other operating expenses

Salaries and other employee benefits and administrative and other operating expenses comprise:

	2012	*2011*
Salaries and other employee benefits		
Salaries and bonuses	**(241,643)**	(277,141)
Other payroll taxes	**(27,210)**	(27,663)
	(268,853)	(304,804)
Administrative and other operating expenses		
Professional services	**(84,591)**	(71,548)
Rent	**(45,751)**	(44,556)
Business travel and related expenses	**(40,113)**	(46,729)
Brokerage services	**(32,931)**	(22,192)
Legal services	**(31,821)**	(15,055)
Information and telecommunication services	**(24,687)**	(23,697)
Sponsorship	**(8,942)**	(10,702)
Insurance	**(8,023)**	(6,925)
Trainings	**(7,462)**	(7,859)
Taxes other than corporate income tax	**(4,528)**	(55,231)
Bank charges and fee and commission expenses	**(3,873)**	(4,834)
Advertising and marketing	**(3,716)**	(8,057)
Utilities	**(1,311)**	(914)
Office supplies	**(548)**	(1,586)
Other	**(11,615)**	(12,105)
	(309,912)	(331,990)

(Thousands of Tenge)

16. Commitments and contingencies

The Group entered into the building lease agreement for one year. Future minimum lease payments under non-cancelable operating leases as at 31 December are as follows:

Operating lease commitments	*31 December 2012*	*31 December 2011*
Not later than 1 year	**31,529**	44,556

As at 31 December 2012 total capital commitments of all investors to investment funds amounted to KZT 351,525,680 thousand, (2011: KZT 345,950,080 thousand), of which the share of the Group amounts to KZT 59,255,322 thousand (2011: KZT 66,114,145 thousand). These commitments will be fulfilled upon demand of the investment funds during the investment period from three to five years.

The Group's capital commitments and ownership in investment funds are set out in the following table:

		Total capital commitments		*31 December 2012*		
	The Group's share in equity of investment fund	*In thousands of US dollars*	*Equivalent in thousands of Tenge*	*Total share of the Group*	*Actual investments made by the Group*	*Share of the Group in capital commitments*
Macquarie Renaissance Infrastructure Fund L.P.	**4.76%**	**630,000**	**94,966,200**	**4,520,391**	**2,712,526**	**1,807,865**
Wolfenson Capital Partners L.P.	**9.94%**	**250,000**	**37,685,000**	**3,745,889**	**3,196,704**	**549,185**
ADM KCRF L.P *	**49.50%**	**100,000**	**15,074,000**	**7,461,630**	**2,697,051**	**4,764,579**
Kazakhstan Growth Fund L.P.*	**49.50%**	**80,800**	**12,179,792**	**6,029,046**	**901,843**	**5,127,203**
CITIC-KAZYNA Investment L.P	**49.90%**	**200,000**	**30,148,000**	**15,043,852**	**2,368,055**	**12,675,797**
Aureos Central Asia Fund LLC	**14.28%**	**41,200**	**6,210,488**	**886,858**	**693,790**	**193,068**
Falah Growth Fund L.P.	**10.00%**	**500,000**	**75,370,000**	**7,537,000**	**1,509,513**	**6,027,487**
Kazakhstan Hong Kong Development Fund	**25.00%**	**400,000**	**60,296,000**	**15,074,000**	**110,518**	**14,963,482**
JSC Kazakhstan-Tajikistan fund of direct investments*	**80.00%**	**80,000**	**12,059,200**	**9,647,360**	**109,120**	**9,538,240**
Russian and Kazakh Fund of Nanotechnologies	**50.00%**	**50,000**	**7,537,000**	**3,768,500**	**160,084**	**3,608,416**
		2,332,000	351,525,680	73 714 526	14,459,204	59,255,322

16. Commitments and contingencies (continued)

	The Group's share in equity of investment fund	*Total capital commitments* *In thousands of US dollars*	*Equivalent in thousands of Tenge*	*Total share of the Group*	*31 December 2011* *Actual investments made by the Group*	*Share of the Group in capital commitments*
Macquarie Renaissance Infrastructure Fund L.P.	4.76%	630,000	93,492,000	4,452,020	1,529,914	2,922,106
Wolfenson Capital Partners L.P.	9.94%	250,000	37,100,000	3,688,240	1,774,686	1,913,554
ADM KCRF L.P *	49.50%	100,000	14,840,000	7,345,800	1,542,263	5,803,537
Kazakhstan Growth Fund L.P.*	49.99%	80,000	11,872,000	5,936,000	877,456	5,058,544
CITIC-KAZYNA Investment L.P	49.90%	200,000	29,680,000	14,840,000	652,331	14,187,669
Aureos Central Asia Fund LLC	14.28%	41,200	6,114,080	1,500,000	469,923	1,030,077
Falah Growth Fund L.P.	10.00%	500,000	74,200,000	7,420,000	111,704	7,308,296
Kazakhstan Hong Kong Development Fund	25.00%	400,000	59,360,000	14,840,000	110,518	14,729,482
JSC Kazakhstan-Tajikistan fund of direct investments*	80.00%	80,000	11,872,000	9,497,600	46,720	9,450,880
Russian and Kazakh Fund of Nanotechnologies	50.00%	50,000	7,420,000	3,710,000	–	3,710,000
		2,331,200	345,950,080	73,229,660	7,115,515	66,114,145

In accordance with the foundation agreements of the investment funds, in case of failure to pay the amount of capital commitments after the managing fund issued the payment claim, certain sanctions may be applied against the Group including payment of interest for a delay, prohibition to receive preliminary fund income distributions, prohibition to participate in the corporate management of funds, forced sale of the fund's Group share to co-investors or third persons. As at 31 December 2012 and 2011 the Group had no overdue capital commitments.

Political and economic environment

Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. These reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government are aimed to support the future stability of the Kazakhstan economy.

The world financial crisis affected Kazakh economy. Despite some indications of recovery there still continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects.

Legal actions and claims

The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations. As of the date of the report there are no claims and litigation.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

17. Risk management

Introduction

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

(Thousands of Tenge)

17. Risk management (continued)

Introduction (continued)

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The Risk Controlling Unit is also responsible for monitoring compliance with risk policies and limits, across the Group.

Group Treasury

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

Internal audit

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

Risk measurement and reporting systems

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

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

Group Investment Committee

Investment Committee takes decisions with respect to liquidity management policy.

Risk measurement and reporting systems

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

(Thousands of Tenge)

17. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

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

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

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

The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

Credit risk

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

The Group established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions (Monitoring principle). Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating (Principle of limitation). Ratings are reviewed on a regular basis. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

The carrying amount of components of the consolidated statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The geographical concentration of the Group's monetary assets and liabilities is set out below:

2012	*Kazakhstan*	*Russian Federation*	*Other countries*	*Total*
Assets				
Cash and cash equivalents	231,889	–	6,052	237,941
Amounts due from credit institutions	27,625,165	–	–	27,625,165
Investment securities:				
- available-for-sale	27,923,921	8,530,538	4,022,669	40,477,128
- held-to-maturity	1,588,222	–	–	1,588,222
Other assets (monetary)	–	–	–	–
Total assets	57,369,197	8,530,538	4,028,721	69,928,456
Liabilities				
Trade and other payables	(52,730)	–	(2,934)	(55,664)
Total liabilities	(52,730)	–	(2,934)	(55,664)
Net position on balance sheet assets and liabilities	57,316,467	8,530,538	4,025,787	69,872,792

(Thousands of Tenge)

17. Risk management (continued)

Introduction (continued)

Credit risk (continued)

2011	*Kazakhstan*	*Russian Federation*	*Other countries*	*Total*
Assets				
Cash and cash equivalents	1,833,978	1,125	–	1,835,103
Amounts due from credit institutions	27,985,959	–	–	27,985,959
Investment securities:				
- available-for-sale	23,803,498	14,468,175	2,894,959	41,166,632
- held-to-maturity	–	–	–	–
Other assets (monetary)	9,538	–	–	9,538
Total assets	53,632,973	14,469,300	2,894,959	70,997,232
Liabilities				
Trade and other payables	(56,787)	(1,251)	–	(58,038)
Total liabilities	(56,787)	(1,251)	–	(58,038)
Net position on balance sheet assets and liabilities	53,576,186	14,468,049	2,894,959	70,939,194

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group's internal credit ratings. The table below shows the credit quality analysis by class of assets of the consolidated statement of financial position based on the Group's credit rating system.

The Group determines amounts due from credit institutions as standard grade assets. For debt securities the high rating corresponds to Baa3 rating assigned by Moody's agency and higher, standard – lower than Baa3 but higher than B3, substandard – lower than B3.

		Neither past due nor impaired					
2012	*Notes*	*High grade*	*Standard grade*	*Substandard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
Amounts due from credit institutions	6	–	**27,625,165**	–	–	–	**27,625,165**
Investment securities:	8						
- available-for-sale		**10,660,542**	**29,662,661**	**153,925**	–	–	**40,477,128**
- held-to-maturity		**1,588,222**	–	–	–	–	**1,588,222**
Total		**12,248,764**	**57,287,826**	**153,925**	–	–	**69,690,515**

		Neither past due nor impaired					
2011	*Notes*	*High grade*	*Standard grade*	*Substandard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
Amounts due from credit institutions	6	–	27,985,959	–	–	–	27,985,959
Investment securities:							
- available-for-sale	8	8,432,898	32,733,734	–	–	–	41,166,632
Total		8,432,898	60,719,693	–	–	–	69,152,591

Impairment assessment

The main considerations for testing of financial assets for impairment comprise: whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

Individually impaired financial assets

The Group determines the allowances appropriate for each individually impaired financial asset on an individual basis. Items considered when determining allowance amounts include: projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date. As at 31 December 2012 and 2011 the Group had no individually impaired financial assets.

(Thousands of Tenge)

17. Risk management (continued)

Liquidity risk

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

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The tables below summarizes the maturity profile of the Group's financial liabilities at 31 December 2012 and 2011, based on contractual undiscounted payments.

	2012					
Financial liabilities	*On demand*	*Less than 3 months*	*3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Trade and other payables	**(55,664)**	–	–	–	–	**(55,664)**
Total undiscounted financial liabilities	**(55,664)**	–	–	–	–	**(55,664)**

	2011					
	On demand	*Less than 3 months*	*3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Trade and other payables	(51,041)	–	–	–	–	(51,041)
Total undiscounted financial liabilities	(51,041)	–	–	–	–	(51,041)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on interest rate gap for predetermined periods. Positions are monitored on a monthly basis, and hedging strategy is used to maintain risks within the established limits.

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale investment securities at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

(Thousands of Tenge)

17. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

2012	*Increase by %*	*Sensitivity of equity*
Currency		
Tenge	**0.05**	**(12,274)**
US dollar	**0.05**	**(11,711)**
Great Britain Pound	**0.05**	**–**
Russian Rouble	**0.05**	**(2,180)**

	Decrease by %	*Sensitivity of equity*
Currency		
Tenge	**(0.05)**	**12,274**
US dollar	**(0.05)**	**11,711**
Great Britain Pound	**(0.05)**	**–**
Russian Rouble	**(0.05)**	**2,180**

2011	*Increase by %*	*Sensitivity of equity*
Currency		
Tenge	0.15	(33,459)
US dollar	0.15	(95,377)
Great Britain Pound	0.15	(66)
Russian Rouble	0.15	(9,623)

	Decrease by %	*Sensitivity of equity*
Currency		
Tenge	(0.15)	33,459
US dollar	(0.15)	95,377
Great Britain Pound	(0.15)	66
Russian Rouble	(0.15)	9,623

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive trading monetary assets).

The effect on equity does not differ from the effect on the consolidated income statement. All other variables are held constant. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

	2012		*2011*	
Currency	*Increase in currency rate, in %*	*Effect on profit before tax*	*Increase in currency rate, in %*	*Effect on profit before tax*
US dollar	**1.57**	**654,616**	10.72	5,640,460
EUR	**10.77**	**–**	16.33	(16)
Great Britain Pound	**9.01**	**–**	16.58	74,580
Russian Rouble	**10.74**	**295,887**	16.01	416,846

	2012		*2011*	
Currency	*Decrease in currency rate, in %*	*Effect on profit before tax*	*Decrease in currency rate, in %*	*Effect on profit before tax*
US dollar	**(1.57)**	**(654,616)**	(10.72)	(5,640,460)
EUR	**(10.77)**	**–**	(16.33)	16
Great Britain Pound	**(9.01)**	**–**	(16.58)	(74,580)
Russian Rouble	**(10.74)**	**(295,887)**	(16.01)	(416,846)

(Thousands of Tenge)

17. Risk management (continued)

Market risk (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

18. Fair value of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

2012	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	**–**	**–**	**12,917,499**	**12,917,499**
Investment securities available-for-sale	**40,477,128**	**–**	**–**	**40,477,128**

2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	–	–	7,026,120	7,026,120
Investment securities available-for-sale	41,166,632	–	–	41,166,632

Financial instruments at fair value through profit or loss comprise unquoted equity securities of ten investment funds.

The estimates of fair value are intended to accurately measure 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.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Movements in level 3	
	2012	*2011*
Financial assets		
Financial instruments at fair value through profit or loss at 1 January	**7,026,120**	2,928,430
Purchased and revalued during the period	**5,891,379**	4,097,690
Total financial assets of level 3 at 31 December	**12,917,499**	7,026,120

As at 31 December 2012 and 2011 all financial instruments of the Group recorded at carrying value in the consolidated statement of financial position approximate to their fair value.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

(Thousands of Tenge)

18. Fair value of financial instruments (continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

19. Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2012 and 2011. See Note 17 "Risk management", "Liquidity risk" for the Group's contractual undiscounted repayment obligations:

	2012							
	On demand	*Less than 3 months*	*3 months to 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Without maturity*	*Total*
Assets								
Cash and cash equivalents	**237,941**	–	–	–	–	–	–	**237,941**
Amounts due from credit institutions	–	–	**23,565,373**	**4,059,792**	–	–	–	**27,625,165**
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	**12,917,499**	**12,917,499**
Investment securities:								
- available-for-sale	–	**2,439,995**	**11,908,194**	**22,683,145**	**738,739**	**2,707,055**	–	**40,477,128**
- held-to-maturity	–	–	–	–	**1,588,222**	–	–	**1,588,222**
Derivative financial instruments	–	–	–	–	**32,280**	–	–	**32,280**
Trade accounts receivable	–	**117,741**	–	–	–	–	–	**117,741**
Property and equipment	–	–	–	–	–	–	**31,880**	**31,880**
Intangible assets	–	–	–	–	–	–	**10,962**	**10,962**
Current income tax assets	–	–	–	–	–	–	**42,879**	**42,879**
Deferred income tax assets	–	–	–	–	–	–	**14,057**	**14,057**
Other assets	**10,140**	–	–	–	–	–	–	**10,140**
	248,081	**2,557,736**	**35,473,567**	**26,742,937**	**2,359,241**	**2,707,055**	**13,017,277**	**83,105,894**
Liabilities								
Trade and other payables	**(55,664)**	–	–	–	–	–	–	**(55,664)**
	(55,664)	–	–	–	–	–	–	**(55,664)**
Net position	**192,417**	**2,557,736**	**35,473,567**	**26,742,937**	**2,359,241**	**2,707,055**	**13,017,277**	**83,050,230**
Accumulated gap	**192,417**	**2,750,153**	**38,223,720**	**64,966,657**	**67,325,898**	**70,032,953**	**83,050,230**	–

	2011							
	On demand	*Less than 3 months*	*3 months to 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Without maturity*	*Total*
Assets								
Cash and cash equivalents	335,036	1,500,067	–	–	–	–	–	1,835,103
Amounts due from credit institutions	–	–	27,985,959	–	–	–	–	27,985,959
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	7,026,120	7,026,120
Investment securities:								
- available-for-sale	–	–	2,188,002	17,068,118	16,501,588	5,408,924	–	41,166,632
Property and equipment	–	–	–	–	–	–	43,160	43,160
Intangible assets	–	–	–	–	–	–	12,952	12,952
Current income tax assets	–	–	–	–	–	–	288,620	288,620
Deferred income tax assets	–	–	–	–	–	–	5,060	5,060
Other assets	21,119	–	–	–	–	–	–	12,101
	356,155	1,500,067	30,173,961	17,068,118	16,501,588	5,408,924	7,375,912	78,384,725
Liabilities								
Trade and other payables	(58,038)	–	–	–	–	–	–	(58,038)
	(58,038)	–	–	–	–	–	–	(58,038)
Net position	298,117	1,500,067	30,173,961	17,068,118	16,501,588	5,408,924	7,375,912	78,326,687
Accumulated gap	298,117	1,798,184	31,972,145	49,040,263	65,541,851	70,950,775	78,326,687	–

(Thousands of Tenge)

20. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year-end and related expense and income for the year are as follows:

		2012		*2011*	
	Notes	*Government institutions*	*Entities under common control*	*Government institutions*	*Entities under common control*
Cash and cash equivalents	5				
Deposits at 1 January		–	**2,938**	–	305,880
Deposits received		–	–	–	2,785,227
Deposits repaid		–	**(2,938)**	–	(3,088,169)
Deposits at 31 December		–	–	–	2,938
Interest rates					*From 0.04% to 1.5%*
Amounts due from credit institutions	6				
Deposits at 1 January		–	–	–	2,084,389
Deposits received		–	–	–	–
Deposits repaid		–	–	–	(2,084,389)
Deposits at 31 December		–	–	–	–
Interest rates					*From 0.8% to 6.5%*
Available-for-sale investment securities	7				
Securities at 1 January		**3,721,748**	**9,335,104**	6,209,773	10,212,778
Securities purchased		–	**1,006,295**	3,210,633	6,007,398
Securities sold		**(3,721,738)**	**(6,335,546)**	(5,698,658)	(6,885,072)
Securities at 31 December		**10**	**4,005,853**	3,721,748	9,335,104
Interest rates		***From 5.2% to 11.75%***	***From 6.25% to 13.00%***	*From 4.95% to 13.00%*	*From 4.95% to 13.00%*
Held-to-maturity investment securities	7				
Securities at 1 January		–	–	–	–
Securities purchased		–	**1,588,222**	–	–
Securities sold		–	–	–	–
Securities at 31 December		–	**1,588,222**	–	–
Interest rates			***5.5%***		
Trade and other payables					
Balance at 1 January		–	**450**	–	479
Purchases		–	**2,748**	–	53,077
Payments		–	**(3,168)**	–	(53,106)
Balance at 31 December		–	**30**	–	450
Interest income					
Amounts due from credit institutions		–	–	–	58,333
Available-for-sale investment securities		**2,351**	**214,046**	404,948	428,745
Held-to-maturity investment securities		–	**33,677**	–	–

(Thousands of Tenge)

20. Related party transactions (continued)

Included in the table above are transactions with related parties outstanding as at 31 December 2012 and 2011:

- companies under common control are subsidiaries of Sustainable Development Fund "Samruk-Kazyna" JSC;
- transactions with government institutions included transactions with other government institutions.

Compensation to key management personnel comprising members the Management Board and Board of Directors included the following:

	2012	*2011*
Salary and other benefits	**54,604**	41,612
Social security costs	**4,215**	4,365
Total key management personnel compensation	**58,819**	45,977

For year ended 31 December 2012 and 2011, the Group did not make any provision for doubtful debts against the related parties' debt.

21. Capital management

The Group capital varies depending on the investment requirements. The Group is not subject to regulatory requirements in relation to capital and it does have investment restrictions.

The capital management purposes of the Group are as follows:

Ensuring payment for the Group liabilities on investing to investment funds, maintaining the sufficient level of liquidity to cover expenses of the Group by means of acquisition of highly liquid financial assets into a diversified portfolio and meeting the repayment requests as they arise. Maintaining of the capital adequacy to ensure the activities of the Group are profitable.