DEVELOPMENT BANK OF KAZAKHSTAN

Development Bank of Kazakhstan JSC

Consolidated Financial Statements

for the year ended 31 December 2011

Contents

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Independent Auditors' Report

To the Board of Directors of Development Bank of Kazakhstan JSC

We have audited the accompanying consolidated financial statements of Development Bank of Kazakhstan JSC and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Nigay A.N.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No 536 of 10 January 2003

Alun Bowen
Managing Partner

KPMG Audit LLC

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

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

28 February 2012

	Note	2011 KZT'000	2010 KZT'000
Interest income	4	60,402,700	53,956,104
Interest expense	4	(35,068,000)	(29,996,707)
Net interest income		**25,334,700**	**23,959,397**
Fee and commission income	5	200,983	203,208
Fee and commission expense	6	(4,433,777)	(86,454)
Net fee and commission (expense)/income		**(4,232,794)**	**116,754**
Net foreign exchange gain	7	243,652	395,413
Net realised (loss)/gain on available-for-sale financial assets		(111,753)	863,707
Net (loss)/gain on derivative financial instruments	8	(2,181,458)	399,973
Gain on repurchase of debt securities issued		46,007	567,491
Other income, net	9	30,764	414,572
Operating income		**19,129,118**	**26,717,307**
Impairment losses	10	(35,603,607)	(19,787,009)
General administrative expenses	11	(3,641,092)	(2,842,274)
(Loss)/profit before income tax		**(20,115,581)**	**4,088,024**
Income tax benefit/(expense)	12	3,113,650	(1,861,866)
(Loss)/profit for the year		**(17,001,931)**	**2,226,158**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	18	(33,749,924)	1,557,863
Net change in fair value of available-for-sale financial assets transferred to profit or loss		111,753	(953,736)
Net unrealised gain on hedging instruments, net of tax of KZT 11,094 thousand (31 December 2010: KZT 94,098 thousand)		44,379	504,832
Net unrealised loss on hedging instruments, net of tax of KZT 74,623 thousand transferred to profit or loss	31(b)	298,490	-
Other comprehensive (loss)/income for the year		**(33,295,302)**	**1,108,959**
Total comprehensive (loss)/income for the year		**(50,297,233)**	**3,335,117**

The consolidated financial statements as set out on pages 5 to 73 were approved by the Management Board of the Bank on 28 February 2012 and were signed on its behalf by:

Kussainov Nurlan Zhetpisovich
Chairman of the Management Board

Mamekova Saule Mamyrovna
Chief Accountant

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

	Note	2011 KZT'000	2010 KZT'000
ASSETS			
Cash and cash equivalents	13	143,500,233	198,229,869
Placements with banks and other financial institutions	14	23,416,538	25,030,901
Amounts receivable under reverse repurchase agreements	15	42,300,979	33,194,707
Loans to customers	16	275,447,425	320,890,895
Finance lease receivables	17	22,704,741	24,565,877
Available-for-sale financial assets			
- Held by the Group	18	358,285,039	335,703,432
- Pledged under foreign currency swap	18	3,460,811	2,931,290
Held-to-maturity investments	19	2,934,619	2,707,099
Equipment and intangible assets	20	235,572	190,157
Advances for finance leases		638,486	333,124
Assets to be transferred under finance lease agreements		1,230,219	1,411,789
Other assets	21	6,013,445	6,732,447
Current tax asset		162,418	188,248
Deferred tax assets	22	8,989,106	6,058,441
Derivative financial instruments	31	590,271	442,500
Total assets		**889,909,902**	**958,610,776**
LIABILITIES			
Current accounts and deposits from customers	23	1,255,592	1,706,272
Loans from the Government of the Republic of Kazakhstan	24	25,908,867	24,023,328
Loans from the Parent Company	25	12,868,576	2,420,070
Loans from banks and other financial institutions	26	440,203,216	517,302,044
Government grants	27	11,517,777	11,133,326
Debt securities issued	28	164,855,253	117,706,938
Subordinated debt	29	5,050,819	4,542,761
Other liabilities	30	9,242,252	4,428,201
Derivative financial instruments	31	7,916,263	7,466,820
Total liabilities		**678,818,615**	**690,729,760**
EQUITY			
Share capital	32	255,975,958	255,975,958
Reserve capital	33	17,712,311	17,712,311
Hedging reserve		-	(342,869)
Revaluation reserve for available-for-sale financial assets		3,030,286	36,668,457
Accumulated losses		(65,627,268)	(42,132,841)
Total equity		**211,091,287**	**267,881,016**
Total liabilities and equity		**889,909,902**	**958,610,776**
Commitments and Contingencies	36, 38		

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

	2011 KZT'000	2010 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	44,601,521	33,467,933
Interest payments	(33,012,393)	(23,295,685)
Fee and commission receipts	932,683	205,670
Fee and commission payments	(2,099,866)	(97,160)
Net receipts from foreign exchange	165,223	389,191
Net receipts for derivative financial instruments	332,291	147,073
Other receipts, net	41,373	331,391
Other general administrative payments	(3,427,093)	(2,572,825)
	7,533,739	**8,575,588**
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	1,200,774	19,399,107
Amounts receivable under reverse repurchase agreements	(6,786,996)	(33,184,254)
Loans to customers	25,284,262	(128,630,607)
Finance lease receivables	(1,670,419)	(976,275)
Advances for finance leases	(305,362)	150,827
Assets to be transferred under finance lease agreements	(83,974)	(52,305)
Derivative financial instruments	37,090	(1,883)
Other assets	(2,022,807)	2,308,339
Increase/(decrease) in operating liabilities		
Loans from the Government of the Republic of Kazakhstan	1,885,539	(6,862,759)
Loans from the Parent Company	15,000,000	5,000,000
Loans from banks and other financial institutions	(81,314,268)	81,910,334
Current accounts and deposits from customers	(401,852)	(42,990,907)
Other liabilities	293,340	(259,994)
Net cash used in operating activities before taxes paid	**(41,350,934)**	**(95,614,789)**
Income tax paid	(28,126)	(71,021)
Cash flows used in operating activities	**(41,379,060)**	**(95,685,810)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

	2011 KZT'000	2010 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment and intangible assets	(145,733)	(98,324)
Disposal of equipment and intangible assets	2,196	2,070
Acquisition of held-to-maturity investments	(2,084,395)	-
Acquisition of available-for-sale financial assets	(94,900,314)	(180,139,967)
Disposal and redemption of available-for-sale financial assets	41,292,124	79,451,937
Cash flows used in investing activities	**(55,836,122)**	**(100,784,284)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subordinated debt issued	2,084,395	37,926,074
Other distributions	(6,220,845)	(3,565,885)
Proceeds from debt securities issued	46,696,592	72,836,537
Repurchase of debt securities issued	(914,743)	(5,740,750)
Cash flows from financing activities	**41,645,399**	**101,455,976**
Net decrease in cash and cash equivalents	**(55,569,783)**	**(95,014,118)**
Effect of changes in exchange rates on cash and cash equivalents	840,147	(72,227)
Cash and cash equivalents at the beginning of the year	198,229,869	293,316,214
Cash and cash equivalents at the end of the year (Note 13)	**143,500,233**	**198,229,869**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

	Share capital KZT'000	Reserve capital KZT'000	Hedging reserve KZT'000	Revaluation reserve for available-for-sale financial assets KZT'000	Accumulated losses KZT'000	Total equity KZT'000
Balance at 1 January 2010	**255,975,958**	**17,666,734**	**(847,701)**	**36,064,330**	**(39,817,384)**	**269,041,937**
Total comprehensive income						
Profit for the year	-	-	-	-	2,226,158	2,226,158
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	1,557,863	-	1,557,863
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(953,736)	-	(953,736)
Net unrealised gain on hedging instruments, net of tax of KZT 94,098 thousand	-	-	504,832	-	-	504,832
Total other comprehensive income	-	-	504,832	604,127	-	1,108,959
Total comprehensive income for the year	**-**	**-**	**504,832**	**604,127**	**2,226,158**	**3,335,117**
Transactions with owners, recorded directly in equity						
Other distributions (Note 29)	-	-	-	-	(4,496,038)	(4,496,038)
Transfer to reserve capital	-	45,577	-	-	(45,577)	-
Total transactions with owners	**-**	**45,577**	**-**	**-**	**(4,541,615)**	**(4,496,038)**
Balance at 31 December 2010	**255,975,958**	**17,712,311**	**(342,869)**	**36,668,457**	**(42,132,841)**	**267,881,016**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

	Share capital KZT'000	Reserve capital KZT'000	Hedging reserve KZT'000	Revaluation reserve for available-for-sale financial assets KZT'000	Accumulated losses KZT'000	Total equity KZT'000
Balance at 1 January 2011	**255,975,958**	**17,712,311**	**(342,869)**	**36,668,457**	**(42,132,841)**	**267,881,016**
Total comprehensive income						
Loss for the year	-	-	-	-	(17,001,931)	(17,001,931)
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	(33,749,924)	-	(33,749,924)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	111,753	-	111,753
Net unrealised gain on hedging instruments, net of tax of KZT 11,094 thousand	-	-	44,379	-	-	44,379
Net unrealised loss on hedging instruments, net of tax of KZT 74,623 thousand transferred to profit or loss	-	-	298,490	-	-	298,490
Total other comprehensive income	-	-	342,869	(33,638,171)	-	(33,295,302)
Total comprehensive loss for the year	**-**	**-**	**342,869**	**(33,638,171)**	**(17,001,931)**	**(50,297,233)**
Transactions with owners, recorded directly in equity						
Other distributions (Note 29)	-	-	-	-	(6,492,496)	(6,492,496)
Total transactions with owners	**-**	**-**	**-**	**-**	**(6,492,496)**	**(6,492,496)**
Balance at 31 December 2011	**255,975,958**	**17,712,311**	**-**	**3,030,286**	**(65,627,268)**	**211,091,287**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of Development Bank of Kazakhstan JSC (the "Bank") and its subsidiary, DBK Leasing JSC (together referred to as the "Group").

Development Bank of Kazakhstan JSC was established in the Republic of Kazakhstan as a joint-stock company in 2001 in accordance with the Law of the Republic of Kazakhstan "On the Development Bank of Kazakhstan" # 178-II dated 25 April 2001 as amended as at the date of preparation of these consolidated financial statements (the "Law"). The Bank operates according to the Law, the Charter of the Development Bank of Kazakhstan and the Memorandum on the crediting policy, approved by the decision of the Sovereign Wealth Fund "Samruk-Kazyna" JSC #63/09 dated 18 June 2009 amended as at the date of the consolidated financial statements.

The Bank is a national development institution. The main purpose of the Bank is to improve and increase the efficiency of state investment activity, promote the development of production infrastructure and processing industry and assistance in attraction of external and internal investments to the national economy.

The Bank's registered office is: 10, Orynbor Street, "Kazyna Tower" Building, Yesil district, Astana, Republic of Kazakhstan.

The Bank is the parent company of a wholly owned consolidated subsidiary, DBK Leasing JSC. DBK Leasing JSC (the "Subsidiary") was established on 6 September 2005 in accordance with legislation of the Republic of Kazakhstan. The principal activity of the Subsidiary is financial lease operations.

Eurobonds issued by the Bank are listed on London Stock Exchange, Luxembourg Stock Exchange and Kazakhstan Stock Exchange (the "KASE").

The Bank is a member of Association of Development Financing Institutions in Asia and the Pacific ("ADFIAP") and SCO Interbank Consortium.

(b) Shareholders

As at 31 December 2011 and 2010 the sole shareholder of the Bank was Sovereign Wealth Fund "Samruk-Kazyna" JSC, the "Parent Company". In accordance with the Decree of the President of the Republic of Kazakhstan signed on 10 August 2011 the entire amount of ordinary shares of the Bank were transferred into the trust management by the Ministry of Industry and New Technologies of the Republic of Kazakhstan. The ultimate controlling party is the Government of the Republic of Kazakhstan. Related party transactions are detailed in Note 39.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the Note 12 "Income tax benefit/(expense)", Note 16 "Loans to customers", Note 17 "Finance lease receivables" and Note 31 "Derivative financial instruments".

(e) Changes in accounting policies and presentation

With effect from 1 January 2011, the Group retrospectively applied the revised version of IAS 24 (issued in 2009) *Related Party Disclosures*. This change has not had a significant impact on the related party disclosures.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, except as explained in Note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

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

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

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

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan (the "NBRK") and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Placements with banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Amounts due from credit institutions are carried net of an allowance for impairment losses, if any.

(e) Financial instruments

(i) Classification

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(i) Classification, continued

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

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

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

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

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

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

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

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

(ii) Recognition

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(iii) Measurement

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

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

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

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

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

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value on transactions with the Parent Company at origination is credited or charged to equity. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(iv) Fair value measurement principles

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(iv) Fair value measurement principles, continued

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

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

(v) Gains and losses on subsequent measurement

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

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

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

(vi) Derecognition

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vi) Derecognition, continued

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

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

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

The Group writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(viii) Derivative financial instruments

Derivative financial instruments include swap, forward, futures and spot transactions.

According to existing policy of the Group, some derivative instruments qualify for hedge accounting.

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

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

The method of recognising the gain or loss on changes in the fair value of derivatives depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedge). A fair value hedge is a hedge of changes in the fair value of a recognised asset or liability, an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedge instrument is measured at fair value with changes in fair value recognised in profit or loss;

3 Significant accounting policies, continued

(e) Financial instruments, continued

(viii) Derivative financial instruments, continued

- A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, that could affect profit or loss. The hedging instrument is measured at fair value with the effective portion of changes in its fair value recognised as other comprehensive income in equity and the ineffective portion recognised in profit or loss.

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

(ix) Offsetting

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

(f) Leases

The Group's lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The indicators for finance lease classification are:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset or,
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

3 Significant accounting policies, continued

(g) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value. The cost of foreclosed assets is based on the specific identification principle, and recorded at net book value of the underlying lease base at foreclosure date.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Equipment

(i) Owned assets

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

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

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Computers and equipment	3 to 5 years;
Vehicles	6 to 7 years;
Furniture and other equipment	1 to 10 years.

(i) Intangible assets

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

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

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

(j) Impairment

(i) Financial assets carried at amortised cost

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

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

3 Significant accounting policies, continued

(j) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

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

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

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

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

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

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

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

3 Significant accounting policies, continued

(j) Impairment, continued

(iii) Available-for-sale financial assets, continued

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

(iv) Non financial assets

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

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

(k) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and the grants will be received. If there are conditions that may require repayment, the grant is recognised as a "deferred income" in other liabilities.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined as described in Note 3(e) (iii) and the proceeds received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

(l) Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

3 Significant accounting policies, continued

(m) Credit related commitments

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

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

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

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

(n) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(o) Share capital

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

3 Significant accounting policies, continued

(p) Income and expense recognition

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

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

Finance lease organisation fees, lease servicing fees and other fees that are considered to be integral to the overall profitability of a finance lease, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service provided.

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

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

(q) Segment reporting

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

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008).

3 Significant accounting policies, continued

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

When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2011 KZT'000	2010 KZT'000
Interest income		
Loans to customers	28,649,486	23,760,605
Available-for-sale financial assets	24,920,974	20,188,491
Amounts receivable under reverse repurchase agreements	2,812,573	81,641
Placements with banks and other financial institutions	1,923,942	7,846,258
Finance lease receivables	1,891,467	1,929,471
Held-to-maturity investments	204,258	149,638
	60,402,700	**53,956,104**
Interest expense		
Loans from banks and other financial institutions	(24,959,236)	(26,171,415)
Debt securities issued	(9,449,463)	(3,468,664)
Loans from the Parent Company	(319,772)	(119,685)
Subordinated debt	(204,258)	(149,638)
Loans from the Government of the Republic of Kazakhstan	(79,378)	(79,447)
Amounts payable under repurchase agreements	(55,834)	(6,770)
Current accounts and deposits from customers	(59)	(1,088)
	(35,068,000)	**(29,996,707)**

Included within various line items under interest income for the year ended 31 December 2011 is a total of KZT 13,159,441 thousand (2010: KZT 10,217,342 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2011 KZT'000	2010 KZT'000
Expert commission on loans not entered to	150,902	129,644
Foreign exchange fees	20,564	39,333
Transfer services	3,581	12,896
Commission on finance lease	7,686	7,163
Letters of credit	1,721	1,825
Other	16,529	12,347
	200,983	**203,208**

6 Fee and commission expense

	2011 KZT'000	2010 KZT'000
Loan prepayment fees	2,406,692	-
Undrawn loan arrangement fee	1,866,659	-
Fees and commissions related to eurobonds	93,594	465
Securities operations	46,481	53,871
Custodial services	9,485	9,248
Credit card maintenance	5,124	4,852
Maintenance of current accounts	4,890	16,252
Transfer services	666	1,249
Other	186	517
	4,433,777	**86,454**

Loan prepayment fees relate to the prepayment of a USD 500,000 thousand loan from the Export-Import Bank of China (Note 26) and comprise the unamortised portion of loan origination fees equivalent to KZT 937,092 thousand and a prepayment fee of 2% of the principal equivalent to KZT 1,469,600 thousand.

Undrawn loan arrangement fee relates to the undrawn part of a USD 5,000,000 thousand credit facility provided by the Export-Import Bank of China (Note 21).

7 Net foreign exchange gain

	2011 KZT'000	2010 KZT'000
Dealing, net	130,666	365,927
Translation differences, net	112,986	29,486
	243,652	**395,413**

8 Net (loss)/gain on derivative financial instruments

	2011 KZT'000	2010 KZT'000
Realised gain on derivative financial instruments	332,291	147,073
Unrealised loss from inefficiency of cash flow hedge	(4,371)	(42,362)
Unrealised (loss)/gain from revaluation of derivative financial instruments	(2,509,378)	295,262
	(2,181,458)	**399,973**

9 Other income, net

	2011 KZT'000	2010 KZT'000
Fines and penalties	93,128	393,091
Income from decrease in value added tax rate	-	8,900
Other expense	(12,969)	(8,223)
Other (loss)/income from non-banking activity	(49,395)	20,804
	30,764	**414,572**

10 Impairment losses

	2011 KZT'000	2010 KZT'000
Loans to customers (Note 16)	33,338,809	18,834,236
Finance lease receivables (Note 17)	2,050,135	295,088
Assets to be transferred under finance lease agreements	121,055	-
Other assets (Note 21)	93,608	657,685
	35,603,607	**19,787,009**

11 General administrative expenses

	2011 KZT'000	2010 KZT'000
Payroll and related taxes	2,052,887	1,903,250
Occupancy	313,849	287,096
Professional services	307,346	91,163
Taxes other than on income	226,616	124,693
Insurance	108,134	17,107
Communication and information services	107,601	106,725
Depreciation and amortisation	98,124	58,915
Business travel	84,828	55,890
Training and seminars	71,266	13,345
Advertising and marketing	48,943	20,402
Rating services	40,744	33,730
Repair and maintenance	39,390	45,393
Office supplies	27,988	26,021
Conferences	24,526	-
Representative expenses	16,842	9,741
Transportation	15,411	16,072
Security	11,969	10,988
Other	44,628	21,743
	3,641,092	**2,842,274**

12 Income tax benefit/(expense)

	2011 KZT'000	2010 KZT'000
Current tax expense		
Current year	(28,126)	(71,021)
Over provided in prior years	125,394	57,590
	97,268	**(13,431)**
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	3,512,596	(1,720,508)
Change in unrecognised deferred tax assets	(496,214)	(127,927)
	3,016,382	**(1,848,435)**
Total income tax benefit/(expense)	**3,113,650**	**(1,861,866)**

The Group's applicable tax rate for current and deferred tax is 20% (2010: 20%).

12 Income tax benefit/(expense), continued

Reconciliation of effective tax rate:

	2011 KZT'000	%	2010 KZT'000	%
(Loss)/profit before income tax	**(20,115,581)**	**100**	**4,088,024**	**100**
Income tax at the applicable tax rate	4,023,116	(20)	(817,605)	20
Non-taxable income on securities	2,288,199	(11)	-	-
(Other non-deductible expense)/non-taxable income	(706,694)	4	275,477	(7)
Effect of change in rate applicable to deferred taxes	-	-	860,292	(21)
Income tax withheld at source	(28,126)	-	(71,021)	2
Over provided in prior years	125,394	(1)	57,590	(1)
Non-deductile impairment losses	(2,125,809)	11	(2,038,672)	50
Change in unrecognised deferred tax assets	(462,430)	2	(127,927)	3
	3,113,650	**(15)**	**(1,861,866)**	**46**

Non-deductible impairment losses arose in respect of loans to related parties and securities that will not be deductible for tax purposes in the future.

13 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows comprise the following:

	2011 KZT'000	2010 KZT'000
Demand deposits		
National Bank of the Republic of Kazakhstan		
Rated BBB+	847,162	-
Rated BBB	-	97,946,556
Other banks		
Rated from AA- to AA+	-	16,225,090
Rated from A- to A+	-	22,225,595
Rated from B- to B+	500,167	47,567,461
Total demand deposits	**1,347,329**	**183,964,702**
Cash at current bank accounts		
National Bank of the Republic of Kazakhstan		
Rated BBB+	75,268,514	-
Rated BBB	-	8,191,536
Other banks		
Rated from AA- to AA+	58,973,530	2,864,211
Rated from A- to A+	1,345,138	716,213
Rated from BBB- to BBB+	646,624	221,311
Rated from BB- to BB+	8,384	-
Rated from B- to B+	5,910,666	2,271,488
Total cash at current bank accounts	**142,152,856**	**14,264,759**
Cash on hand	48	408
	143,500,233	**198,229,869**

None of cash equivalents are impaired or past due.

Concentration of cash and cash equivalents

As at 31 December 2011 the Group had two banks (31 December 2010: two banks), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2011and 2010 was KZT 127,709,119 thousand and KZT 150,404,686 thousand, respectively.

14 Placements with banks and other financial institutions

	2011 KZT'000	2010 KZT'000
Not impaired or past due		
Loans and deposits		
Rated from AA- to AA+	112,004	297,733
Rated from B- to B+	23,304,534	24,733,168
	23,416,538	**25,030,901**

As at 31 December 2011 placements with banks included a deposit of KZT 112,004 thousand, which served as a margin deposit on a foreign currency swap with Morgan Stanley (31 December 2010: KZT 297,733 thousand).

15 Amounts receivable under reverse repurchase agreements

In December 2010 the Group concluded reverse repurchase agreements with Alliance Bank JSC in the amount of KZT 29,996,250 thousand maturing in July 2012 and on the "automatic repo" market on the KASE in the amount of KZT 1,450,000, which matured in January 2011.

In October 2011 the Group concluded additional reverse repurchase agreements with Alliance Bank JSC in the amount of KZT 9,975,000 thousand maturing in April 2013.

As at 31 December 2011, included in amounts receivable under reverse repurchase agreements is accrued interest income of KZT 2,329,729 thousand (31 December 2010: KZT 10,453 thousand).

Collateral

As at 31 December 2011 and 2010 amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	2011 KZT'000	2010 KZT'000
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC	37,392,720	28,745,003
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	3,480,304
	37,392,720	**32,225,307**

16 Loans to customers

	2011 KZT'000	2010 KZT'000
Loans to large corporates	375,899,260	394,412,955
Mortgage loans	630,400	673,905
Interest accrued	24,145,486	16,968,281
Gross loans to customers	**400,675,146**	**412,055,141**
Impairment allowance	(125,227,721)	(91,164,246)
Net loans to customers	**275,447,425**	**320,890,895**

Movements in the loan impairment allowance for the year ended 31 December 2011 and 2010 are as follows:

	2011 KZT'000	2010 KZT'000
Balance at the beginning of the year	(91,164,246)	(79,540,418)
Net charge for the year	(33,338,809)	(18,834,236)
Effect of foreign currency movements	(599,223)	509,583
Recovery of accrued interest previously written-off	(125,443)	-
Write-offs	-	6,700,825
Balance at the end of the year	**(125,227,721)**	**(91,164,246)**

The following table provides information on the credit quality of the loan portfolio at 31 December 2011:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans without individual signs of impairment	184,901,998	(7,396,695)	177,505,303	4.00
Impaired loans:				
- not past due	28,728,333	(5,236,833)	23,491,500	18.23
- overdue less than 90 days	4,131,470	(2,197,271)	1,934,199	53.18
- overdue more than 90 days and less than 360 days	35,325,431	(14,497,310)	20,828,121	41.04
overdue more than 360 days	147,587,914	(95,899,612)	51,688,302	64.98
Total impaired loans	215,773,148	(117,831,026)	97,942,122	54.61
Total loans	**400,675,146**	**(125,227,721)**	**275,447,425**	**31.25**

16 Loans to customers, continued

(a) Credit quality of loan portfolio

The following table provides information on the credit quality of the loan portfolio at 31 December 2010:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans without individual signs of impairment	208,906,622	(6,348,264)	202,558,358	3.04
Impaired loans:				
- not past due	58,288,337	(12,989,951)	45,298,386	22.29
- overdue less than 90 days	35,636,521	(21,803,839)	13,832,682	61.18
- overdue more than 90 days and less than 360 days	67,287,448	(24,279,753)	43,007,695	36.08
- overdue more than 360 days	41,936,213	(25,742,439)	16,193,774	61.38
Total impaired loans	203,148,519	(84,815,982)	118,332,537	41.75
Total loans	**412,055,141**	**(91,164,246)**	**320,890,895**	**22.12**

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to large corporates based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to large corporates, management made the following key assumptions:

- historic annual loss rate adjusted to reflect the effects of current conditions of 4.00%;
- a discount of between 20% and 70% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. If the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to customers as of 31 December 2011 would be KZT 2,754,474 thousand (31 December 2010: KZT 3,208,909 thousand) lower or higher.

As at 31 December 2011 included in the loan portfolio are two renegotiated loans that would otherwise be past due or impaired of KZT 9,549,669 thousand (31 December 2011: five loans of KZT 23,036,253 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

16 Loans to customers, continued

(a) Credit quality of loan portfolio, continued

Analysis of collateral

The following table provides an analysis of the commercial loan portfolio, net of impairment, by types of collateral:

	31 December 2011 KZT'000	%	31 December 2010 KZT'000	%
Mixed types of collateral	126,242,306	46	142,150,507	45
Motor vehicles and equipment	64,577,804	23	70,256,951	22
Guarantees of other companies	62,266,307	23	62,348,621	19
Guarantees of financial institutions	9,135,947	3	26,414,550	8
Guarantees of the Government of the Republic of Kazakhstan	7,348,452	3	7,533,187	2
Cash	2,608,560	1	9,341,651	3
Real estate	1,958,677	1	2,845,428	1
Guarantees of the Parent company	1,309,372	-	-	-
Total	**275,447,425**	**100**	**320,890,895**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral. Mixed types of collateral include property complexes, equipment, vehicles, land, guarantees, construction in progress, and other.

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers are secured by collateral with a fair value of KZT 74,891,113 thousand (2010: KZT 40,016,647 thousand), excluding the effect of overcollateralisation.

Loans to corporate customers that are neither past due nor impaired

As at 31 December 2011 the fair value of cash balances, serving as collateral for loans to corporate customers, is KZT 2,968,000 thousand (2010: nil).

For remaining loans to corporate customers with a net carrying amount of KZT 175,908,487 thousand (2010: KZT 201,919,599 thousand), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

As at 31 December 2011, for loans to corporate customers that are neither past due nor impaired with a carrying amount of KZT 92,900,002 thousand (2010: KZT 95,592,408 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts.

Collateral obtained

During the year ended 31 December 2011 the Group did not obtain any assets by taking control of collateral accepted as security for loans.

During the year ended 31 December 2010 the Group performed collection activities in relation to certain impaired loans, as a result of which, the Group received securities that were classified as available-for-sale with an initial fair value of KZT 3,422,345 thousand and cash of KZT 7,128,769 thousand by exercising guarantees of financial institutions in relation to certain loans past due. The remaining amount after collection activities in the amount of KZT 5,273,626 thousand was written-off as uncollectible. In addition to these loans the Group also wrote off loans of KZT 1,427,199 thousand determined as non-recoverable.

16 Loans to customers, continued

(b) Industry and geographical analysis of the loan portfolio

Loans to customers are issued primarily to customers located within the Republic of Kazakhstan and the Russian Federation, who operate in the following economic sectors:

	2011 KZT'000	2010 KZT'000
Mining, metallurgy and mineral resources	86,306,230	96,242,661
Agriculture	67,499,209	52,359,990
Oil and gas	51,026,583	49,006,284
Textile	35,675,480	34,485,127
Transportation and warehousing	33,015,847	33,167,233
Energy and electricity distribution	26,756,753	36,255,912
Construction materials	26,359,473	25,342,668
Chemical	20,929,904	20,389,255
Manufacturing	19,688,108	18,501,516
Paper-pulp	13,520,883	13,200,958
Food processing	9,409,527	9,588,780
Machinery-producing	7,765,793	7,782,737
Mortgage	630,400	673,905
Telecommunication	559,011	925,643
Fishery	306,568	295,000
Electric equipment	146,454	284,383
Other	1,078,923	13,553,089
	400,675,146	**412,055,141**
Impairment allowance	(125,227,721)	(91,164,246)
Total loans to customers	**275,447,425**	**320,890,895**

(c) Significant credit exposures

As at 31 December 2011 and 2010 the Group had two borrowers whose balances exceeded 10% of equity. The gross value of these loans as of 31 December 2011 was KZT 108,248,541 thousand (31 December 2010: KZT 105,868,724 thousand).

(d) Loan maturities

The maturity of the Group's loan portfolio is presented in Note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

17 Finance lease receivables

The components of net investments in finance lease as at 31 December 2011 and 2010 are as follows:

	2011 '000 KZT	2010 '000 KZT
Within one year	11,373,816	10,622,229
More than one year, but less than five years	15,215,622	14,777,275
More than five years	4,666,446	5,132,758
Minimum lease payments	**31,255,884**	**30,532,262**
Less unearned finance income		
Less than one year	(1,496,893)	(1,207,267)
From one to five years	(3,472,710)	(3,133,657)
More than five years	(517,800)	(430,918)
Less unearned finance income, total	**(5,487,403)**	**(4,771,842)**
Less impairment allowance	(3,063,740)	(1,194,543)
Net investment in finance lease	**22,704,741**	**24,565,877**

	2011 KZT'000	2010 KZT'000
Leases to large corporates	24,664,557	24,575,361
Leases to small and medium size companies	1,103,924	1,185,059
Less impairment allowance	(3,063,740)	(1,194,543)
Net investment in finance lease	**22,704,741**	**24,565,877**

In 2011 the Group clarified classification of certain lessees between "leases to small and medium size companies" and "leases to large corporate" categories based on updated information. Net investment in finance lease as at 31 December 2010 reflects a transfer from "leases to small and medium size companies" to "leases to large corporate" in the amount of KZT 5,003,213 thousand made for consistency of presentation.

Movements in the lease impairment allowance for the years ended 31 December 2011 and 2010 are as follows:

	2011 KZT'000	2010 KZT'000
Balance at the beginning of the year	(1,194,543)	(1,054,685)
Net charge for the year	(2,050,135)	(295,088)
Transfer to other assets	159,081	-
Write-offs for the year	21,857	155,230
Balance at the end of the year	**(3,063,740)**	**(1,194,543)**

Embedded derivative

The repayment of investment in finance leases of KZT 23,304,265 thousand (2010: KZT 22,874,662 thousand) is in part linked to any appreciation in the rate of the USD or EUR against the KZT. If these foreign currencies appreciate, the amount receivable is increased by the respective index. If these foreign currencies depreciate, the amount receivable is not adjusted below the original outstanding amount in KZT.

These embedded derivatives recorded at fair value in the financial statements. The estimated amount of the embedded derivative, which is included in finance lease receivables as at 31 December 2011 is KZT 2,204,756 thousand (31 December 2010: KZT 4,025,336 thousand). Fair value is calculated using a model based on the Black-Scholes option pricing model (Note 41).

17 Finance lease receivables, continued

Embedded derivative, continued

The management uses the following assumptions for valuation of the embedded derivative:

- risk-free rates are estimated using yield curves for respective currencies and ranged from 0.47% to 1.09% for USD, from 1.40% to 1.46% for EUR, and from 2.17% to 3.09% for KZT;
- volatility in the model is defined based on the historical one-year observations of fluctuations in actual foreign exchange rates;
- no transaction cost is included in the model.

If the spreads between KZT and USD (or EUR as appropriate) risk-free rates narrowed by 0.5% across all the contracts the fair value of derivative would have decreased by KZT 74,120 thousand. Increase of volatility by 50% would result in increase of the fair value of derivative by KZT 13,966 thousand.

Credit quality of finance lease portfolio

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2011:

	Gross finance leases KZT'000	Impairment KZT'000	Net finance leases KZT'000	Impairment as a percentage of gross finance lease %
Leases to large corporates				
Leases for which no impairment has been identified:				
- not overdue	14,235,293	(571,107)	13,664,186	4.01
-overdue more than 5 days and less than 90 days	958,090	(38,438)	919,652	4.01
- overdue more than 90 days and less than 360 days	167,447	(6,718)	160,729	4.01
- overdue more than 360 days	426,649	(17,117)	409,532	4.01
Impaired leases:				
- overdue more than 90 days and less than 360 days	616,262	(70,750)	545,512	11.48
- overdue more than 360 days	8,260,816	(2,058,325)	6,202,491	24.92
Total leases to large corporate customers	**24,664,557**	**(2,762,455)**	**21,902,102**	**11.20**
Leases to small and medium size companies				
Leases for which no impairment has been identified:				
- not overdue	155,636	(6,244)	149,392	4.01
Impaired leases:				
- overdue more than 360 days	948,288	(295,041)	653,247	31.11
Total leases to small and medium size companies	**1,103,924**	**(301,285)**	**802,639**	**27.29**
Total finance leases	**25,768,481**	**(3,063,740)**	**22,704,741**	**11.89**

17 Finance lease receivables, continued

Credit quality of finance lease portfolio, continued

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2010:

	Gross finance leases KZT'000	Impairment KZT'000	Net finance leases KZT'000	Impairment as a percentage of gross finance lease %
Leases to large corporates				
Leases for which no impairment has been identified:				
- not overdue	17,128,677	(384,720)	16,743,957	2.25
- overdue more than 90 days and less than 360 days	597,854	(13,452)	584,402	2.25
- overdue more than 360 days	5,029,240	(113,158)	4,916,082	2.25
Impaired leases:				
- overdue more than 360 days	1,819,590	(520,832)	1,298,758	28.62
Total leases to large corporate customers	**24,575,361**	**(1,032,162)**	**23,543,199**	**4.20**
Leases to small and medium size companies				
Leases for which no impairment has been identified:				
- not overdue	305,380	(6,874)	298,506	2.25
- overdue more than 90 days and less than 360 days	594,865	(13,355)	581,510	2.25
Impaired leases:				
- overdue more than 360 days	284,814	(142,152)	142,662	49.91
Total leases to small and medium size companies	**1,185,059**	**(162,381)**	**1,022,678**	**13.70**
Total finance leases	**25,760,420**	**(1,194,543)**	**24,565,877**	**4.64**

The Group has estimated impairment for finance leases based on an analysis of the future cash flows for impaired lease receivables and based on current economic conditions for portfolios of finance leases for which no indications of impairment has been identified.

In determining the collective impairment allowance for finance lease receivables, the management has assumed an annual loss rate of 4.01% and 2.25% for 2011 and 2010, respectively, which is based on historic loss experience adjusted for current economic conditions.

Changes in these estimates could affect the lease impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment provision on finance leases as at 31 December 2011 would be KZT 227,047 thousand lower/higher (31 December 2010: KZT 245,659 thousand).

During the year ended 31 December 2011 the Group renegotiated leases that would otherwise be past due or impaired of KZT 4,201,588 thousand (31 December 2010: KZT 3,310,859 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

17 Finance lease receivables, continued

Analysis of collateral

The following table provides the analysis of financial lease portfolio, net of impairment, by types of collateral as at 31 December 2011 and 2010:

	2011		2010	
	'000 KZT	% of loan portfolio	'000 KZT	% of loan portfolio
Transport vehicles and equipment	12,944,698	57	13,732,723	56
Mixed type of collateral	9,760,043	43	10,833,154	44
	22,704,741	**100**	**24,565,877**	**100**

Financial leases that are past due or impaired

Impaired or overdue financial leases are secured by collateral with a fair value of KZT 8,819,786 thousand (2010: KZT 14,386,734 thousand), excluding the effect of overcollateralisation.

Financial leases that are neither past due nor impaired

For remaining leases with a net carrying amount of KZT 13,813,578 thousand (2010: KZT 17,042,463 thousand), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the leases and was not adjusted for subsequent changes to the reporting date. The recoverability of these leases is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Collateral obtained

During the year ended 31 December 2011 the Group obtained assets with the carrying amount of KZT 207,092 thousands by taking control of collateral securing leases (2010: nil).

18 Available-for-sale financial assets

	2011 KZT'000	2010 KZT'000
Held by the Group		
Debt instruments		
Corporate bonds	186,265,455	211,788,248
Bonds of Kazakh banks	80,281,155	36,677,694
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC	43,200,679	28,282,315
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	31,360,325	43,120,388
Bonds of Kazakh credit institutions, other than banks	9,112,176	9,340,988
Bonds of OECD banks	7,070,881	5,981,680
Treasury bills of the Treasury Department of the United States	757,993	83,487
Recovery notes of Kazakh banks	236,375	428,632
	358,285,039	**335,703,432**
Pledged under foreign currency swap		
Debt instruments		
Treasury bills of the Treasury Department of the United States	3,460,811	2,931,290
	3,460,811	**2,931,290**

18 Available-for-sale financial assets, continued

The following table presents information on the credit quality of available-for-sale financial assets:

	2011 KZT'000	2010 KZT'000
Rated AAA	4,218,804	3,014,777
Rated A- to A+	7,070,881	5,981,680
Rated BBB- to BBB+	221,970,260	235,575,397
Rated from BB- to BB+	89,736,948	52,357,384
Rated from B- to B+	34,721,041	38,203,640
Rated C	236,375	-
Not rated	3,791,541	3,501,844
	361,745,850	**338,634,722**

During the year ended 31 December 2011 the Group has revised assumptions regarding discount rates applied in determination of fair value of bonds of National Company "Kazmunaigaz" JSC and Kazakhtelecom JSC following changes in appropriate observable market inputs. As a result a loss of KZT 31,672,142 thousand has been recognised in other comprehensive income as part of revaluation reserve for available-for-sale financial assets.

On 18 April 2011 the Group purchased bonds of the Parent Company with a nominal value of KZT 18,000,000 thousand. These bonds are denominated in KZT, pay a coupon of 5.89% p.a. and mature in September 2017. These bonds were purchased at 100.39 per cent of par.

Reclassifications out of available-for-sale financial assets

With effect from October 2010, the Group reclassified bonds of the Parent Company classified as available-for-sale to held-to-maturity investments following the lapse of the tainting period. For reclassified available-for-sale financial assets that would have met the definition of held-to-maturity investments, the Group has the intention and ability to hold them for foreseeable future or until maturity. As at the date of reclassification, fair value of those assets amounted to KZT 2,175,533 thousand.

Unquoted debt and equity securities

As at 31 December 2011 included in available-for-sale financial assets are unquoted debt securities with a fair value of KZT 174,721,623 thousand (31 December 2010: KZT 210,790,358 thousand).

Analysis of movements in the impairment allowance

	2011 KZT'000	2010 KZT'000
Balance at the beginning of the year	-	(4,731,504)
Write-offs	-	4,731,504
Balance at the end of the year	**-**	**-**

During the year ended 31 December 2010 the Group wrote-off impairment allowances in relation to defaulted bonds of BTA Bank JSC, which were disposed of or replaced with ordinary shares, bonds and recovery notes upon the completion of its restructuring program, and Alliance Bank JSC, which were replaced with bonds upon the completion of its restructuring program.

19 Held-to-maturity investments

	2011 KZT'000	2010 KZT'000
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC		
Rated BBB+	2,934,619	-
Rated BBB	-	2,707,099
	2,934,619	**2,707,099**

During the year ended 31 December 2011 the Group purchased bonds of the Parent Company for their nominal value of KZT 2,084,395 thousand. The bonds have a term of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 32,149 thousand by applying an appropriate market interest rate. The receipt occurred simultaneously with the issue of subordinated securities for the same consideration under terms discussed in Note 29.

During the year ended 31 December 2010 the Group received bonds of the Parent Company with a nominal value of KZT 37,926,074 thousand. The bonds have a term of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 745,577 thousand by applying an appropriate market interest rate. The receipt occurred simultaneously with issue of subordinated securities for the same consideration under terms discussed in Note 29.

20 Equipment and intangible assets

KZT'000	Computers and equipment	Vehicles	Intangible assets	Other	Total
Cost					
At 1 January 2010	126,231	61,804	219,784	126,894	534,713
Additions	16,522	20,828	50,400	10,574	98,324
Disposals	(4,821)	(10,511)	-	(158)	(15,490)
At 31 December 2010	137,932	72,121	270,184	137,310	617,547
Additions	78,726	5,535	43,401	18,071	145,733
Disposals	(15,174)	(5,798)	(8,844)	(15,246)	(45,062)
Transfer	2,615	-	-	(2,615)	-
At 31 December 2011	**204,099**	**71,858**	**304,741**	**137,520**	**718,218**
Depreciation/amortisation					
At 1 January 2010	(102,925)	(40,597)	(168,577)	(71,866)	(383,965)
Depreciation and amortisation charge	(12,223)	(7,231)	(24,151)	(15,310)	(58,915)
Disposals	4,821	10,511	-	158	15,490
At 31 December 2010	(110,327)	(37,317)	(192,728)	(87,018)	(427,390)
Depreciation and amortisation charge	(30,915)	(9,017)	(44,337)	(13,855)	(98,124)
Disposals	15,167	5,798	8,725	13,178	42,868
Transfer	(2,094)	-	-	2,094	-
At 31 December 2011	**(128,169)**	**(40,536)**	**(228,340)**	**(85,601)**	**(482,646)**
Net book value					
At 1 January 2010	23,306	21,207	51,207	55,028	150,748
At 31 December 2010	27,605	34,804	77,456	50,292	190,157
At 31 December 2011	**75,930**	**31,322**	**76,401**	**51,919**	**235,572**

21 Other assets

	2011 KZT'000	2010 KZT'000
Loan arrangement fee prepaid	5,001,288	4,883,763
Fines and penalties accrued	899,082	896,768
Accrued commission income	560,893	1,306,056
Foreclosed assets	361,450	31,678
Prepayments	162,073	87,031
Taxes recoverable other than income tax	150,140	268,274
Materials and supplies	27,412	27,290
Trade and other receivables	16,903	85,758
Equity investments	2,809	2,806
Other	13,572	2,198
	7,195,622	**7,591,622**
Impairment allowance	(1,182,177)	(859,175)
	6,013,445	**6,732,447**

Loan arrangement fee prepaid is a paid commitment charge attributable to the undrawn part of a credit facility provided by the Export-Import Bank of China (Note 26), deferred pending recognition as an adjustment to the effective interest rate of the loan at receipt. During the year ended 31 December 2011 the Group accrued an additional commitment fee of KZT 1,984,184 thousand and identified that the drawdown of a certain portion of the undrawn part of this facility is not probable and recognised KZT 1,866,659 thousand in "fee and commission expense" (Note 6).

Included in other assets are non-quoted ordinary equity shares of KASE, which are carried at cost of KZT 2,200 thousand (2010: KZT 2,200 thousand), and the global depository receipts on ordinary shares of Alliance Bank JSC with a carrying value of KZT 609 thousand (2010: KZT 606 thousand), the fair value of which cannot be reliably determined. There is no market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

Analysis of movements in the impairment allowance

	2011 KZT'000	2010 KZT'000
Balance at the beginning of the year	(859,175)	(806,128)
Net charge for the year	(93,608)	(657,685)
Transfer from finance lease receivables	(159,081)	-
Recovery of other assets previously written-off	(108,120)	-
Write-offs	37,807	604,638
Balance at the end of the year	**(1,182,177)**	**(859,175)**

As at 31 December 2011, included in other assets are overdue receivables of KZT 66,142 thousand (2010: KZT 48,401 thousand), of which, KZT 13,420 thousand (2010: KZT 2,444 thousand) are overdue for less than 90 days, KZT 13,180 thousand (2010: KZT 9,402 thousand) are overdue for more than 90 days but less than 360 days and KZT 39,542 thousand (2010: KZT 36,555 thousand) are overdue for more than 360 days.

22 Deferred tax assets

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2011 and 2010. These deferred tax assets have been recognised in these consolidated financial statements except for temporary differences of KZT 748,241 thousand (2010: KZT 285,811 thousand) relating to the Subsidiary that have not been recognised due to uncertainties concerning their realisation. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2019 and 2020.

Movement in temporary differences during the years ended 31 December 2011 and 2010 are presented as follows:

KZT'000	Balance 1 January 2011	Recognised in income	Recognised in equity	Balance 31 December 2011
Equipment and intangible assets	9,585	1,168	-	10,753
Loans to customers	(14,237,818)	3,084,140	-	(11,153,678)
Other assets	169,903	34,781	-	204,684
Placements with banks	-	(147,565)	-	(147,565)
Accrued interest written-off	492,957	-	-	492,957
Loans from banks and other financial institutions	(2,149,154)	102,966	-	(2,046,188)
Government grants	2,226,665	76,890	-	2,303,555
Loans from the Parent Company	(516,458)	(910,482)	-	(1,426,940)
Debt securities issued	(41,268)	8,926	-	(32,342)
Derivative financial instruments	(94,235)	1,648,184	(85,717)	1,468,232
Tax loss carry-forwards	20,034,607	(1,771,116)	-	18,263,491
Other liabilities	163,657	888,490	-	1,052,147
Net deferred tax assets	**6,058,441**	**3,016,382**	**(85,717)**	**8,989,106**

22 Deferred tax assets, continued

KZT'000	Balance 1 January 2010	Recognised in income	Recognised in equity	Balance 31 December 2010
Equipment and intangible assets	9,316	269	-	9,585
Loans to customers	(2,963,877)	(11,273,941)	-	(14,237,818)
Other assets	-	169,903	-	169,903
Accrued interest written-off	-	492,957	-	492,957
Loans from banks and other financial institutions	(1,972,330)	(176,824)	-	(2,149,154)
Government grants	1,891,899	334,766	-	2,226,665
Loans from the Parent Company	-	(516,458)	-	(516,458)
Debt securities issued	(48,267)	6,999	-	(41,268)
Derivative financial instruments	179,815	(179,952)	(94,098)	(94,235)
Tax loss carry-forwards	10,729,739	9,304,868	-	20,034,607
Other liabilities	174,679	(11,022)	-	163,657
Net deferred tax assets	**8,000,974**	**(1,848,435)**	**(94,098)**	**6,058,441**

23 Current accounts and deposits from customers

	2011 KZT'000	2010 KZT'000
Current accounts and demand deposits	428,617	340,209
Advances received as collateral on liabilities of customers	826,975	1,366,063
	1,255,592	**1,706,272**

The Group carries out functions of an agent of an authorised government body servicing state and municipal budget investment projects (programs) financed on a repayable basis and projects financed on behalf of loans, which are guaranteed by the government and included in the list of priority investment projects approved by the Government of the Republic of Kazakhstan.

24 Loans from the Government of the Republic of Kazakhstan

	2011 KZT'000	2010 KZT'000
Loans from the Government of the Republic of Kazakhstan	24,023,328	24,023,328
Advances for project finance	1,885,539	-
	25,908,867	**24,023,328**

As at 31 December 2011 and 2010 the loans from the Government of the Republic of Kazakhstan comprised long-term loans granted from the state budget that were received as part of a Government program to support certain industries, including textile, gas processing and chemicals. The funds were used to provide loans to these entities at below market rates. Although these loans carry lower-than-market interest rate, upon initial recognition they were recognised at their nominal amount, as it was allowed under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance.*

24 Loans from the Government of the Republic of Kazakhstan, continued

As at 31 December 2011 advances for project finance represent an unutilised part of the loan from the Ministry of Finance of the Republic of Kazakhstan intended for financing of Joint Kazakhstan-Russian Entity "Baiterek" JSC for construction of an air space complex. The loan will be repaid in equal parts from 2011 until 2023. The Group acts as an agent and is not liable for any misuse of the loan by the borrower or any other risks related to the loan.

As of 31 December 2011, included in loans from the Government of the Republic of Kazakhstan is accrued interest expense of KZT 12,522 thousand (31 December 2010: KZT 12,522 thousand).

25 Loans from the Parent Company

As at 31 December 2011 the loans from the Parent Company were represented by two long-term loans granted by Sovereign Wealth Fund "Samruk-Kazyna" JSC.

The loan of KZT 5,000,000 thousand was granted in April 2010 with an interest rate of 0.2% per annum and maturity in November 2029. The loan was provided to finance restructuring of certain borrowers. At initial recognition the loan was recognised at fair value measured by applying a relevant market interest rate. The difference of KZT 2,694,615 thousand between the fair value and the consideration received was recognised as a government grant (Note 27).

The loan of KZT 15,000,000 thousand was granted in August 2011 with an interest rate of 0.2% per annum and maturity in June 2021. The loan was provided to finance restructuring of finance lease receivables by the Group in accordance with the Government Program "Productivity 2020". At initial recognition the loan was recognised at fair value measured by applying a relevant market interest rate. The difference of KZT 4,855,135 thousand between the fair value and the consideration received was recognised as a "deferred income" in other liabilities (Note 30) as there are conditions that may require repayment of the portion of loan not issued to and utilised by the Group.

26 Loans from banks and other financial institutions

	2011 KZT'000	2010 KZT'000
Loans with fixed interest rate		
Loans from OECD banks	78,511,325	97,264,859
Loans from non-OECD banks	298,627,275	69,347,355
Total loans with fixed interest rate	**377,138,600**	**166,612,214**
Loans with floating interest rate		
Loans from OECD banks	4,675,296	19,247,202
Loans from non-OECD banks and other financial institutions	67,715,654	295,162,566
Syndicated loan facility	-	44,505,976
Total loans with floating interest rate	**72,390,950**	**358,915,744**
Less unamortised portion of borrowing costs	(9,326,334)	(8,225,914)
	440,203,216	**517,302,044**

26 Loans from banks and other financial institutions, continued

On 20 January 2011 the Group prepaid a loan of USD 500,000 thousand from the Export-Import Bank of China. Upon the prepayment, the Group recognised the unamortised portion of loan origination fees related to this loan equivalent to KZT 937,092 thousand and a prepayment fee of 2% of the principal equivalent to KZT 1,469,600 thousand in "fee and commission expense" (Note 6).

On 21 July 2011 the contract terms of USD 1,000,000 thousand loan facility from the Export-Import Bank of China were modified as follows. Interest rate was modified from a floating rate of six-months LIBOR plus 5.5% p.a. to a fixed rate of 5.8% p.a. The grace period until commencement of redemption of principal was prolonged from January 2012 to January 2017. All costs incurred to modify the original term of the remaining facility have been adjusted in the carrying value of the loan and are amortised over the remaining term of the modified loan.

On 21 June 2011 the Group received a loan of USD 500,000 thousand from the Export-Import Bank of China. The loan bears an interest rate of 5.8% p.a. and matures in July 2019. The principal is repayable in three years starting from January 2017.

During the year ended 31 December 2011 the Group repaid a syndicated loan facility of USD 300,000 thousand from HSBC Bank Plc., ING Bank N.V. and Sumitomo Mitsui Banking Corporation Europe Limited, a loan of USD 100,000 thousand from Bayerische Landesbank and principal amount of USD 128,888 thousand on loans from Credit Suisse and USD 13,000 thousand on loans from China Development Bank.

During the year ended 31 December 2010 the Group received two loans from the Export-Import Bank of China of USD 400,000 thousand and USD 156,000 thousand. The Group also received loans from the Japan Bank for International Cooperation and the Bank of Tokyo Mitsubishi of JPY 2,748,200 thousand and EUR 30,000 thousand, respectively. As at 31 December 2011 these loans bear interest rates ranging from 3% p.a. to 3.55% p.a. and mature between September 2013 and May 2025.

As at 31 December 2011, included in loans from banks and other financial institutions is accrued interest expense of KZT 9,244,471 thousand (31 December 2010: KZT 10,266,417 thousand).

27 Government grants

The Group recorded as government grants the benefits provided by means of a low interest rate on the loan from Fund of Distressed Assets JSC of KZT 11,035,227 thousand and on the loan from the Parent Company of KZT 2,694,615 thousand (Note 25).

Subsequent to initial recognition the Group allocates to profit or loss an amount corresponding to the debt relief provided to the borrowers. During the year ended 31 December 2011 the amount of government grants transferred from profit or loss was KZT 384,451 thousand (31 December 2010: the amount of government grants transferred to profit or loss was KZT 1,020,786 thousand) and is included in "interest expenses".

28 Debt securities issued

	2011 KZT'000	2010 KZT'000
Debt securities with fixed interest rate		
Eurobonds denominated in USD	159,836,594	118,983,235
Bonds denominated in KZT	4,987,880	-
	164,824,474	**118,983,235**
Unamortised discount, net	(761,123)	(1,860,272)
	164,063,351	**117,122,963**
Accrued interest	791,902	583,975
	164,855,253	**117,706,938**

28 Debt securities issued, continued

On 8 February 2011 the Group issued non-secured coupon bonds bearing fixed rate of 8% per annum with a nominal value of KZT 5,000,000 thousand on KASE. The bonds mature in February 2016.

On 1 February 2011 the Group issued USD 277,000 thousand medium-term notes for an amount equivalent to KZT 41,593,783 thousand, which bear a coupon rate of 5.5% p.a. and mature in December 2015.

On 20 December 2010 the Group issued USD 500,000 thousand medium-term notes for an amount equivalent to KZT 72,836,537 thousand, which bear a coupon rate of 5.5% p. a. and mature in December 2015.

The aforementioned two USD issues form a single series.

29 Subordinated debt

	2011 KZT'000	2010 KZT'000
Subordinated debt with fixed coupon		
Nominal in KZT	93,152,839	91,068,444
	93,152,839	**91,068,444**
Unamortised discount, net	(90,221,247)	(88,363,971)
	2,931,592	**2,704,473**
Accrued interest	2,119,227	1,838,288
	5,050,819	**4,542,761**

The entire amount of the subordinated debt is represented by subordinated bonds issued to the Parent Company. The bonds are denominated in KZT, mature in September 2059 and bear a fixed interest rate of 0.01% per annum. In addition, the bonds have a discretionary coupon of 6.99% per annum which the Group can unilaterally and unconditionally waive with no further obligation. The discretionary coupon for the year ended 31 December 2011 of KZT 6,492,496 thousand (31 December 2010: KZT 4,496,038 thousand) was recognised as "other distributions" in equity.

During the year ended 31 December 2011 the Group issued additional subordinated bonds to the Parent Company with a nominal value of KZT 2,084,395 thousand. At initial recognition these bonds were measured at fair value of KZT 32,149 thousand applying an appropriate market interest rates ranging between 8.65% and 9.60% p.a.

During the year ended 31 December 2010 the Group issued additional subordinated bonds with the same characteristics as above to the Parent Company with a nominal value of KZT 37,926,074 thousand. At initial recognition these bonds were measured at fair value of KZT 745,577 thousand by applying an appropriate market interest rates ranging between 7.00% and 9.17% p.a.

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

30 Other liabilities

	2011 KZT'000	2010 KZT'000
Deferred income	4,859,566	10,855
Prepayments	2,022,553	1,129,148
Payables to employees	706,975	774,570
Advances received for finance lease	593,623	807,078
Accrued commission expenses	501,962	970,481
Advances on letters of credit	214,064	408,005
Payables to suppliers	105,805	100,769
Vacation reserve	87,410	89,003
Tax liabilities other than income tax	41,509	31,050
Other accrued expenses and accounts payable	108,785	107,242
	9,242,252	**4,428,201**

In August 2011 the Group recorded as deferred income the benefits provided by means of a low interest rate on the loan from the Parent Company of KZT 4,855,135 thousand (Note 25) to be allocated further to the Bank's Subsidiary and utilises in restructuring of finance lease receivables.

31 Derivative financial instruments

The Group had the following derivative financial instruments as at 31 December 2011 and 2010. Embedded derivatives are described in Note 17.

	Notional amount	Maturity	Payments made by Group	Payments received by Group	Fair value Asset	Fair value Liability
31 December 2011						
Foreign currency swap	USD 160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	-	(3,988,012)
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	-	(3,357,706)
Non-deliverable foreign currency forward	USD 100,000,000	31/05/12	USD 100,000,000 at maturity	KZT'000 14,435,000 at maturity	-	(286,999)
Non-deliverable foreign currency forward	USD 50,000,000	07/06/12	USD 50,000,000 at maturity	KZT'000 7,221,000 at maturity	-	(283,546)
Non-deliverable foreign currency forward	USD 100,000,000	31/05/12	KZT'000 14,415,000 at maturity	USD 100,000,000 at maturity	293,410	-
Non-deliverable foreign currency forward	USD 50,000,000	07/06/12	KZT'000 7,211,000 at maturity	USD 50,000,000 at maturity	296,861	-
					590,271	(7,916,263)

Type of instrument	Notional amount	Maturity	Payments made by Group	Payments received by Group	Fair value Asset	Fair value Liability
31 December 2010						
Foreign currency swap	USD 160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	-	(3,862,600)
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	-	(3,199,220)
Non-deliverable foreign currency forward	USD 150,000,000	10/01/11	USD 150,000,000 at maturity	KZT'000 21,690,000 at maturity	-	(405,000)
Non-deliverable foreign currency forward	KZT'000 21,652,500	10/01/11	KZT'000 21,652,500 at maturity	USD 150,000,000 at maturity	442,500	-
					442,500	(7,466,820)

31 Derivative financial instruments, continued

(a) Group's approach to derivative transactions

The Group may enter into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions for hedging purposes. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the Group's swap positions would increase or decrease depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Group's investments.

The Group's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of a counterparty's insolvency.

(b) Significant foreign currency transactions

On 16 February 2007 the Group entered into a foreign currency swap agreement to exchange KZT for USD 160,000,000 and exchange back on 16 February 2014, the transaction closure date. On 22 June 2007 the Group entered into another foreign currency swap agreement to exchange KZT for USD 122,349,103 and exchange back USD on 27 June 2014, the transaction closure date.

Those swap agreements were designed as cash flow hedges principally to minimise the exchange rate risk associated with the future cash inflows from loans to customers in US dollars financed out of tenge funds borrowed by the Group. The length of the swap agreements was chosen as seven years since the average duration of a pool of loans being hedged was seven years.

The designated hedged risk is the forward exchange rate risk and, therefore, the changes in fair value of the swaps was recorded initially in the hedging reserve to the extent the hedge is effective. During the year ended 31 December 2010 a spot element of the foreign currency swaps was recognised in profit or loss as "unrealised gain/(loss) from revaluation of derivative financial instruments" of KZT 271,055 thousand. For cash flow hedging relationships, the initial and ongoing prospective effectiveness is assessed by comparing movements in the fair value of a hypothetical derivative with movements in the fair value of the hedging foreign currency swaps (the "hypothetical derivative method"). Prospective effectiveness is measured on a cumulative basis i.e. over the entire life of the hedge relationship. The hypothetical derivative method assumes there will be one forecasted cash inflow based on the weighted average duration of the pool of loans to be received on the date of maturity of the hedging instruments, whereas the actual cash inflows from the loans are expected during 2013 and 2014. Retrospective effectiveness is assessed by comparing the movements in the fair value of the cash flows of hypothetical derivative and actual movements in the fair value of the foreign currency swaps over the life to date of the hedging relationship.

During the year ended 31 December 2011 the hedging relationship was identified to be no longer effective as a result of the significant change in the cash flow profile of the pool of loans being hedged. Hedge accounting was discontinued prospectively from the last date when the hedge was proven to be effective. As a result a cumulative loss of KZT 298,490 thousand, net of tax of KZT 74,623 thousand, previously recognised in other comprehensive income was reclassified to profit or loss as "unrealised gain/(loss) from revaluation of derivative financial instruments".

31 Derivative financial instruments, continued

(b) Significant foreign currency transactions, continued

During 2011 management revised the assumptions used to value the foreign currency swaps following the changes in underlying market conditions. In determining the fair value of the swaps management assumed that the following rates are appropriate for the Group: 2.87% in KZT and 0.70% in USD (2010: 3.82% and 2.00%, respectively).

During the year ended 31 December 2011 the Group entered into a number of non-deliverable foreign currency forward agreements. These forward agreements are designated at fair value through profit or loss and were primarily designed as arbitrage transactions.

32 Share capital

(a) Issued capital

As at 31 December 2011 and 2010 the authorised, issued and outstanding share capital comprised 1,819,519 ordinary shares with a nominal value of KZT 50,000 and 247,006 ordinary shares with a nominal value of KZT 668,000.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to legislation of the Republic of Kazakhstan. No dividends were declared during the years ended 31 December 2011 and 2010.

33 Reserve capital

Reserve capital is formed in accordance with the Bank's charter out of the net profit for the year following the approval of the consolidated financial statements at the shareholder's general meeting.

34 Risk management

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

(a) Risk management policies and procedures

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

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

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

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit and Investment Committees and Assets and Liabilities management committee.

34 Risk management, continued

(a) Risk management policies and procedures, continued

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis.

The management of interest rates risk, component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

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

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Overdue	Carrying amount
31 December 2011							
ASSETS							
Cash and cash equivalents	143,500,233	-	-	-	-	-	143,500,233
Placements with banks and other financial institutions	507,333	-	8,193,646	14,715,559	-	-	23,416,538
Amounts receivable under reverse repurchase agreements	-	-	32,209,117	10,091,862	-	-	42,300,979
Loans to customers	30,568,519	9,431,092	712,398	41,872,161	159,166,588	33,696,667	275,447,425
Finance lease receivables	1,285,022	-	2,824,745	10,939,864	3,930,690	3,724,420	22,704,741
Available-for-sale financial assets	193,149,400	13,081,046	9,536,372	69,490,705	76,488,327	-	361,745,850
Held-to-maturity investments	-	-	-	-	2,934,619	-	2,934,619
	369,010,507	**22,512,138**	**53,476,278**	**147,110,151**	**242,520,224**	**37,421,087**	**872,050,385**
LIABILITIES							
Current accounts and deposits from customers	428,613	-	-	50,065	776,914	-	1,255,592
Loans from the Government of the Republic of Kazakhstan	1,885,539	-	-	-	24,023,328	-	25,908,867
Loans from the Parent Company	-	-	-	-	12,868,576	-	12,868,576
Loans from banks and other financial institutions	25,838,393	44,517,208	-	70,761,044	299,086,571	-	440,203,216
Debt securities issued	157,395	-	-	135,367,763	29,330,095	-	164,855,253
Subordinated debt	-	-	-	-	5,050,819	-	5,050,819
	28,309,940	**44,517,208**	**-**	**206,178,872**	**371,136,303**	**-**	**650,142,323**
	340,700,567	**(22,005,070)**	**53,476,278**	**(59,068,721)**	**(128,616,079)**	**37,421,087**	**221,908,062**

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Overdue	Carrying amount
31 December 2010							
ASSETS							
Cash and cash equivalents	198,229,869	-	-	-	-	-	198,229,869
Placements with banks and other financial institutions	9,982,112	-	10,668,889	4,379,900	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	3,189,127	-	-	30,005,580	-	-	33,194,707
Loans to customers	33,516,511	9,962,682	9,026,357	47,638,136	188,415,952	32,331,257	320,890,895
Finance lease receivables	1,327,462	1,029,441	2,243,806	11,274,931	4,599,772	4,090,465	24,565,877
Available-for-sale financial assets	220,130,108	15,674,123	11,303,504	38,839,420	52,687,567	-	338,634,722
Held-to-maturity investments	-	-	-	-	2,707,099	-	2,707,099
	466,375,189	**26,666,246**	**33,242,556**	**132,137,967**	**248,410,390**	**36,421,722**	**943,254,070**
LIABILITIES							
Current accounts and deposits from customers	340,168	-	-	52,577	1,313,527	-	1,706,272
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	24,023,328	-	24,023,328
Loans from the Parent Company	-	-	-	-	2,420,070	-	2,420,070
Loans from banks and other financial institutions	98,192,366	30,947,678	-	89,821,371	298,340,629	-	517,302,044
Debt securities issued	-	-	-	87,632,671	30,074,267	-	117,706,938
Subordinated debt	-	-	-	-	4,542,761	-	4,542,761
	98,532,534	**30,947,678**	**-**	**177,506,619**	**360,714,582**	**-**	**667,701,413**
	367,842,655	**(4,281,432)**	**33,242,556**	**(45,368,652)**	**(112,304,192)**	**36,421,722**	**275,552,657**

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2011 Average effective interest rate			2010 Average effective interest rate		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	0.76%	0.03%	0.02%	1.48%	0.93%	0.69%
Placements with banks and other financial institutions	6.57%	-	-	8.37%	6.86%	-
Amounts receivable under reverse repo agreements	7.13%	-	-	6.85%	-	-
Available-for-sale financial assets	6.71%	8.51%	-	6.78%	9.16%	5.90%
Held-to-maturity investments	7.35%	-	-	7.33%	-	-
Loans to customers	8.20%	8.63%	7.11%	8.46%	9.46%	6.76%
Finance lease receivables	10.03%	-	-	9.22%	-	-
Interest bearing liabilities						
Current accounts and deposits from customers	-	0.01%	-	-	0.02%	-
Loans from the Government of the Republic of Kazakhstan	0.33%	-	-	0.33%	-	-
Loans from the Parent Company	4.95%	-	-	7.00%	-	-
Loans from banks and other financial institutions	7.00%	5.36%	3.40%	7.00%	5.12%	3.38%
Debt securities issued	7.50%	6.04%	-	-	6.15%	-
Subordinated debt	7.35%	-	-	7.33%	-	-

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

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

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Cash flow interest rate sensitivity analysis

An analysis of sensitivity of profit or loss for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

	2011		2010	
KZT'000	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
100 bp parallel increase	1,271,209	1,271,209	1,323,421	1,323,421
100 bp parallel decrease	(1,271,209)	(1,271,209)	(1,323,421)	(1,323,421)

The above analysis assumes all available-for-sale financial assets are held one year from the statement of financial position date.

Fair value interest rate sensitivity analysis

An analysis of sensitivity of profit or loss for the year and equity as a result of changes in fair value of financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2011		2010	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel increase	-	(11,912,568)	-	(12,844,675)
100 bp parallel decrease	-	12,548,364	-	13,153,540

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

34 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	Other KZT'000	Total KZT'000
Assets					
Cash and cash equivalents	8,053,125	134,039,701	1,383,450	23,957	143,500,233
Placements with banks and other financial institutions	23,304,534	112,004	-	-	23,416,538
Amounts receivable under reverse repurchase agreements	42,300,979	-	-	-	42,300,979
Loans to customers	41,043,960	226,491,111	3,056,804	4,855,550	275,447,425
Finance lease receivables*	22,704,741	-	-	-	22,704,741
Available-for-sale financial assets	128,886,982	232,858,868	-	-	361,745,850
Held-to-maturity investments	2,934,619	-	-	-	2,934,619
Equipment and intangible assets	235,572	-	-	-	235,572
Advances for finance leases	638,486	-	-	-	638,486
Assets to be transferred under finance lease agreements	1,230,219	-	-	-	1,230,219
Other assets	2,683,942	3,329,446	-	57	6,013,445
Current tax asset	162,418	-	-	-	162,418
Deferred tax assets	8,989,106	-	-	-	8,989,106
Derivative financial instruments	-	590,271	-	-	590,271
Total assets	**283,168,683**	**597,421,401**	**4,440,254**	**4,879,564**	**889,909,902**
Liabilities					
Current accounts and deposits from customers	82,991	1,170,223	1,374	1,004	1,255,592
Loans from the Government of the Republic of Kazakhstan	25,908,867	-	-	-	25,908,867
Loans from the Parent Company	12,868,576	-	-	-	12,868,576
Loans from banks and other financial institutions	10,015,244	416,121,023	8,326,104	5,740,845	440,203,216
Government grants	11,517,777	-	-	-	11,517,777
Debt securities issued	5,220,518	159,634,735	-	-	164,855,253
Subordinated debt	5,050,819	-	-	-	5,050,819
Other liabilities	6,396,252	2,572,647	269,789	3,564	9,242,252
Derrivative financial instruments	-	7,916,263	-	-	7,916,263
Total liabilities	**77,061,044**	**587,414,891**	**8,597,267**	**5,745,413**	**678,818,615**
Net on balance sheet positions as at 31 December 2011	**206,107,639**	**10,006,510**	**(4,157,013)**	**(865,849)**	**211,091,287**
Notional amount of derivative liabilities as at 31 December 2011	36,232,712	(41,900,607)	-	-	(5,667,895)
Net on and off balance sheet position positions as at 31 December 2011	**242,340,351**	**(31,894,097)**	**(4,157,013)**	**(865,849)**	**205,423,392**

* These assets contain embedded derivatives which become effective if the USD or EUR appreciates against KZT.

34 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the currency structure of assets and liabilities at 31 December 2010:

	KZT KZT'000	USD KZT'000	EUR KZT'000	Other KZT'000	Total KZT'000
Assets					
Cash and cash equivalents	111,702,900	84,007,092	2,290,696	229,181	198,229,869
Placements with banks and other financial institutions	16,394,993	8,635,908	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	33,194,707	-	-	-	33,194,707
Loans to customers	66,017,737	247,169,138	3,570,754	4,133,266	320,890,895
Finance lease receivables*	24,565,877	-	-	-	24,565,877
Available-for-sale financial assets	116,941,933	215,711,109	-	5,981,680	338,634,722
Held-to-maturity investments	2,707,099	-	-	-	2,707,099
Equipment and intangible assets	190,157	-	-	-	190,157
Advances for finance leases	333,124	-	-	-	333,124
Assets to be transferred under finance lease agreements	1,411,789	-	-	-	1,411,789
Other assets	4,635,126	2,090,043	7,107	171	6,732,447
Current tax asset	188,248	-	-	-	188,248
Deferred tax assets	6,058,441	-	-	-	6,058,441
Derivative financial instruments	-	442,500	-	-	442,500
Total assets	**384,342,131**	**558,055,790**	**5,868,557**	**10,344,298**	**958,610,776**
Liabilities					
Current accounts and deposits from customers	40,832	1,627,560	34,114	3,766	1,706,272
Loans from the Government of the Republic of Kazakhstan	24,023,328	-	-	-	24,023,328
Loans from the Parent Company	2,420,070	-	-	-	2,420,070
Loans from banks and other financial institutions	9,545,938	494,579,653	8,300,315	4,876,138	517,302,044
Government grants	11,133,326	-	-	-	11,133,326
Debt securities issued	-	117,706,938	-	-	117,706,938
Subordinated debt	4,542,761	-	-	-	4,542,761
Other liabilities	1,859,774	2,146,183	417,782	4,462	4,428,201
Derrivative financial instruments	-	7,466,820	-	-	7,466,820
Total liabilities	**53,566,029**	**623,527,154**	**8,752,211**	**4,884,366**	**690,729,760**
Net on balance sheet positions as at 31 December 2010	**330,776,102**	**(65,471,364)**	**(2,883,654)**	**5,459,932**	**267,881,016**
Notional amount of derivative liabilities as at 31 December 2010	36,240,212	(41,646,493)	-	-	(5,406,281)
Net on and off balance sheet position positions as at 31 December 2010	**367,016,314**	**(107,117,857)**	**(2,883,654)**	**5,459,932**	**262,474,735**

* These assets contain embedded derivatives which become effective if the USD or EUR appreciates against KZT.

34 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

An analysis of sensitivity of profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions, and embeded derivatives, existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in USD, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2011		2010	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
5% appreciation of USD against KZT	(1,275,764)	(1,275,764)	(4,284,714)	(4,284,714)
5% depreciation of USD against KZT	1,275,764	1,275,764	4,284,714	4,284,714
5% appreciation of EUR against KZT	(166,281)	(166,281)	(115,346)	(115,346)
5% depreciation of EUR against KZT	166,281	166,281	115,346	115,346
5% appreciation of Other currencies against KZT	(34,634)	(34,634)	218,397	218,397
5% depreciation of Other currencies against KZT	34,634	34,634	(218,397)	(218,397)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance position and off balance position exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. Loans to customers, finance lease receivables, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, available-for-sale financial assets and accounts receivable are subject to credit risk. The Group's exposure is monitored on an ongoing basis.

The Group continuously monitors the performance of individual credit exposures, and regularly reassesses the creditworthiness of its customers. The review is based on the most recent financial statements and other information submitted by the borrower or otherwise obtained by the Group.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2011 KZT'000	2010 KZT'000
ASSETS		
Cash and cash equivalents	143,500,233	198,229,869
Placements with banks and other financial institutions	23,416,538	25,030,901
Amounts receivable under reverse repurchase agreements	42,300,979	33,194,707
Loans to customers	275,447,425	320,890,895
Finance lease receivables	22,704,741	24,565,877
Available-for-sale financial assets	361,745,850	338,634,722
Held-to-maturity investments	2,934,619	2,707,099
Other assets	6,013,445	6,732,447
Derivative financial instruments	590,271	442,500
Total maximum exposure	**878,654,101**	**950,429,017**

34 Risk management, continued

(c) Credit risk, continued

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The Risk Department mitigates this risk by analysing liquidity gaps and maturity on an ongoing basis.

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2011. Unrecognised commitments are discussed in the Note 36.

	On demand and less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 6 months KZT'000	6 months to 12 months KZT'000	More than 1 year KZT'000	Total KZT'000	Book value KZT'000
Non-derivative liabilities							
Current accounts and deposits from customers	428,613	-	-	-	826,979	1,255,592	1,255,592
Loans from the Government of the Republic of Kazakhstan	1,887,838	10,160	2,150	64,769	24,753,269	26,718,186	25,908,867
Loans from the Parent Company	-		20,000	20,000	20,350,000	20,390,000	12,868,576
Loans from banks and other financial institutions	7,880,380	9,089,738	6,974,952	24,254,338	533,670,862	581,870,270	440,203,216
Debt securities issued	-	645,009	4,200,536	4,845,545	205,604,134	215,295,224	164,855,253
Subordinated debt	-	2,328,821	-	2,328,821	312,450,146	317,107,788	5,050,819
Other liabilities	961,777	59,025	676,214	835,155	6,710,081	9,242,252	9,242,252
Derivative financial instruments							
Inflow	-	-	(30,000)	-	(36,202,712)	(36,232,712)	(590,271)
Outflow	-	-	-	-	41,900,607	41,900,607	7,916,263
Total liabilities	**11,158,608**	**12,132,753**	**11,843,852**	**32,348,628**	**1,110,063,366**	**1,177,547,207**	**666,710,567**
Loan and credit line commitments	**150,958,476**	**-**	**-**	**-**	**-**	**150,958,476**	**150,958,476**

34 Risk management, continued

(d) Liquidity risk, continued

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2010. Unrecognised commitments are discussed in the Note 36.

	On demand and less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 6 months KZT'000	6 months to 12 months KZT'000	More than 1 year KZT'000	Total KZT'000	Book value KZT'000
Non-derivative liabilities							
Current accounts and deposits from customers	340,168	-	-	-	1,366,104	1,706,272	1,706,272
Loans from the Government of the Republic of Kazakhstan	2,300	10,160	2,150	64,769	24,726,552	24,805,931	24,023,328
Loans from the Parent	-	-	5,000	5,000	5,105,000	5,115,000	2,420,070
Loans from banks and other financial institutions	82,440,356	69,029,778	4,664,356	20,812,202	476,330,912	653,277,604	517,302,044
Debt securities issued	-	471,997	3,051,480	3,523,477	171,174,045	178,220,999	117,706,938
Subordinated debt	-	3,990,244	-	3,187,396	401,520,769	408,698,409	4,542,761
Other liabilities	403,100	531,953	692,818	1,457,723	1,342,607	4,428,201	4,428,201
Derivative financial instruments							
Inflow	(37,500)	-	-	-	(36,202,712)	(36,240,212)	(442,500)
Outflow	-	-	-	-	41,646,493	41,646,493	7,466,820
Total liabilities	**83,148,424**	**74,034,132**	**8,415,804**	**29,050,567**	**1,087,009,770**	**1,281,658,697**	**679,153,934**
Loan and credit line commitments	**154,182,507**	**-**	**-**	**-**	**-**	**154,182,507**	**154,182,507**

34 Risk management, continued

(e) Maturity

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2011.

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Assets									
Cash and cash equivalents	136,466,756	7,033,477	-	-	-	-	-	-	143,500,233
Placements with banks and other financial institutions	-	7,333	500,000	8,193,646	14,715,559	-	-	-	23,416,538
Amounts receivable under reverse repurchase agreements	-	-	-	32,209,117	10,091,862	-	-	-	42,300,979
Loans to customers	-	-	28,409	898,472	41,872,160	198,951,717	-	33,696,667	275,447,425
Finance lease receivables	-	373,810	911,212	2,824,745	10,939,864	3,930,690	-	3,724,420	22,704,741
Available-for-sale financial assets	-	1,024,107	-	12,349,327	81,348,386	267,024,030	-	-	361,745,850
Held-to-maturity investments	-	-	-	-	-	2,934,619	-	-	2,934,619
Equipment and intangible assets	-	-	-	-	-	-	235,572	-	235,572
Advances for finance leases	-	149	55,090	581,816	1,431	-	-	-	638,486
Assets to be transferred under finance lease	-	-	536,412	693,807	-	-	-	-	1,230,219
Other assets	61,663	12,394	413,855	3,395,422	49,825	2,011,335	2,809	66,142	6,013,445
Current tax asset	162,418	-	-	-	-	-	-	-	162,418
Deferred tax assets	-	-	-	-	-	8,989,106	-	-	8,989,106
Derivative financial instruments	-	-	-	590,271	-	-	-	-	590,271
Total assets	**136,690,837**	**8,451,270**	**2,444,978**	**61,736,623**	**159,019,087**	**483,841,497**	**238,381**	**37,487,229**	**889,909,902**

34 Risk management, continued

(e) Maturity, continued

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Liabilities									
Current accounts and deposits from customers	428,613	-	-	-	50,065	776,914	-	-	1,255,592
Loans from the Government of the Republic of Kazakhstan	1,885,539	-	-	-	-	24,023,328	-	-	25,908,867
Loans from banks and other financial institutions	-	-	-	-	70,761,043	369,442,173	-	-	440,203,216
Loans from the Parent	-	-	-	-	-	12,868,576	-	-	12,868,576
Government grants	-	-	-	-	-	11,517,777	-	-	11,517,777
Debt securities issued	-	-	157,395	-	135,367,763	29,330,095	-	-	164,855,253
Subordinated debt	-	-	-	-	-	5,050,819	-	-	5,050,819
Other liabilities	357,893	603,884	59,025	1,511,369	270,421	6,439,660	-	-	9,242,252
Derivative financial instruments	-	-	-	570,546	7,345,717	-	-	-	7,916,263
Total liabilities	**2,672,045**	**603,884**	**216,420**	**2,081,915**	**213,795,009**	**459,449,342**	**-**	**-**	**678,818,615**
Net position as at 31 December 2011	**134,018,792**	**7,847,386**	**2,228,558**	**59,654,708**	**(54,775,922)**	**24,392,155**	**238,381**	**37,487,229**	**211,091,287**

34 Risk management, continued

(e) Maturity, continued

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2010.

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Assets									
Cash and cash equivalents	85,932,716	112,297,153	-	-	-	-	-	-	198,229,869
Placements with banks and other financial institutions	-	-	1,643,938	19,007,063	4,379,900	-	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	-	3,189,127	-	-	30,005,580	-	-	-	33,194,707
Loans to customers	-	1,201,137	2,698,639	9,780,454	47,638,135	227,241,273	-	32,331,257	320,890,895
Finance lease receivables	-	300,418	1,027,044	3,273,247	11,274,931	4,599,772	-	4,090,465	24,565,877
Available-for-sale financial assets	-	822,356	4,303,520	5,820,236	58,665,170	269,023,440	-	-	338,634,722
Held-to-maturity investments	-	-	-	-	-	2,707,099	-	-	2,707,099
Equipment and intangible assets	-	-	-	-	-	-	190,157	-	190,157
Advances for finance leases	-	378	2,392	330,354	-	-	-	-	333,124
Assets to be transferred under finance lease agreements	-	-	144,489	1,267,300	-	-	-	-	1,411,789
Other assets	144,720	10,417	1,070,926	4,354,262	56,208	1,044,745	2,806	48,363	6,732,447
Current tax asset	188,248	-	-	-	-	-	-	-	188,248
Deferred tax assets	-	-	-	-	-	6,058,441	-	-	6,058,441
Derivative financial instruments	-	442,500	-	-	-	-	-	-	442,500
Total assets	**86,265,684**	**118,263,486**	**10,890,948**	**43,832,916**	**152,019,924**	**510,674,770**	**192,963**	**36,470,085**	**958,610,776**

34 Risk management, continued

(e) Maturity, continued

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Liabilities									
Current accounts and deposits from customers	340,168	-	-	-	52,577	1,313,527	-	-	1,706,272
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	24,023,328	-	-	24,023,328
Loans from banks and other financial institutions	-	-	59,292,311	-	89,821,372	368,188,361	-	-	517,302,044
Loans from the Parent	-	-	-	-	-	2,420,070	-	-	2,420,070
Government grants	-	-	-	-	-	11,133,326	-	-	11,133,326
Debt securities issued	-	-	-	-	87,632,671	30,074,267	-	-	117,706,938
Subordinated debt	-	-	-	-	-	4,542,761	-	-	4,542,761
Other liabilities	256,713	138,141	531,954	2,144,486	417,601	939,306	-	-	4,428,201
Derivative financial instruments	-	405,000	-	-	7,061,820	-	-	-	7,466,820
Total liabilities	**596,881**	**543,141**	**59,824,265**	**2,144,486**	**184,986,041**	**442,634,946**	**-**	**-**	**690,729,760**
Net position as at 31 December 2010	**85,668,803**	**117,720,345**	**(48,933,317)**	**41,688,430**	**(32,966,117)**	**68,039,824**	**192,963**	**36,470,085**	**267,881,016**

35 Capital management

The Group defines capital as its total equity measured in accordance with IFRS.

In accordance with amendments introduced into the Law "On the securities market", as at 31 December 2011 the Bank was not subject to capital requirements set by the National Bank of the Republic of Kazakhstan.

The Group is subject to minimum capital and maximum debt-to-equity ratio requirements established by covenants under certain liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2011 and 2010.

36 Commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities and are cancellable on certain conditions. The Group plans to fund these commitments with the issue of debt securities, loans from the Parent Company and a number of foreign counterparties in 2011.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for letters of credit represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparties failed completely to perform as contracted.

	2011 KZT'000	2010 KZT'000
Contracted amount		
Loan, credit line and finance lease commitments	150,958,476	154,182,507
Letters of credit and other commitments related to settlement operations	107,530,998	108,864,530

The Group uses the same credit control and management policies in undertaking unrecognised commitments as it does for recognised operations.

Included in letters of credit and other commitments related to settlement operations is the amount of KZT 106,642,054 thousand related to a single borrower, which, if aggregated with current amount of loans in the amount of KZT 48,900,743 thousand, will comprise a significant credit exposure.

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

37 Operating leases

Leases as lessee

As at 31 December 2011 and 2010 the Group did not have significant non-cancelable operating lease rentals payable.

During the current year KZT 313,849 thousand was recognised as an expense in profit or loss in respect of operating leases (2010: KZT 287,096 thousand).

38 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

39 Related party transactions

(a) Control relationships

The Bank's sole shareholder is Sovereign Wealth Fund "Samruk-Kazyna" JSC. The party with ultimate control over the Group is the Government of the Republic of Kazakhstan.

Publicly available financial statements are produced by the Group's Parent Company, however, no publicly available financial statements are produced by the Group's ultimate controlling party.

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

Total remuneration included in payroll and related taxes (refer Note 11):

	2011 KZT'000	2010 KZT'000
Members of the Board of Directors and the Management Board	285,624	286,156

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

(c) Transactions with other related parties

Other related parties comprise the State, national companies and organisations, including the National Bank of the Republic of Kazakhstan, the Ministry of Finance of the Republic of Kazakhstan, Fund of Distressed Assets JSC and companies where the Group has significant influence.

The outstanding balances and the related average contractual interest rates as at 31 December 2011 and 2010 and related profit or loss amounts of transactions for the years ended 31 December 2011 and 2010 with other related parties are as follows.

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2011	The Parent Company		Other subsidiaries of the Parent Company		Associates of the Parent Company		Other state companies and organisations		Total
	KZT'000	Average interest rate, %	KZT'000	Average interest rate,%	KZT'000	Average interest rate,%	KZT'000	Average interest rate, %	KZT'000
Statement of Financial Position									
ASSETS									
Cash and cash equivalents	-	-	-	-	8,384	-	76,115,676	0.56	76,124,060
Loans to customers	-	-	60,727,393	7.29	-	-	22,756,546	5.16	83,483,939
Finance lease receivables	-	-	2,627,179	9.70	-	-	-	-	2,627,179
Amounts receivable under reverse repurchase agreements	-	-	42,300,979	7.13	-	-	-	-	42,300,979
Available-for-sale financial assets	43,200,679	6.24	182,152,631	8.70	31,769,042	7.83	40,472,501	6.56	297,594,853
Held-to-maturity investments	2,934,619	0.01	-	-	-	-		-	2,934,619
Other assets	-	-	451,882		78		43,931	-	495,891
Current tax asset	-	-	-	-	-	-	162,418	-	162,418
Deferred tax assets	-	-	-	-	-	-	8,989,106	-	8,989,106
LIABILITIES									
Current accounts and deposits from customers	-	-	345,196		-	-	786,678		1,131,874
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	-	25,908,867	0.33	25,908,867
Loans from banks and other financial institutions	-	-	-	-	-	-	10,015,245	1.00	10,015,245
Government grants	2,241,201		-	-	-	-	9,276,576		11,517,777
Loan from the Parent Company	12,868,576	0.20	-	-	-	-	-	-	12,868,576
Subordinated debt	5,050,819	0.01	-	-	-	-	-	-	5,050,819
Other liabilities	4,513,419	-	2,160,142	-	-	-	3	-	6,673,564

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2011	The Parent Company KZT'000	Other subsidiaries of the Parent Company KZT'000	Associates of the Parent Company KZT'000	Other state companies and organisations KZT'000	Total KZT'000
Profit/(loss)					
Interest income	2,538,509	24,353,390	966,442	3,263,894	31,122,235
Interest expense	(527,481)	(59)	-	(748,685)	(1,276,225)
Fee and commission income	-	31,038	-	12,392	43,430
Fee and commission expense	-	-	(2,907)	(2)	(2,909)
Net realised gain on available-for-sale financial assets	5,394	97,939	112,846	56,649	272,828
Net gain on derivative financial instruments	-	1,731	-	-	1,731
Income on purchase/sale of foreign currency	39,218	1,293,093	-	-	1,332,311
Impairment losses	-	(576,967)	-	(1,522,323)	(2,099,290)
General administrative expenses	(165,167)	(89,549)	(456)	(226,616)	(481,788)
Other (expenses)/income	-	(24,086)	-	6,134	(17,952)
Income tax benefit	-	-	-	3,113,650	3,113,650

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2010	The Parent Company		Other subsidiaries of the Parent Company		Associates of the Parent Company		Other state companies and organisations		Total
	KZT'000	Average interest rate, %	KZT'000	Average interest rate,%	KZT'000	Average interest rate,%	KZT'000	Average interest rate, %	KZT'000
Statement of Financial Position									
ASSETS									
Cash and cash equivalents	-	-	-	-	44,266,594	1.50	106,138,092	1.00	150,404,686
Loans to customers	-	-	67,953,878	8.29	-	-	25,476,872	9.17	93,430,750
Finance lease receivables	-	-	2,967,414	9.83	-	-	-	-	2,967,414
Amounts receivable under reverse repurchase agreements	-	-	30,005,580	7.50	-	-	-	-	30,005,580
Available-for-sale financial assets	28,282,315	5.93	210,270,581	7.28	5,242,826	7.34	52,461,372	7.49	296,257,094
Held-to-maturity investments	2,707,099	0.01	-	-	-	-	-	-	2,707,099
Other assets	-	-	1,105,293	-	-	-	522,271	-	1,627,564
Current tax asset	-	-	-	-	-	-	188,248	-	188,248
Deferred tax assets	-	-	-	-	-	-	6,058,441	-	6,058,441
LIABILITIES									
Current accounts and deposits from customers	-	-	316,802	-	-	-	1,339,957	-	1,656,759
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	-	24,023,328	0.28	24,023,328
Loans from banks and other financial institutions	-	-	-	-	-	-	9,545,939	1.00	9,545,939
Government grants	1,807,306	-	-	-	-		9,326,020	-	11,133,326
Loan from Parent Company	2,420,070	0.20	-	-	-	-	-	-	2,420,070
Subordinated debt	4,542,761	0.10	-	-	-	-	-	-	4,542,761
Other liabilities	-	-	934,331	-	-	-	27,375	-	961,706

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2010	The Parent Company KZT'000	Other subsidiaries of the Parent Company KZT'000	Associates of the Parent Company KZT'000	Other state companies and organisations KZT'000	Total KZT'000
Profit/(loss)					
Interest income	581,049	19,498,918	2,477,946	3,961,469	26,519,382
Interest expense	(4,765,359)	(1,088)	-	(530,780)	(5,297,227)
Fee and commission income	828	49,217	-	63,241	113,286
Fee and commission expense	-	-	(3,037)	(8)	(3,045)
Net realised gain on available-for-sale financial assets	535	171,260	-	317,951	489,746
Net loss on derivative financial instruments	-	(65,794)	-	-	(65,794)
Income/(loss) on purchase/sale of foreign currency	54,997	107,270	-	(131,777)	30,490
Impairment losses	-	(1,412)	-	(155,599)	(157,011)
General administrative expenses	(198,200)	(18,606)	-	-	(216,806)
Other income	-	35,854	-	-	35,854
Income tax expense	-	-	-	(1,790,845)	(1,790,845)

40 Analysis by segment

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

41 Fair value of financial instruments

(a) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(e) (viii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The estimated fair values of all financial instruments except for loans to customers, finance lease receivables, held-to-maturity investments, loans from the Government of the Republic of Kazakhstan, loans from Parent Company, debt securities issued and subordinated debt approximates their carrying values.

	2011 KZT'000 Fair value	2011 KZT'000 Carrying value	2010 KZT'000 Fair value	2010 KZT'000 Carrying value
ASSETS				
Loans to customers	265,489,674	275,447,425	310,917,155	320,890,895
Finance lease receivables	20,139,689	22,704,741	22,787,922	24,565,877
Held-to-maturity investments	2,567,457	2,934,619	1,633,373	2,707,099
LIABILITIES				
Loans from the Government of the Republic of Kazakhstan	18,173,251	25,908,867	13,496,310	24,023,328
Loans from Parent Company	12,829,093	12,868,576	2,420,070	2,420,070
Debt securities issued	162,760,946	164,855,253	119,327,101	117,706,938
Subordinated debt	4,686,684	5,050,819	3,499,035	4,542,761

(b) Valuation of financial instruments

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

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

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair value using valuation techniques.

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

41 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Instruments involving significant unobservable inputs are presented by certain securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

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

	Note	Level 1 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
Assets					
Available-for-sale financial assets	18	4,966,429	308,962,328	47,817,093	361,745,850
Embedded derivative	17	-	-	2,204,756	2,204,756
Derivative financial instruments	31	-	590,271	-	590,271
		4,966,429	**309,552,599**	**50,021,849**	**364,540,877**
Liabilities					
Derivative financial instruments	31	-	7,916,263	-	7,916,263
		-	**7,916,263**	**-**	**7,916,263**

The table below analyses financial instruments measured at fair value as at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Note	Level 1 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
Assets					
Available-for-sale financial assets	18	3,745,986	279,827,113	55,061,623	338,634,722
Embedded derivative	17	-	-	4,025,336	4,025,336
Derivative financial instruments	31	-	442,500	-	442,500
		3,745,986	**280,269,613**	**59,086,959**	**343,102,558**
Liabilities					
Derivative financial instruments	31	-	7,466,820	-	7,466,820
		-	**7,466,820**	**-**	**7,466,820**

41 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

The available-for-sale financial assets with fair values determined using valuation techniques that use observable inputs were classified into Level 2. Observable inputs included transaction prices in markets that are active for similar, but not identical, instruments and transaction prices in markets that are not active for identical instruments. Although all the instruments are listed on KASE, management believes that the market for these identical instruments is not active.

The Group applies discounted cash flow methodology in respect of valuation of impaired available-for-sale financial assets and available-for-sale financial assets for which fair values cannot be determined based on observable market inputs.

For impaired debt securities cash flow projections were based on publicly available information on expected post-restructuring payoff schedule for each respective type of security. Assumptions on discount rates were made based on issuers' credit risk premiums implied by market quotes of the issues on which the trades were not suspended.

Certain available-for-sale financial assets that do not have observable market prices and cannot be valued based on observable market inputs were also valued applying discounted cash flow methodology. Cash flow projections for these securities were derived from contractual payment schedules. Assumptions regarding discount rates were made based on quoted prices in active markets of similar instruments of an issuer with adjacent credit rating adjusted to the difference in credit ratings.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2011:

	Available-for-sale financial assets	Embedded derivative
Balance as at 1 January	**55,061,623**	**4,025,336**
Total gains or losses:		
in profit or loss	4,185,103	(1,453,315)
in other comprehensive income	(7,194,933)	-
Settlements	(4,234,700)	(367,265)
Balance at 31 December	**47,817,093**	**2,204,756**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2010:

	Available-for-sale financial assets	Embedded derivative
Balance as at 1 January	**57,201,199**	**4,331,208**
Total gains or losses:		
in profit or loss	4,247,170	81,563
in other comprehensive income	(1,416,104)	-
Settlements	(3,024,818)	(387,435)
Disposed of	(1,945,824)	-
Balance at 31 December	**55,061,623**	**4,025,336**

41 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2011:

KZT'000	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	**Unfavourable**	**Favourable**	**Unfavourable**
Available-for-sale financial assets - Debt and other fixed income instruments	-	-	3,902,508	(3,635,504)
Total	**-**	**-**	**3,902,508**	**(3,635,504)**

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2010:

KZT'000	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	**Unfavourable**	**Favourable**	**Unfavourable**
Available-for-sale financial assets - Debt and other fixed income instruments	-	-	2,016,969	(1,903,041)
Total	**-**	**-**	**2,016,969**	**(1,903,041)**

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values. Key inputs and assumptions used to calculate favourable and unfavourable changes include changing the estimated discount rate by 100 basis points.