

**JOINT STOCK COMPANY  
“EXIMBANK KAZAKHSTAN”**

**Financial Statements**

For the Year Ended 31 December 2011

# JOINT STOCK COMPANY “EXIMBANK KAZAKHSTAN”

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# JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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Management is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of Joint Stock Company "Eximbank Kazakhstan" (the "Bank") as at 31 December 2011, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:


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

Management is also responsible for:

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


The financial statements for the year ended 31 December 2011, were authorized for issue on 15 March 2012 by the Management Board of the Bank.

On behalf of the Management Board:

  
Prikhozhan D.A.  
Chairman of the Board

15 March 2012  
Almaty, Kazakhstan



  
Krivtsova T.L.  
Chief Accountant

15 March 2012  
Almaty, Kazakhstan

## INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Board of Directors of Joint Stock Company "Eximbank Kazakhstan"

We have audited the accompanying financial statements of Joint Stock Company "Eximbank Kazakhstan" (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company "Eximbank Kazakhstan" 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.

## Emphasis of matter

Without qualifying our opinion, we draw attention to Note 3 to the financial statements. As described in this note the presentation of the statement of cash flows has been changed for the year ended 31 December 2010.

DELOITTE LLP



Deloitte, LLP  
State license on auditing of the Republic of Kazakhstan  
# 0000015, type MFU-2, given by  
the Ministry of Finance of the Republic of Kazakhstan  
dated 13 September 2006

A handwritten signature in blue ink, appearing to read "N. Bekenov".

A circular blue professional seal for Nurlan Bekenov. The outer ring contains the text "NURLAN BEKENOV" at the top and "MEMBER OF THE ASSOCIATION OF AUDITORS OF THE REPUBLIC OF KAZAKHSTAN" at the bottom. The inner circle contains the text "Nurlan Bekenov" and "Engagement Partner".

Nurlan Bekenov  
Engagement Partner  
Qualified auditor  
of the Republic of Kazakhstan  
Qualification certificate #0082  
dated 13 June 1994  
General Director  
Deloitte, LLP

15 March 2012  
Almaty, Kazakhstan


# JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011


(in thousands of Kazakhstani Tenge, except for earnings per share which are in Tenge)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	4, 25	8,253,657	8,282,799
Interest expense	4, 25	(4,688,161)	(4,421,630)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		3,565,496	3,861,169
Provision for impairment losses on interest bearing assets	5, 25	(2,940,322)	(3,440,865)
NET INTEREST INCOME		625,174	420,304
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	6	(41,812)	130,095
Income from repurchase of debt securities issued		32,484	273,664
Net gain on foreign exchange operations	7	506,181	451,918
Fee and commission income	8, 25	717,532	644,946
Fee and commission expense	8	(8,761)	(7,978)
Recovery of provision/(provision) for impairment losses on other operations	5	115,546	(43,438)
Other income		3,400	6,250
NET NON-INTEREST INCOME		1,324,570	1,455,457
OPERATING INCOME		1,949,744	1,875,761
OPERATING EXPENSES	9, 25	(1,417,072)	(1,447,196)
PROFIT BEFORE INCOME TAX		532,672	428,565
Income tax expense	10	(132,861)	(198,516)
NET PROFIT		399,811	230,049
TOTAL COMPREHENSIVE INCOME		399,811	230,049
EARNINGS PER SHARE			
Basic and diluted (KZT)	11	42.17	24.27

On behalf of the Management Board:

 Prikhozhan D.A.  
Chairman of the Board

15 March 2012  
Almaty, Kazakhstan

 Krivtsova T.L.  
Chief Accountant

15 March 2012  
Almaty, Kazakhstan

The notes on pages 9-57 form an integral part of these financial statements.

# JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(in thousands of Kazakhstani Tenge)

	Notes	31 December 2011	31 December 2010
<b>ASSETS:</b>			
Cash and balances with the National Bank of the Republic of Kazakhstan	12	11,639,533	13,122,553
Financial assets at fair value through profit or loss	13	1,438,283	160,234
Due from banks	14	2,338,179	1,272,442
Loans to customers	15, 25	68,549,708	67,394,533
Property, equipment and intangible assets	16	1,822,963	1,593,940
Current income tax assets		111,343	13,614
Other assets	17, 25	147,871	504,556
<b>TOTAL ASSETS</b>		<b>86,047,880</b>	<b>84,061,872</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Due to banks	18	1,102,536	1,034,585
Customer accounts	19, 25	54,488,630	52,959,790
Debt securities issued	20	16,292,855	16,188,242
Deferred income tax liabilities	10	97,384	99,093
Other liabilities	21	190,312	304,771
		72,171,717	70,586,481
Subordinated debt	22	1,998,956	1,998,223
<b>Total liabilities</b>		<b>74,170,673</b>	<b>72,584,704</b>
<b>EQUITY:</b>			
Share capital	23	11,900,000	11,900,000
Treasury shares		(160,673)	(161,561)
Negative reserve, liability component of preferred shares		(1,800,856)	(1,800,196)
Property and equipment revaluation reserve		513,982	524,417
Retained earnings		1,424,754	1,014,508
<b>Total equity</b>		<b>11,877,207</b>	<b>11,477,168</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>86,047,880</b>	<b>84,061,872</b>

On behalf of the Management Board:

Prikhozhan D.A.  
Chairman of the Board

15 March 2012  
Almaty, Kazakhstan

Krivtsova T.L.  
Chief Accountant

15 March 2012  
Almaty, Kazakhstan

The notes on pages 9-57 form an integral part of these financial statements.

**JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011**

*(in thousands of Kazakhstani Tenge)*

	ordinary shares	Share capital preferred shares	total	ordinary shares	Treasury shares preferred shares	total	Negative reserve, liability component of preferred shares	Property and equipment revaluation reserve	Retained earnings	Total equity
<b>31 December 2009</b>	9,700,000	2,200,000	11,900,000	(140,938)	(20,623)	(161,561)	(1,800,196)	534,852	873,571	11,346,666
Total comprehensive income for the year	-	-	-	-	-	-	-	-	230,049	230,049
Dividends declared and paid	-	-	-	-	-	-	-	-	(99,547)	(99,547)
Depreciation of property and equipment revaluation reserve	-	-	-	-	-	-	-	(10,435)	10,435	-
<b>31 December 2010</b>	9,700,000	2,200,000	11,900,000	(140,938)	(20,623)	(161,561)	(1,800,196)	524,417	1,014,508	11,477,168
Total comprehensive income for the year	-	-	-	-	-	-	-	-	399,811	399,811
Treasury shares purchased	-	-	-	(10)	-	(10)	-	-	-	(10)
Treasury shares sold	-	-	-	-	898	898	-	-	-	898
Changes in negative reserve, liability component of preferred shares	-	-	-	-	-	-	(660)	-	-	(660)
Depreciation of property and equipment revaluation reserve	-	-	-	-	-	-	-	(10,435)	10,435	-
<b>31 December 2011</b>	9,700,000	2,200,000	11,900,000	(140,948)	(19,725)	(160,673)	(1,800,856)	513,982	1,424,754	11,877,207

On behalf of the Management Board:



**Prilbozhayeva D.S.**  
Chairman of the Board

**Krivtsova T.L.**  
Chief Accountant

15 March 2012  
Almaty, Kazakhstan.

15 March 2012  
Almaty, Kazakhstan

The notes on pages 9-57 form an integral part of these financial statements.

**JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
*(in thousands of Kazakhstani Tenge)*


	Notes	Year ended 31 December 2011	Year ended 31 December 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Interest and income received from financial assets at fair value through profit or loss		1,515	149,244
Interest received on due from banks		873	60,680
Interest received on loans to customers		3,681,235	4,103,445
Interest paid on due to banks		(109,949)	(24,767)
Interest paid on customer accounts		(2,186,020)	(2,388,648)
Interest paid on debt securities issued		(1,479,152)	(1,924,797)
Interest paid on other borrowed funds		-	(184)
Fee and commission received		713,461	645,661
Fee and commission paid		(8,761)	(7,978)
Dealing gain received on foreign exchange operations		527,608	435,810
Other income		3,980	6,250
Operating expenses paid		<u>(1,288,150)</u>	<u>(1,284,911)</u>
Cash outflow from operating activities before changes in operating assets and liabilities		(143,360)	(230,195)
<b>Changes in operating assets and liabilities</b>			
<b>(Increase)/decrease in operating assets:</b>			
Financial assets at fair value through profit or loss		(1,320,227)	880,227
Loans to customers		466,488	(12,162,075)
Other assets		160,717	(56,824)
<b>Increase/(decrease) in operating liabilities:</b>			
Due to banks		74,150	468,000
Customer accounts		1,180,429	15,141,191
Other borrowed funds		-	(5,616)
Other liabilities		<u>(114,310)</u>	<u>(21,673)</u>
Cash inflow from operating activities before taxation		303,887	4,013,035
Income taxes paid		<u>(232,299)</u>	<u>(217,645)</u>
Net cash inflow from operating activities		<u>71,588</u>	<u>3,795,390</u>

# JOINT STOCK COMPANY "EXIMBANK KAZAKHSTAN"

## STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2011 (in thousands of Kazakhstani Tenge)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>			
Purchase of property, equipment and intangible assets		(364,576)	(145,494)
Proceeds on sale of property and equipment		321,484	1,538,441
Net cash (outflow)/inflow from investing activities		(43,092)	1,392,947
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from debt securities issued		298,900	2,534,720
Repurchase of debt securities issued		(544,746)	(1,159,886)
Dividends paid on preferred shares		(198,027)	(198,027)
Proceeds on re-sale of preferred treasury shares		898	-
Repurchase of ordinary treasury shares		(10)	-
Dividends paid on ordinary shares		-	(99,547)
Net cash (outflow)/inflow from financing activities		(442,985)	1,077,260
Effect of changes in foreign exchange rate on cash and cash equivalents		(2,794)	1,957
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(417,283)	6,267,554
CASH AND CASH EQUIVALENTS, beginning of the year	12	14,394,995	8,127,441
CASH AND CASH EQUIVALENTS, end of the year	12	13,977,712	14,394,995

On behalf of the Management Board:

  
Prikhozhan D.A.  
Chairman of the Board

15 March 2012  
Almaty, Kazakhstan

  
Krivtsova T.L.  
Chief Accountant

15 March 2012  
Almaty, Kazakhstan

The notes on pages 9-57 form an integral part of these financial statements.

# JOINT STOCK COMPANY “EXIMBANK KAZAKHSTAN”

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of Kazakhstani Tenge)

### 1. ORGANISATION

Joint Stock Company “Eximbank Kazakhstan” (the “Bank”) is a joint-stock company and operates in the Republic of Kazakhstan since 1994. The Bank is regulated by the National Bank of the Republic of Kazakhstan (the “NBRK”) and by the Committee for Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan (“FMSC” – previously known as Agency for Regulation and Supervision of Financial Market and Financial Organizations of the Republic of Kazakhstan or the “FMSA”) under license #232 dated 20 June 2008 for activities regulated by banking law in national and foreign currency. The Bank’s primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank’s registered legal address is 80 Bogenbay Batyr street, Almaty, Republic of Kazakhstan.

As at 31 December 2011 and 2010, the Bank had 4 branches in the Republic of Kazakhstan. In 2010 a representative office was established in Moscow, the Russian Federation. The total number of employees of the Bank as at 31 December 2011 and 2010, was 260 and 266 respectively.

As at 31 December 2011 and 2010, the following shareholders owned the issued ordinary shares of the Bank:

	31 December 2011		31 December 2010	
	Number of shares	% of direct ownership	Number of shares	% of direct ownership
JSC “Central Asian Heating Energy Company”	6,376,371	65.74	6,376,371	65.74
JSC “APF Astana”	947,966	9.77	-	-
LLP “Centerstroyenergy”	812,533	8.38	812,533	8.38
LLP “Kazdieselastyk”	599,530	6.18	-	-
JSC “Investment Technologies”	225,738	2.33	621,494	6.41
JSC “APF Amanat Kazakhstan”	-	-	947,966	9.77
Other shareholders owning less than 5% of shares	518,465	5.34	722,248	7.45
Shares repurchased	219,397	2.26	219,388	2.26
<b>Total</b>	<b>9,700,000</b>	<b>100.00</b>	<b>9,700,000</b>	<b>100.00</b>

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

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

#### Other basis of presentation criteria

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

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 29.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

### **Functional currency**

These financial statements are presented in thousands of Kazakhstani tenge (“KZT” or “Tenge”), unless otherwise indicated. Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that Bank (the “functional currency”). The functional currency of the financial statements is Kazakhstani tenge.

The principal accounting policies are set out below.

### **Recognition of interest income and expense**

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss (FVTPL).

Once a financial asset or a group of similar financial assets have been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

### **Recognition of fee and commission income and expense**

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

## **Financial instruments**

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

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

### **Financial assets**

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

#### **Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 27.

#### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

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

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

### **Loans and receivables**

Due from banks, loans to customers, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### **Impairment of financial assets**

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

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

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

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

Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

### **Renegotiated loans**

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

### **Write off of loans and advances**

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of comprehensive income in the period of recovery.

### **Derecognition of financial assets**

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

## **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

### **Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Derivative financial instrument is a financial liability classified as held for trading.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 27.

### **Other financial liabilities**

Other financial liabilities, including due to banks, customer accounts, debt securities issued, other borrowed funds, other liabilities and subordinated debt are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

### **Derecognition of financial liabilities**

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

### **Financial guarantee contracts**

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

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

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

### **Derivative financial instruments**

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

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

### **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 and due from banks with original maturity within 90 days.

### **Leases**

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

### **Property, equipment and intangible assets**

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization, and recognized impairment loss, if any, except for the land and buildings, which are carried at revalued amounts less accumulated depreciation and impairment loss, if any.

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

Buildings	2.5%
Computers	40%
Vehicles	25%
Other fixed assets	15%
Intangible assets	15%

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

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the statement of comprehensive income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

## **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### **Current and deferred tax for the year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

### **Operating taxes**

The Republic of Kazakhstan where the Bank operates also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

### **Provisions**

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

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

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

### **Contingencies**

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

### **Foreign currencies**

*In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.*

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

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

	<b>31 December 2011</b>	<b>31 December 2010</b>
KZT/1 US Dollar	148.40	147.50
KZT/1 Euro	191.72	196.88

### **Collateral**

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

### **Share capital and equity reserves**

Contributions to share capital are recognized at cost. Costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is either charged to additional paid-in capital (if positive) or to retained earnings (if negative).

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

The reserves recorded in equity on the Bank's statement of financial position include 'other capital reserve' which comprises changes in fair value of property and equipment.

## **Preferred shares**

Preferred shares, for which dividends are set, are considered as combined financial instruments according to the nature of a contractual agreement, accordingly the components of the liability and equity are presented separately in the statement of financial position. Upon the initial recognition the component of the equity is assigned the net book value after deduction from initial carrying value of the instrument of the fair value of the component of the liability. Upon the initial recognition the fair value of the component of the liability is measured by discounting the expected future cash flows at the market rate similar to a debt instrument. Subsequently the component of the liability is measured according to the same principles as the subordinated debt and the component of the equity is measured according to the same principles as for the share capital.

## **Retirement and other benefit obligation**

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

## **Critical accounting judgements and key sources of estimation uncertainty**

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

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

## **Critical judgements in applying accounting policies**

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

## **Key sources of estimation uncertainty**

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

### *Impairment of loans and receivables*

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

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

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

As at 31 December 2011 and 2010 the gross loans to customers totalled KZT 79,828,899 thousand and KZT 75,705,711 thousand, respectively, and allowance for impairment losses amounted to KZT 11,279,191 thousand and KZT 8,311,178 thousand, respectively.

#### *Property, plant and equipmentx*

Certain property (land and buildings) is measured at revalue amounts. The date of the latest appraisal was 23 November 2009. The next revaluation is scheduled during 2012. The carrying value of revalued property amounted to KZT 969,026 thousand and KZT 987,835 thousand as at 31 December 2011 and 2010, respectively.

#### **Segment reporting**

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

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

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

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

## **Application of new and revised International Financial Reporting Standards (IFRSs)**

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Bank's annual financial statements for the year ended 31 December 2011:

- IFRS 3(2008) "Business Combinations" / IAS 27 "Consolidated and Separate Financial Statements" — amendments resulting from May 2010 Annual Improvements to IFRSs: 1) transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; 2) clarification on measurement of non-controlling interests;
- IFRS 7 "Financial Instruments: Disclosures" — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;
- IAS 24 "Related Party Disclosures" — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Bank, and all have been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

### ***Amendments to IAS 24***

The disclosure exemptions introduced in IAS 24 (as revised in 2010) do not affect the Bank because the Bank is not a government-related entity.

### **New and revised IFRSs in issue but not yet effective**

At the date of authorization of these financial statements, the following new standards and interpretations were in issue, but not yet effective, and which the Bank has not early adopted:

- IFRS 7 "Financial Instruments: Disclosures" — amendments enhancing disclosures about transfers of financial assets<sup>1</sup>;
- IFRS 9 "Financial Instruments"<sup>6</sup>;
- IFRS 10 "Consolidated Financial Statements"<sup>3</sup>;
- IFRS 11 "Joint Arrangements"<sup>3</sup>;
- IFRS 12 "Disclosure of Interest in Other Entities"<sup>3</sup>;
- IFRS 13 "Fair Value Measurement"<sup>2</sup>;
- IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented<sup>4</sup>;
- IAS 12 "Income Taxes" — Limited scope amendment (recovery of underlying assets)<sup>5</sup>;
- IAS 27 - reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011)<sup>3</sup>;
- IAS 28 - reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011)<sup>3</sup>;
- IAS 32 "Financial Instruments: Presentation" and IFRS 7 – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements<sup>7</sup>.

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012, with early adoption permitted.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012, with earlier application permitted.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

<sup>7</sup> Amendments to IAS 32 effective for annual periods beginning on or after 1 January 2014. Respective amendments to IFRS 7 regarding disclosure requirements – for annual periods beginning on or after 1 January 2013.

### *Amendments to IFRS 7*

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before 1 July 2011.

### **IFRS 9**

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

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Bank management anticipates that IFRS 9 that will be adopted in the Bank's financial statement for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### *IFRS 10 Consolidated Financial Statements*

Replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

### ***IFRS 11 Joint Arrangements***

Replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a 'joint venture' recognises an investment.

### ***IFRS 12 Disclosure of Interests in Other Entities***

Requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

### ***IAS 27 (2011) Separate Financial Statements***

Includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

### ***IAS 28 (2011) Investments in Associates and Joint Ventures***

Now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

### ***IFRS 13 Fair Value Measurement***

Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

The Bank is currently assessing the impact of the new and amended standards on its financial statements.

### ***Amendments to IAS 1 Presentation of Financial Statements***

Revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The Bank does not expect this amendment to have a material impact on its financial position or results of operations.

### ***Amendment to IAS 12 Income Taxes***

Provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale.

Retrospective application is required in accordance with IAS 8. The Bank is considering the impact of the amendment on the financial statements and the timing of its application.

### ***Amendments to IAS 32 Financial Instruments: Presentation***

Provides clarifications on the application of the offsetting rules, and focus on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The respective amendments to the disclosure requirements in IFRS 7 *Financial Instruments: Disclosure* require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Bank's financial position.

## **3. RESTATEMENTS**

In 2011, the Bank's management determined that the statement of cash flows had not been appropriately presented in the financial statements for the year ended 31 December 2010. The currency profile of the statement of financial position was not taken into consideration during the calculation of the effect of changes in foreign exchange rate fluctuations on cash and cash flows, which resulted in restatement of the effect of changes in foreign exchange rate on cash and cash equivalents. The management of the Bank believes that current year presentation provides better view of the Bank's cash flows for the year ended 31 December 2010.

The effect of the adjustments made to the statement of cash flows for the year ended 31 December 2010 is as follows:

	As previously reported Year ended 31 December 2010	Amount of adjustment	As restated Year ended 31 December 2010
Dealing gain received on foreign exchange operations	-	435,810	435,810
Cash outflow from operating activities before changes in operating assets and liabilities	(666,005)	435,810	(230,195)
Cash inflow from operating activities before taxation	3,577,225	435,810	4,013,035
Net cash inflow from operating activities	3,359,580	435,810	3,795,390
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	437,767	(435,810)	1,957

The above restatements do not affect the comparative statement of financial position and statement of comprehensive income, as such, the Management believes that there is no need to present the third statement of financial position and related notes and that the absence of this information is not a material omission.

#### 4. NET INTEREST INCOME

	Year ended 31 December 2011	Year ended 31 December 2010
<b>Interest income comprises:</b>		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	4,103,743	5,800,182
- interest income on unimpaired financial assets	4,148,399	2,464,652
Interest on financial assets at fair value	1,515	17,965
<b>Total interest income</b>	<b>8,253,657</b>	<b>8,282,799</b>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	8,251,272	8,204,154
Interest on due from banks	870	60,680
Total interest income on financial assets recorded at amortized cost	8,252,142	8,264,834
Interest income on financial assets at fair value:		
Interest income on financial assets at fair value through profit or loss	1,515	17,965
Total interest income on financial assets at fair value	1,515	17,965
<b>Total interest income</b>	<b>8,253,657</b>	<b>8,282,799</b>
<b>Interest expense comprises:</b>		
Interest expense on financial liabilities at amortized cost		
<b>Total interest expense</b>	<b>(4,688,161)</b>	<b>(4,421,630)</b>
Interest expense on financial liabilities at amortized cost comprise:		
Interest on customer accounts	(2,524,216)	(2,288,247)
Interest on debt securities issued	(1,862,095)	(1,875,885)
Interest (dividends) on subordinated debt (preferred shares)	(198,100)	(198,027)
Interest on deposits from banks	(103,750)	(59,287)
Interest on other borrowed funds	-	(184)
Total interest expense on financial liabilities recorded at amortized cost	(4,688,161)	(4,421,630)
<b>Net interest income before provision for impairment losses on interest bearing financial assets</b>	<b>3,565,496</b>	<b>3,861,169</b>

## 5. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	2011	2010
<b>Loans to customers (Note 15)</b>		
<b>As at 1 January</b>	8,311,178	5,403,382
Provision	2,940,322	3,440,865
Write-off of assets	-	(534,940)
Recovery of assets previously written off	<u>27,691</u>	<u>1,871</u>
<b>As at 31 December</b>	<u><u>11,279,191</u></u>	<u><u>8,311,178</u></u>

The movements in allowances for impairment losses on other operations were as follows:

	Other assets (Note 17)	Contingent liabilities (Note 24)	Total
<b>31 December 2009</b>	323,024	46,110	369,134
(Recovery of provision)/provision	<u>(7,045)</u>	<u>50,483</u>	<u>43,438</u>
<b>31 December 2010</b>	315,979	96,593	412,572
Recovery of provision	(19,044)	(96,502)	(115,546)
Write – off of assets	<u>(293,265)</u>	<u>-</u>	<u>(293,265)</u>
<b>31 December 2011</b>	<u><u>3,670</u></u>	<u><u>91</u></u>	<u><u>3,761</u></u>

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

	Year ended 31 December 2011	Year ended 31 December 2010
<b>Net (loss)/gain on financial assets and liabilities held for trading:</b>		
Net (loss)/gain on operations with securities	(41,812)	183,435
Net loss on operations with derivative financial instruments	<u>-</u>	<u>(53,340)</u>
<b>Total net (loss)/gain on financial assets and liabilities held for trading</b>	<u><u>(41,812)</u></u>	<u><u>130,095</u></u>
<b>Net (loss)/gain on operations with securities:</b>		
Realized gain on trading operations	9,880	185,132
Dividends received	6,910	4,721
Fair value adjustment	<u>(58,602)</u>	<u>(6,418)</u>
<b>Total net (loss)/gain on operations with securities</b>	<u><u>(41,812)</u></u>	<u><u>183,435</u></u>

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Dealing, net	527,608	435,810
Translation differences, net	<u>(21,427)</u>	<u>16,108</u>
<b>Total net gain on foreign exchange operations</b>	<b><u>506,181</u></b>	<b><u>451,918</u></b>

## 8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income comprise:

	Year ended 31 December 2011	Year ended 31 December 2010
Bank guarantees issued	504,655	451,017
Settlements	106,129	94,756
Cash operations	52,300	40,850
Foreign exchange operations	42,242	49,276
Opening and maintaining customer accounts	5,095	4,693
Letters of credit	3,835	1,340
Other	<u>3,276</u>	<u>3,014</u>
<b>Total fee and commission income</b>	<b><u>717,532</u></b>	<b><u>644,946</u></b>

Fee and commission expense comprise:

	Year ended 31 December 2011	Year ended 31 December 2010
Settlements	5,620	4,289
Card account services	1,187	1,520
Information services and amendments	1,019	1,071
Opening and maintaining customer accounts	751	683
Bank guarantees issued	98	244
Cash services	82	154
Other	<u>4</u>	<u>17</u>
<b>Total fee and commission expense</b>	<b><u>8,761</u></b>	<b><u>7,978</u></b>

## 9. OPERATING EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Salary and bonuses	694,033	730,007
Security expenses	125,355	124,328
Depreciation and amortization	124,887	120,757
Telecommunications	84,904	89,561
Rent expenses	62,479	66,605
Social tax	48,959	53,886
Value added tax	39,936	34,561
Professional services	33,153	42,954
Transportation expenses	32,884	29,560
Taxes, other than income tax	31,783	34,874
Business trip expenses	28,981	29,093
Property and equipment maintenance	20,599	14,715
Training and information services	20,496	8,823
Charity and sponsorship expenses	17,580	32,381
Mail and courier expenses	5,107	5,703
Stationery	4,509	3,798
Insurance expenses	4,136	3,093
Advertising costs	3,392	4,184
Representative expenses	2,226	2,287
Other expenses	31,673	16,026
<b>Total operating expense</b>	<b><u>1,417,072</u></b>	<b><u>1,447,196</u></b>

## 10. INCOME TAX

The Bank provides for taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan which may differ from IFRS

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2011 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% for the years ended 31 December 2011 and 2010, payable by corporate entities in the Republic of Kazakhstan on taxable profits (as defined) under tax law in that jurisdiction.

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Temporary differences as at 31 December 2011 and 2010, comprise:

	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Taxable/(deductable) temporary differences:</b>		
Property, equipment and intangible assets	507,049	510,791
Loans to customers, allowance for impairment losses	78,421	-
Unrealized expense from revaluation of securities	(60,240)	(11,425)
Provisions for vacations and bonuses on prior year results	(38,312)	(3,903)
<b>Total taxable temporary differences</b>	<u>486,918</u>	<u>495,463</u>
Net deferred taxable temporary differences	(486,918)	(495,463)
Net deferred tax liability at statutory tax rate	<u>(97,384)</u>	<u>(99,093)</u>
<b>Net deferred tax liabilities</b>	<u>(97,384)</u>	<u>(99,093)</u>

Reconciliation between income tax expense and accounting profit for the years ended 31 December 2011 and 2010, is as follows:

	<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2010</b>
<b>Profit before income tax</b>	<u>532,672</u>	<u>428,565</u>
Tax at the statutory tax rate	106,534	85,713
Adjustments recognised in the period for current tax of prior periods	(42,988)	(68,410)
Tax effect of permanent differences	69,315	181,213
<b>Income tax expense</b>	<u>132,861</u>	<u>198,516</u>
Current income tax expense	177,558	280,046
Adjustments recognised in the period for current tax of prior periods	(42,988)	(68,410)
Decrease of deferred tax liabilities	(1,709)	(13,120)
<b>Income tax expense</b>	<u>132,861</u>	<u>198,516</u>
<b>Deferred tax liabilities</b>	<b>2011</b>	<b>2010</b>
<b>As at 1 January</b>	99,093	112,213
Change in deferred income tax recognized in profit or loss	(1,709)	(13,120)
<b>As at 31 December</b>	<u>97,384</u>	<u>99,093</u>

## 11. EARNINGS PER SHARE

	<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2010</b>
<b>Profit:</b>		
Net income	<u>399,811</u>	<u>230,049</u>
Net profit for the year attributable to shareholders owning ordinary shares	<u>399,811</u>	<u>230,049</u>
Weighted average number of ordinary shares for purposes of determining basic and diluted earnings per share	<u>9,480,612</u>	<u>9,480,612</u>
<b>Basic and diluted earnings per share (KZT)</b>	<u>42.17</u>	<u>24.27</u>

On 8 November 2010, Kazakhstan Stock Exchange enacted new rules for listed companies that require presentation of book value of one share in the financial statements of the listed companies.

The book value of one share per each class of shares as at 31 December 2011 and 2010, is as follows.

Class of shares	Outstanding shares	31 December 2011	
		Equity	Book value of one share, in KZT
Ordinary	9,480,603	11,416,804	1,204.23
Preferred	1,981,000	2,378,375	1,200.59
		<u>13,795,179</u>	

Class of shares	Outstanding shares	31 December 2010	
		Equity	Book value of one share, in KZT
Ordinary	9,480,612	11,022,730	1,162.66
Preferred	1,980,274	2,377,404	1,200.54
		<u>13,400,134</u>	

## 12. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

	31 December 2011	31 December 2010
Balances with the National Bank of the Republic of Kazakshtan	11,356,410	12,961,272
Cash on hand	<u>283,123</u>	<u>161,281</u>
<b>Total cash and balances with the National Bank of the Republic of Kazakhstan</b>	<u><b>11,639,533</b></u>	<u><b>13,122,553</b></u>

The balances with the National Bank of the Republic of Kazakhstan (the "NBRK") as at 31 December 2011 and 2010, include KZT 2,120,462 thousand and KZT 1,293,355 thousand, respectively, which represents the minimum reserve deposits required by the NBRK. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2011	31 December 2010
Balances with the NBRK	11,639,533	13,122,553
Due from banks	<u>2,338,179</u>	<u>1,272,442</u>
<b>Total cash and cash equivalents</b>	<u><b>13,977,712</b></u>	<u><b>14,394,995</b></u>

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2011	31 December 2010
<b>Financial assets held for trading:</b>		
Debt securities	1,125,394	32
Equity securities	<u>312,889</u>	<u>160,202</u>
<b>Total financial assets held for trading</b>	<u><b>1,438,283</b></u>	<u><b>160,234</b></u>

Financial assets held for trading comprise:

	31 December 2011		31 December 2010	
	Nominal interest rate, %	Fair value	Nominal interest rate, %	Fair value
<b>Debt securities:</b>				
Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	4.30 -5.00	928,748	3.50 – 7.80	32
Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan*	-	196,646	-	-
<b>Total debt securities</b>		<u>1,125,394</u>		<u>32</u>

\* - As at 31 December 2011, yield on Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan, which has no nominal interest rate, amounted to 1.48%.

	31 December 2011		31 December 2010	
	Ownership interest,%	Fair value	Ownership interest,%	Fair value
<b>Equity securities:</b>				
Kazakhmys PLC	0.0190	215,722	-	-
OJSC “Sberbank of Russia”	0.0012	97,167	-	-
Vimpelcom Ltd	-	-	0.00290	83,514
POSCO	-	-	0.00080	45,080
Apple Inc	-	-	0.00007	31,608
<b>Total equity securities</b>		<u>312,889</u>		<u>160,202</u>
<b>Total financial assets held for trading</b>		<u>1,438,283</u>		<u>160,234</u>

As at 31 December 2011 and 2010, accrued interest included in assets at fair value through profit or loss, amounted to KZT 11,008 thousand and KZT 1 thousand, respectively.

#### 14. DUE FROM BANKS

Due from banks comprises:

	31 December 2011	31 December 2010
Time deposits with other banks	2,322,742	1,254,858
Correspondent accounts with other banks	15,437	17,584
<b>Total due from banks</b>	<u>2,338,179</u>	<u>1,272,442</u>

As at 31 December 2011 and 2010, accrued interest included in due from banks, amounted to KZT 7 thousand and KZT 10 thousand, respectively.

#### 15. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2011	31 December 2010
Loans to customers	78,613,422	75,676,041
Overdrafts	1,215,477	29,670
	79,828,899	75,705,711
Less: allowance for impairment losses	(11,279,191)	(8,311,178)
<b>Total loans to customers</b>	<u>68,549,708</u>	<u>67,394,533</u>

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

As at 31 December 2011 and 2010, accrued interest included in loans to customers, amounting to KZT 13,617,709 thousand and KZT 9,047,672 thousand, respectively.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Loans collateralized by real estate and title thereto	33,261,939	30,425,664
Loans collateralized by cash or the Republic of Kazakhstan Government guarantees	14,897,144	13,065,673
Loans collateralized by equipment and inventories	14,259,077	18,275,689
Loans collateralized by shares and bonds of other companies	9,319,761	8,448,189
Loans collateralized by vehicles	5,963,144	3,159,313
Loans collateralized by right for accounts receivable	49,596	221,829
Loans collateralized by guarantees of enterprises	43,176	1,926,941
Unsecured loans	2,035,062	182,413
	<u>79,828,899</u>	<u>75,705,711</u>
Less: allowance for impairment losses	<u>(11,279,191)</u>	<u>(8,311,178)</u>
<b>Total loans to customers</b>	<u><u>68,549,708</u></u>	<u><u>67,394,533</u></u>
	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Analysis by sector:</b>		
Trading	30,828,605	29,467,346
Construction	13,938,660	15,435,800
Agriculture	12,920,750	9,565,012
Chemical industry	5,050,445	4,322,970
Transport and communication	2,782,870	3,272,694
Individuals	2,752,088	2,712,066
Investments and finance sector	2,713,179	29,811
Computer related activities	2,039,531	1,814,719
Real estate	1,978,970	1,943,385
Hotel and restaurant business	1,585,878	1,933,444
Consulting	1,570,629	1,397,228
Energy	373,817	2,588,876
Machinery construction	334,960	259,027
Mining and metallurgy	73,952	65,907
Other	884,565	897,426
	<u>79,828,899</u>	<u>75,705,711</u>
Less: allowance for impairment losses	<u>(11,279,191)</u>	<u>(8,311,178)</u>
<b>Total loans to customers</b>	<u><u>68,549,708</u></u>	<u><u>67,394,533</u></u>

Loans to individuals comprise the following products:

	31 December 2011	31 December 2010
Consumer loans	2,312,939	2,230,834
Mortgage loans	375,314	408,764
Car loans	4,737	7,180
Other	59,098	65,288
	<u>2,752,088</u>	<u>2,712,066</u>
Less: allowance for impairment losses	<u>(16,889)</u>	<u>(277,858)</u>
<b>Total loans to individuals</b>	<u><u>2,735,199</u></u>	<u><u>2,434,208</u></u>

As at 31 December 2011 and 2010, the Bank provided loans to 26 and 22 borrowers, amounting to KZT 65,074,302 thousand and KZT 46,168,944 thousand, respectively, which individually exceed 10% of the Bank's equity.

As at 31 December 2011 and 2010, all loans to customers were issued to legal entities and individuals in the Republic of Kazakhstan, which represents a significant geographic concentration.

As at 31 December 2011 and 2010, loans to customers included loans amounting to KZT 39,405,499 thousand and KZT 41,895,769 thousand, respectively, whose terms have been renegotiated. These amounts include both impaired and unimpaired loans.

As at 31 December 2011 and 2010, the maximum credit risk exposure of loans to customers amounted to KZT 68,549,708 thousand and KZT 67,394,533 thousand, respectively.

As at 31 December 2011 and 2010, loans to customers before allowance for impairment included loans of KZT 38,860,597 thousand and KZT 49,280,006 thousand, respectively, that were determined to be impaired due to worsening of financial status, quality of collateral, overdue in repayment, and prolongation.

The tables below summarize an analysis of loans to customers by impairment:

	31 December 2011		
	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers determined to be impaired	38,860,597	(11,279,191)	27,581,406
Unimpaired loans	<u>40,968,302</u>	<u>-</u>	<u>40,968,302</u>
<b>Total</b>	<u><u>79,828,899</u></u>	<u><u>(11,279,191)</u></u>	<u><u>68,549,708</u></u>

	31 December 2010		
	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers determined to be impaired	49,280,006	(8,311,178)	40,968,828
Unimpaired loans	<u>26,425,705</u>	<u>-</u>	<u>26,425,705</u>
<b>Total</b>	<u><u>75,705,711</u></u>	<u><u>(8,311,178)</u></u>	<u><u>67,394,533</u></u>

## 16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land, buildings and constructions	Computers	Vehicles	Other fixed assets	Intangible assets	Construction in progress	Total
<b>At original / revalued cost</b>							
31 December 2009	2,890,742	314,366	216,527	179,714	113,920	290,687	4,005,956
Additions	18	14,555	1,788	33,052	22,086	73,703	145,202
Transfers	330	4,056	-	(4,386)	-	-	-
Disposals	<u>(1,822,778)</u>	<u>(8,204)</u>	<u>(22,307)</u>	<u>(2,095)</u>	<u>(36)</u>	<u>-</u>	<u>(1,855,420)</u>
31 December 2010	1,068,312	324,773	196,008	206,285	135,970	364,390	2,295,738
Additions	-	23,132	165,255	21,047	23,229	148,711	381,374
Disposals	<u>-</u>	<u>(132)</u>	<u>(59,558)</u>	<u>(2,032)</u>	<u>-</u>	<u>-</u>	<u>(61,722)</u>
31 December 2011	1,068,312	347,773	301,705	225,300	159,199	513,101	2,615,390
<b>Accumulated depreciation</b>							
31 December 2009	61,139	303,891	122,472	74,168	41,749	-	603,419
Charge for the year	19,024	14,138	42,079	26,536	18,980	-	120,757
Transfers	54	2,190	-	(2,244)	-	-	-
Eliminated on disposals	<u>-</u>	<u>(8,090)</u>	<u>(12,314)</u>	<u>(1,958)</u>	<u>(16)</u>	<u>-</u>	<u>(22,378)</u>
31 December 2010	80,217	312,129	152,237	96,502	60,713	-	701,798
Charge for the year	19,069	14,802	38,216	35,298	17,502	-	124,877
Eliminated on disposals	<u>-</u>	<u>(132)</u>	<u>(32,297)</u>	<u>(1,829)</u>	<u>-</u>	<u>-</u>	<u>(34,258)</u>
31 December 2011	<u>99,286</u>	<u>326,799</u>	<u>158,156</u>	<u>129,971</u>	<u>78,215</u>	<u>-</u>	<u>792,427</u>
<b>Net book value</b>							
As at 31 December 2011	<u>969,026</u>	<u>20,974</u>	<u>143,549</u>	<u>95,329</u>	<u>80,984</u>	<u>513,101</u>	<u>1,822,963</u>
As at 31 December 2010	<u>988,095</u>	<u>12,644</u>	<u>43,771</u>	<u>109,783</u>	<u>75,257</u>	<u>364,390</u>	<u>1,593,940</u>

As at 31 December 2011 and 2010, included in property, equipment and intangible assets were fully depreciated assets with historical cost of KZT 422,451 thousand and KZT 391,064 thousand, respectively.

As at 31 December 2011, land and buildings owned by the Bank were carried at revalued amounts. The carrying value of these land and buildings totalled KZT 969,026 thousand. If the buildings were accounted for at historical cost less accumulated depreciation and impairment losses, its carrying value would be KZT 934,306 thousand as at 31 December 2011.

## 17. OTHER ASSETS

Other assets comprise:

	31 December 2011	31 December 2010
<b>Other financial assets recorded as loans and receivables in accordance with IAS 39:</b>		
Debtors under concession agreement	73,404	108,638
Accrued commission income	9,026	4,955
Investments in non-marketable securities	200	200
Investments held-to-maturity	26	-
Debtors under sales of property and equipment	-	294,600
Debtors under guarantees issued	-	289,645
Debtors under letters of credit issued	-	61,820
Other accounts receivable	-	213
	<u>82,656</u>	<u>760,071</u>
Less: allowance for impairment losses	<u>(3,670)</u>	<u>(310,020)</u>
	<u>78,986</u>	<u>450,051</u>
<b>Other non-financial assets:</b>		
Assets held for sale	27,591	-
Prepayments and other debtors	16,218	22,117
Inventory	11,602	9,787
Prepayments for professional services	8,824	8,824
Settlements with employees	2,818	495
Tax settlements, other than income tax	1,687	2,298
Prepayment for purchase of property and equipment	145	16,943
	<u>68,885</u>	<u>60,464</u>
Less: allowance for impairment losses	<u>-</u>	<u>(5,959)</u>
	<u>68,885</u>	<u>54,505</u>
<b>Total other assets</b>	<u><u>147,871</u></u>	<u><u>504,556</u></u>

Movements in allowances for impairment losses on other assets for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

During 2011, after the default of one counterparty on loans to customers, the Bank has recognized the foreclosed property pledged as collateral for the loan as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan has been initiated. The asset recognized is represented by residential premises. The proceeds from disposal were expected to exceed the carrying value of the assets and accordingly no impairment losses have been recognized on this asset during the year 2011. It is intended that the fair value of this asset would be recovered principally through a sale transaction within one year from the date of classification.

## 18. DUE TO BANKS

Due to banks comprise:

	31 December 2011	31 December 2010
<b>Recorded at amortized cost:</b>		
Time deposits of banks and other financial institutions	1,028,250	1,034,585
Loans received from banks	<u>74,286</u>	<u>-</u>
<b>Total due to banks</b>	<u><u>1,102,536</u></u>	<u><u>1,034,585</u></u>

As at 31 December 2011 and 2010, accrued interest included in due to banks, amounting to KZT 28,336 thousand and KZT 34,535 thousand, respectively.

As at 31 December 2011, due to banks amounted to KZT 1,102,536 thousand (100%) were due to two banks, which represent significant concentration.

As at 31 December 2010, due to banks amounted to KZT 1,034,585 thousand (100%) were due to two banks, which represent significant concentration.

## 19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2011	31 December 2010
<b>Recorded at amortized cost:</b>		
Term deposits	24,381,780	22,834,162
Current / settlement accounts and deposits on demand	19,233,778	21,343,380
Deposits as collateral on loans issued	10,855,579	8,782,248
Deposits – guarantees	<u>17,493</u>	<u>-</u>
<b>Total customer accounts</b>	<u><u>54,488,630</u></u>	<u><u>52,959,790</u></u>

As at 31 December 2011 and 2010, customer accounts included accrued interest amounting to KZT 894,453 thousand and KZT 556,257 thousand, respectively.

As at 31 December 2011 and 2010, customer accounts amounting to KZT 47,281,065 thousand (87%) and KZT 44,677,521 thousand (84%), respectively, were due to 14 and 13 customers, which represents significant concentration.

	31 December 2011	31 December 2010
<b>Analysis by sector:</b>		
Finance sector	14,482,164	7,408,384
Energy	7,974,242	9,436,737
Culture and art	7,972,210	412,226
Transport and communication	7,092,732	6,142,786
Construction	5,667,589	5,784,134
Agriculture	5,015,781	17,099,993
Trade	2,773,713	1,019,306
Education	1,103,911	1,800,000
Mining and metallurgy	868,033	2,487,278
Machinery construction	335,609	22,887
Chemical industry	310,844	-
Services	238,588	33,140
Collection, processing and distribution of water	221,796	-
Research and development	188,832	178,809
Hotel and restaurant business	129,849	9,797
State management	53,408	68,074
Manufacturing other non-metal mineral products	21,677	21,675
Public organizations and funds	13,464	19,517
Computer related activities	6,529	69,592
Manufacturing finished metal products	2,691	13,597
Information services	-	919,160
Other	14,968	12,698
	<u>54,488,630</u>	<u>52,959,790</u>
<b>Total customer accounts</b>	<b>54,488,630</b>	<b>52,959,790</b>

## 20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date	Interest rate, %	31 December 2011	31 December 2010
Bonds of 1st issue	November 2013	9.00	8,589,867	8,505,846
Bonds of 2nd issue	June 2012	9.00	5,100,223	5,480,604
Bonds of 3rd issue	July 2015	9.00	<u>2,602,765</u>	<u>2,201,792</u>
<b>Total debt securities issued</b>			<b><u>16,292,855</u></b>	<b><u>16,188,242</u></b>

As at 31 December 2011 and 2010, debt securities issued include accrued interest amounting to KZT 251,342 thousand and KZT 242,025 thousand, respectively.

## 21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2011	31 December 2010
<b>Other financial liabilities:</b>		
Reserves on vacations	38,312	38,249
Accounts payable	11,703	16,797
Settlements with employees	11,559	8,979
Accrued expenses	5,400	196
<b>Total other financial liabilities</b>	<b>66,974</b>	<b>64,221</b>
<b>Other non-financial liabilities:</b>		
Taxes other than income tax	74,727	77,629
Prepaid commissions for guarantees issued	48,520	66,328
Provisions for losses on contingent liabilities	91	96,593
<b>Total other non-financial liabilities</b>	<b>123,338</b>	<b>240,550</b>
<b>Total other liabilities</b>	<b>190,312</b>	<b>304,771</b>

Movements in provision for contingent liabilities for the years ended 31 December 2011 and 2010, are disclosed in Note 5.

## 22. SUBORDINATED DEBT

	Currency	31 December 2011	31 December 2010
Liability component of preferred shares	KZT	1,800,856	1,800,196
Dividends accrued on preferred shares	KZT	198,100	198,027
<b>Total subordinated debt</b>		<b>1,998,956</b>	<b>1,998,223</b>

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 23. SHARE CAPITAL

The Bank's share capital comprises:

	31 December 2011		31 December 2010	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares	9,700,000	9,700,000	9,700,000	9,700,000
Preferred shares	2,000,000	2,200,000	2,000,000	2,200,000
<b>Total share capital</b>	<b>11,700,000</b>	<b>11,900,000</b>	<b>11,700,000</b>	<b>11,900,000</b>

The Bank's treasury shares comprise:

	31 December 2011		31 December 2010	
	Number of shares repurchased	Amount	Number of shares repurchased	Amount
Ordinary shares	219,397	140,948	219,388	140,938
Preferred shares	<u>19,000</u>	<u>19,725</u>	<u>19,726</u>	<u>20,623</u>
<b>Total treasury shares</b>	<u><u>238,397</u></u>	<u><u>160,673</u></u>	<u><u>239,114</u></u>	<u><u>161,561</u></u>

The dividends declared during 2011 and 2010, on preferred shares amounted to KZT 100 per share.

Preferred shares are compound instruments that contain both liability and equity elements. Initial carrying amount of a compound financial instrument amounting to KZT 2,200,000 thousand is allocated to its equity and liability components. The equity component is assigned the residual amount of KZT 381,872 thousand after deducting from the fair value of the instrument as a whole, the amount separately determined for the liability component in the amount of KZT 1,818,128 thousand. In 2009, the Bank repurchased 19,726 preferred shares for the amount of KZT 20,623 thousand, of which KZT 17,932 thousand represents liability component and accordingly deducted from liability component of preferred shares. In 2011, the Bank sold part of the previously repurchased preferred shares in the quantity of 726 shares amounting to KZT 828 thousand, of which KZT 660 thousand represents liability component and accordingly added to liability component of preferred shares, as disclosed in Note 22.

During 2010, the Bank decided to change presentation of preferred shares in the financial statements by showing the share capital on the face of the statement of financial position at its 'legal' amount, with a separate negative reserve equal to the liability recognised. This decision was made in order to meet the FMSC requirements for registration of the Bank's reports on placement of issued shares, including preferred shares.

As at 31 December 2011 and 2010, property and equipment revaluation reserve includes the revaluation of land and buildings amounting to KZT 513,982 thousand and KZT 524,417 thousand, respectively, net of deferred tax effect.

The Statutory reserve which reflects the difference between provisions for impairment losses accrued under IFRS and provisions for impairment losses reported to the regulator in accordance with statutory requirements amounted to KZT 78,421 thousand. The difference results mostly from fundamental methodological deviations in the calculation of the provision on loans to customers including the impact of discounted future cash flows and the impact which certain forms of collateral have on the level of provisions. This reserve is required by legislation of the Republic of Kazakhstan and is created through an appropriation of retained earnings.

## 24. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance financial instruments.

Provision for losses on contingent liabilities amounted to KZT 91 thousand and KZT 96,593 thousand as at 31 December 2011 and 2010, respectively.

Movements in provisions for financial contingent liabilities and other commitments for the years ended 31 December 2011 and 2010, are disclosed in Note 5.

As at 31 December 2011 and 2010, contingent liabilities comprise:

	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Contingent liabilities and credit commitments:</b>		
Guarantees issued and similar commitments	15,125,864	5,049,814
Commitments on loans and unused credit lines	2,337,871	3,411,622
Letters of credit and other transaction related contingent liabilities	-	61,820
	<u>17,463,735</u>	<u>8,523,256</u>
Less: allowance for impairment losses	<u>(91)</u>	<u>(96,593)</u>
<b>Total contingent liabilities and credit commitments</b>	<u><u>17,463,644</u></u>	<u><u>8,426,663</u></u>

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

### **Capital commitments**

The Bank had no material commitments for capital expenditure outstanding as at 31 December 2011 and 2010.

### **Operating lease commitments**

No material operating lease commitments were outstanding as at 31 December 2011 and 2010.

### **Legal proceedings**

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

### **Taxes**

Due to the presence in Kazakhstani tax legislation of provisions allowing more than one interpretation, the tax authorities can make decisions based on their own arbitrary judgment. It often requires the taxpayer to defend its interests in the court due to an interpretation of tax law by the tax authorities differing from the taxpayer's position. It should be noted that for the purpose of interpreting the activity of the Bank the tax authorities can, in particular, use explanations of the court bodies fixing notions of "unreasonable tax benefit" and "actual economic sense of an operation" and the criterion of "business purpose" of the deal.

Such uncertainty may relate to the valuation of financial instruments and determination of the market level for the pricing of deals. It can also lead to interpretation by tax authorities of arising temporary tax differences on formation and recovery of provisions for possible losses on loans and liability equated to borrowing as an understatement of the taxable basis. The management of the Bank believes that it provided for all the required tax accruals and, accordingly, no allowances are required in the financial statements.

Tax authorities can audit tax reports for the last five years. However, conducting a tax audit does not mean that the superior tax authority cannot conduct a recurring audit. In addition, according to explanations of the judicial bodies the period for which the tax reports can be audited can be recovered in principle, if the court recognizes the fact of impeding the audit by the tax authorities.

### **Operating environment**

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Republic of Kazakhstan and the Kazakhstani economy in general.

Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly. Tax, currency and customs legislation within the Republic of Kazakhstan is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Republic of Kazakhstan. The future economic direction of the Republic of Kazakhstan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Kazakhstani economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

Because Republic of Kazakhstan produces and exports large volumes of oil and gas, it's economy is particularly sensitive to the price of oil and gas on the world market which had fluctuated significantly during 2010.

## 25. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are assessed in accordance with IAS 24 “Related Party Disclosures”. Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

Details of transactions between the Bank and other related parties are disclosed below:

	31 December 2011		31 December 2010	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	1,481,189	79,828,899	1,824,753	75,705,711
- <i>entities under common control</i>	1,481,189		1,824,753	
Allowance for impairment losses on loans to customers	(10,177)	(11,279,191)	-	(8,311,178)
- <i>entities under common control</i>	(10,177)		-	-
Other assets	2,715	147,871	16,687	504,556
- <i>entities under common control</i>	2,715		16,687	
Customer accounts	17,054,811	54,488,630	14,223,442	52,959,790
- <i>the parent</i>	2,771,081		2,823,780	
- <i>entities under common control</i>	14,283,730		11,399,662	
Commitments on loans and unused credit lines	39,085	2,337,871	110,857	3,411,622
- <i>entities under common control</i>	39,085		110,857	
Guarantees issued and similar commitments	74,200	15,125,864	44,250	5,049,814
- <i>entities under common control</i>	74,200		44,250	

The remuneration of key management personnel was as follows:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Key management personnel compensation:</b>				
Salary and bonuses	182,538	694,033	182,098	730,007
<b>Total</b>	<u>182,538</u>	<u>694,033</u>	<u>182,098</u>	<u>730,007</u>

Included in the statement of comprehensive income for the years ended 31 December 2011 and 2010, are the following amounts which were recognized in transactions with related parties:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	197,190	8,253,657	241,327	8,282,799
- <i>entities under common control</i>	197,190		241,327	
Interest expense	(1,363,182)	(4,688,161)	(1,696,677)	(4,421,630)
- <i>the parent</i>	(352,525)		(352,530)	
- <i>entities under common control</i>	(1,010,657)		(1,344,147)	
(Provision)/recovery of provision for impairment losses on interest bearing assets	(10,177)	(2,940,322)	1,181	(3,440,865)
- <i>entities under common control</i>	(10,177)		1,181	
Fee and commission income	70,731	717,532	54,911	644,946
- <i>the parent</i>	17,986		554	
- <i>entities under common control</i>	52,745		54,357	
Operating expenses	(14,360)	(1,417,072)	(14,698)	(1,447,196)
- <i>the parent</i>	(10,768)		(4,686)	
- <i>entities under common control</i>	(3,592)		(10,012)	

## 26. SEGMENT REPORTING

The Bank currently does not identify separate operating segments in its activity and considers management information on income and expenses for the year ended 31 December 2011 as a whole. It is caused by the fact that the Bank's income is mainly generated by servicing corporate customers, the share of other operating segments being immaterial in the total scope of the Bank's operations.

Currently the Bank does not have a license for servicing individuals by opening and maintaining customer accounts. The Bank services individuals only in the form of lending to its employees and employees of entities that are under common control with the Bank. As at 31 December 2011 and 2010, the portfolio of loans issued to individuals amounted to KZT 2,752,088 thousand and KZT 2,712,066 thousand, respectively. Thus the share of loans to individuals amounts to 4.01 % and 4.02%, respectively, of the Bank's total loan portfolio.

As at 31 December 2011 and 2010 the Bank's investments in financial instruments at fair value through profit or loss amounted to KZT 1,438,283 thousand and KZT 160,234 thousand respectively, which makes up to 1.67% and 0.19% respectively, of the total assets of the Bank.

The structure of the investments in financial instruments at fair value through profit or loss of the Bank is as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Equity securities of other companies	312,889	160,202
Debt securities of the Ministry of Finance of the Republic of Kazakhstan	<u>1,125,394</u>	<u>32</u>
<b>Total</b>	<u><u>1,438,283</u></u>	<u><u>160,234</u></u>

As at 31 December 2011 and 2010, the Bank had no investments available-for-sale.

As at 31 December 2011 and 2010, the Bank had investments in debt securities of the Ministry of Finance of the Republic of Kazakhstan, recognized as investments held-to-maturity amounting to KZT 26 thousand and Nil, respectively (Note 17).

More than 90% of the Bank's operations are conducted within the Republic of Kazakhstan.

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current market between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities that are not carried at fair value in the statement of financial position compared with the corresponding carrying value in the financial statements of the Bank is presented below:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Debt securities issued	16,292,855	15,735,168	16,188,242	14,358,430
Subordinated debt	1,998,956	1,799,226	1,998,223	1,619,787

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the statement of financial position. The carrying amounts of cash and balances with the NBRK, due from banks, other financial assets, due to banks and other financial liabilities approximate fair value due to the short-term nature of such financial instruments.

There is no active secondary market in Kazakhstan for loans to customers and customer accounts, and there is no reliable market value available for this portfolio.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Class of financial asset:

	<b>31 December 2011 Level 1</b>	<b>31 December 2010 Level 1</b>
Financial assets at fair value through profit or loss	1,438,283	160,234

## 28. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBRK in supervising the Bank.

During the years ended at 31 December 2011 and 2010, the Bank had complied in full with all its externally imposed capital requirements.

The capital structure of the Bank consists of debt, which includes debt securities issued (Note 20), subordinated debt (Note 22), and equity, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the overall capital structure is balanced through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The general policy of the Bank regarding risks relating to capital management remains unchanged from 2010.

The ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

	<b>2011</b>	<b>2010</b>
Movement in tier 1 capital:		
1 January	10,722,702	10,514,093
Change in reserves	240,711	208,609
31 December	10,963,413	10,722,702

	31 December 2011	31 December 2010
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	9,938,471	9,938,243
Disclosed reserves	1,538,924	1,308,876
Less: Revaluation reserve	<u>(513,982)</u>	<u>(524,417)</u>
<b>Total qualifying tier 1 capital</b>	<b>10,963,413</b>	<b>10,722,702</b>
Revaluation reserve	513,982	524,417
Subordinated debt	1,800,856	1,800,196
Loans, guarantees and corporate guarantees to shareholders and other related parties	<u>(1,545,212)</u>	<u>(1,869,003)</u>
<b>Total regulatory capital</b>	<b><u>11,733,039</u></b>	<b><u>11,178,312</u></b>
Capital Ratios:		
Tier 1 capital	14.75%	16.94%
Total capital	15.78%	17.66%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

As at 31 December 2011 and 2010, the Bank included subordinated debt, limited to 50% of Tier 1 capital, in the computation of Total capital for Capital adequacy purposes. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business. The main risks inherent to the Bank's operations are as follows:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

### **Credit risk**

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

#### Maximum Exposure of credit risk

Maximum size of credit risk of the Bank can significantly vary depending on individual risks inherent in certain assets and general market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	31 December 2011 Net exposure after offset and collateral
Financial assets at fair value through profit or loss	1,438,283	-	1,438,283	-	1,438,283
Due from banks	2,338,179	-	2,338,179	-	2,338,179
Loans to customers	68,549,708	-	68,549,708	(39,891,571)	28,658,137
Other financial assets	78,986	-	78,986	-	78,986
	<b>Maximum exposure</b>	<b>Offset</b>	<b>Net exposure after offset</b>	<b>Collateral Pledged</b>	<b>31 December 2010 Net exposure after offset and collateral</b>
Financial assets at fair value through profit or loss	160,234	-	160,234	-	160,234
Due from banks	1,272,442	-	1,272,442	-	1,272,442
Loans to customers	67,394,533	-	67,394,533	(41,422,464)	25,972,069
Other financial assets	450,051	-	450,051	-	450,051

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at 31 December 2011 and 2010 the balances with the NBRK amounted to KZT 11,356,410 thousand and KZT 12,961,272 thousand, respectively. The credit rating of the Republic of Kazakhstan according to the international rating agencies corresponded to investment level BBB.

The following is the classification of financial assets of the Bank by credit ratings:

	AA	A	BBB	<BBB	Credit rating unassigned	31 December 2011 Total
Financial assets at fair value through profit or loss	-	-	1,222,561	-	215,722	1,438,283
Due from banks	2,322,787	7,965	6,568	859	-	2,338,179
Loans to customers	-	-	-	-	68,549,708	68,549,708
Other financial assets	-	-	26	-	78,960	78,986

	AA	A	BBB	<BBB	Credit rating unassigned	31 December 2010 Total
Financial assets at fair value through profit or loss	-	45,080	32	83,514	31,608	160,234
Due from banks	1,255,010	13,979	2,594	859	-	1,272,442
Loans to customers	-	-	-	-	67,394,533	67,394,533
Other financial assets	-	-	-	-	450,051	450,051

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Classification of loans to customers by types is performed in accordance with internal rules.

Rating of customers is formed by using the number of points assigned to customers. The number of points is calculated based on the following factors: financial position of customers, overdue of payments, quality of collateral, number of prolongation, other overdue liabilities, share of funds used not for the stated purpose, write-off of liabilities against other creditors, availability of the rating of the customer.

Loans to customers are classified based on internal assessments and other information. Loans are classified according to their risk and the exposure that they potentially present to the Bank, and this classification is verified by the Risk Management function. At present, the Risk Management function uses classifications as follows:

#### *Standard loans*

The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are some minor negative indicators, the Bank has confidence that the borrower will be able to cope with such (temporary) difficulties. Interest and principal are repaid in full and in a timely fashion. The borrower is considered as having the ability to repay the loan in accordance with its terms and conditions. Security provided for the loan must cover at least 100% of the outstanding amount, not less than 75% in case of highly liquid collateral (which may include a Government guarantee, bank guarantee with an individual rating not lower than AA - from one of the rating agencies, corporate guarantee with an individual rating not lower than AA, cash collateral, Government securities or precious metals, the value of which covers 100% of the exposure).

#### *Doubtful 1st category*

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower repays the loan principal and the interest without delay and in full. The value of collateral covers at least 50% of the Bank's exposure.

#### *Doubtful 2nd category*

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. However, due to temporary difficulties the borrower repays the loan with delays and/or not in full. The value of collateral covers at least 50% of the Bank's exposure.

#### *Doubtful 3rd category*

There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to improve its current financial performance, thus casting doubt on the borrower's ability to repay the loan and the interest in full. However, despite severe deterioration of financial health the borrower manages to repay the loan and interest in full and without delay. The value of collateral covers at least 50% of the Bank's exposure.

#### *Doubtful 4th category*

There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to stabilize and improve its current financial performance and impairs the borrower's ability to repay the loan and the interest in full. The borrower repays the loan late and/or not in full. The value of collateral covers at least 50% of the Bank's exposure.

#### *Doubtful 5th category*

The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The quality of collateral can be classified as satisfactory (normally not highly liquid but covering not less than 100% of the borrower's outstanding debt) or unsatisfactory (the value of which covers nearly but not less than 50% of the borrower's outstanding debt).

#### *Loss*

In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralized or the value of the collateral covers less than 50% of the borrowers' outstanding debt.

	<b>31 December 2011</b>	<b>31 December 2010</b>
Standard loans	31,111,772	26,425,705
Doubtful 1st category	7,835,195	8,267,505
Doubtful 2nd category	4,649,395	13,093,396
Doubtful 3rd category	18,688,059	17,242,201
Doubtful 4th category	195	2,774,035
Doubtful 5th category	12,103,756	7,019,077
Loss	5,440,527	883,792
	<u>79,828,899</u>	<u>75,705,711</u>

The following table details the ageing of financial assets that are past due but not impaired:

	Financial assets past due but not impaired					Financial assets that have been impaired	31 December 2011 Total
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Financial assets at fair value through profit or loss	1,438,283	-	-	-	-	-	1,438,283
Due from banks	2,338,179	-	-	-	-	-	2,338,179
Loans to customers	40,729,153	8,839	-	221,651	8,659	27,581,406	68,549,708
Other financial assets	9,252	-	-	-	-	69,734	78,986

	Financial assets past due but not impaired					Financial assets that have been impaired	31 December 2010 Total
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Financial assets at fair value through profit or loss	160,234	-	-	-	-	-	160,234
Due from banks	1,272,442	-	-	-	-	-	1,272,442
Loans to customers	26,425,705	-	-	-	-	40,968,828	67,394,533
Other financial assets	66,975	-	-	-	-	383,076	450,051

### Geographical concentration

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank’s activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

The geographical concentration of financial assets and liabilities is set out below:

	Kazakhstan	OECD countries	Non-OECD countries	31 December 2011 Total
<b>FINANCIAL ASSETS:</b>				
Cash and balances with the National Bank of the Republic of Kazakhstan	11,639,533	-	-	11,639,533
Financial assets at fair value through profit or loss	1,125,394	215,722	97,167	1,438,283
Due from banks	2,665	2,330,752	4,762	2,338,179
Loans to customers	68,549,708	-	-	68,549,708
Other financial assets	78,985	1	-	78,986
<b>TOTAL FINANCIAL ASSETS</b>	<b>81,396,285</b>	<b>2,546,475</b>	<b>101,929</b>	<b>84,044,689</b>
<b>FINANCIAL LIABILITIES:</b>				
Due to banks	1,102,536	-	-	1,102,536
Customer accounts	54,485,855	299	2,476	54,488,630
Debt securities issued	16,292,855	-	-	16,292,855
Other financial liabilities	66,931	-	43	66,974
Subordinated debt	1,998,956	-	-	1,998,956
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>73,947,133</b>	<b>299</b>	<b>2,519</b>	<b>73,949,951</b>
<b>NET POSITION</b>	<b>7,449,152</b>	<b>2,546,176</b>	<b>99,410</b>	

	Kazakhstan	OECD countries	Non-OECD countries	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>				
Cash and balances with the National Bank of the Republic of Kazakhstan	13,122,553	-	-	13,122,553
Financial assets at fair value through profit or loss	32	76,688	83,514	160,234
Due from banks	1,365	1,268,989	2,088	1,272,442
Loans to customers	67,394,533	-	-	67,394,533
Other financial assets	450,050	1	-	450,051
<b>TOTAL FINANCIAL ASSETS</b>	<b>80,968,533</b>	<b>1,345,678</b>	<b>85,602</b>	<b>82,399,813</b>
<b>FINANCIAL LIABILITIES:</b>				
Due to banks	1,034,585	-	-	1,034,585
Customer accounts	52,944,843	440	14,507	52,959,790
Debt securities issued	16,188,242	-	-	16,188,242
Other financial liabilities	64,174	-	47	64,221
Subordinated debt	1,998,223	-	-	1,998,223
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>72,230,067</b>	<b>440</b>	<b>14,554</b>	<b>72,245,061</b>
<b>NET POSITION</b>	<b>8,738,466</b>	<b>1,345,238</b>	<b>71,048</b>	

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Risk management is an integral part of responsibilities imposed on the Bank's management of all levels, which is reflected in the daily applied controls, awareness of the Bank's management and employees of the potential operational risks and management style. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks.

Controls include effective segregations of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. To manage the operational risks more efficiently, the Bank has established the Operational Risk Management Department. The main task of said Department to provide assistance to the management and different departments of the Bank in detection and efficient management of operational risk occurrences, self assessment of operational risks by the Bank's departments, assessment of changes in the processes, systems and products offered and organizational changes taking place in the Bank for their exposure to operational risks and existence of the appropriate controls.

### Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALMC controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability,

(b) term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Bank will be liable to redeem the liability, and

(c) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
<b>FINANCIAL ASSETS:</b>							
Financial assets at fair value through profit or loss	1,438,283	-	-	-	-	-	1,438,283
Due from banks	2,327,504	-	-	-	-	-	2,327,504
Loans to customers	5,901,888	10,203,490	20,958,784	27,196,384	4,289,162	-	68,549,708
Total interest bearing financial assets	9,667,675	10,203,490	20,958,784	27,196,384	4,289,162	-	72,315,495
Cash and balances with the National Bank of the Republic of Kazakhstan	11,639,533	-	-	-	-	-	11,639,533
Due from banks	10,675	-	-	-	-	-	10,675
Other financial assets	2,789	5,579	34,130	36,282	6	200	78,986
<b>TOTAL FINANCIAL ASSETS</b>	<b>21,320,672</b>	<b>10,209,069</b>	<b>20,992,914</b>	<b>27,232,666</b>	<b>4,289,168</b>	<b>200</b>	<b>84,044,689</b>
<b>FINANCIAL LIABILITIES:</b>							
Due to banks	-	1,028,250	74,286	-	-	-	1,102,536
Customer accounts	8,391,820	9,236,017	22,826,098	814,381	349,650	-	41,617,966
Debt securities issued	118,350	-	5,203,585	10,970,920	-	-	16,292,855
Subordinated debt	-	-	198,100	-	-	1,800,856	1,998,956
Total interest bearing financial liabilities	8,510,170	10,264,267	28,302,069	11,785,301	349,650	1,800,856	61,012,313
Customer accounts	12,870,664	-	-	-	-	-	12,870,664
Other financial liabilities	-	-	66,974	-	-	-	66,974
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>21,380,834</b>	<b>10,264,267</b>	<b>28,369,043</b>	<b>11,785,301</b>	<b>349,650</b>	<b>1,800,856</b>	<b>73,949,951</b>
Liquidity gap	(60,162)	(55,198)	(7,376,129)	15,447,365	3,939,518	(1,800,656)	
Interest sensitivity gap	1,157,505	(60,777)	(7,343,285)	15,411,083	3,939,512	(1,800,856)	
<b>Cumulative interest sensitivity gap</b>	<b>1,157,505</b>	<b>1,096,728</b>	<b>(6,246,557)</b>	<b>9,164,526</b>	<b>13,104,038</b>	<b>11,303,182</b>	
<b>Cumulative interest sensitivity gap as a percentage of total financial assets</b>	<b>1.35%</b>	<b>1.27%</b>	<b>(7.26%)</b>	<b>10.65%</b>	<b>15.23%</b>	<b>13.14%</b>	
Guarantees issued and similar commitments	44,297	133,194	11,001,571	3,180,465	766,246	-	15,125,773
Commitments on loans and unused credit lines	156,822	78,110	1,152,135	950,031	773	-	2,337,871
<b>Total commitments and contingencies</b>	<b>201,119</b>	<b>211,304</b>	<b>12,153,706</b>	<b>4,130,496</b>	<b>767,019</b>	<b>-</b>	<b>17,463,644</b>

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>							
Financial assets at fair value through profit or loss	160,234	-	-	-	-	-	160,234
Due from banks	1,256,944	-	-	-	-	-	1,256,944
Loans to customers	8,537,076	10,227,204	20,514,782	25,262,617	2,852,854	-	67,394,533
Total interest bearing financial assets	9,954,254	10,227,204	20,514,782	25,262,617	2,852,854	-	68,811,711
Cash and balances with the National Bank of the Republic of Kazakhstan	13,122,553	-	-	-	-	-	13,122,553
Due from banks	15,498	-	-	-	-	-	15,498
Other financial assets	148,633	203,435	33,687	64,096	-	200	450,051
<b>TOTAL FINANCIAL ASSETS</b>	<b>23,240,938</b>	<b>10,430,639</b>	<b>20,548,469</b>	<b>25,326,713</b>	<b>2,852,854</b>	<b>200</b>	<b>82,399,813</b>
<b>FINANCIAL LIABILITIES:</b>							
Due to banks	57	-	1,034,528	-	-	-	1,034,585
Customer accounts	16,019,994	9,402,489	13,559,229	6,581,278	280,000	-	45,842,990
Debt securities issued	114,062	-	127,963	15,946,217	-	-	16,188,242
Subordinated debt	-	-	198,027	-	-	1,800,196	1,998,223
Total interest bearing financial liabilities	16,134,113	9,402,489	14,919,747	22,527,495	280,000	1,800,196	65,064,040
Customer accounts	7,116,800	-	-	-	-	-	7,116,800
Other financial liabilities	53,904	10,317	-	-	-	-	64,221
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>23,304,817</b>	<b>9,412,806</b>	<b>14,919,747</b>	<b>22,527,495</b>	<b>280,000</b>	<b>1,800,196</b>	<b>72,245,061</b>
Liquidity gap	(63,879)	1,017,833	5,628,722	2,799,218	2,572,854	(1,799,996)	
Interest sensitivity gap	(6,179,859)	824,715	5,595,035	2,735,122	2,572,854	(1,800,196)	
<b>Cumulative interest sensitivity gap</b>	<b>(6,179,859)</b>	<b>(5,355,144)</b>	<b>239,891</b>	<b>2,975,013</b>	<b>5,547,867</b>	<b>3,747,671</b>	
<b>Cumulative interest sensitivity gap as a percentage of total financial assets</b>	<b>(7.50%)</b>	<b>(6.50%)</b>	<b>0.29%</b>	<b>3.61%</b>	<b>6.73%</b>	<b>4.55%</b>	
Guarantees issued and simila commitments	810,615	433,558	25,081	2,922,368	761,599	-	4,953,221
Commitments on loans and unused credit lines	-	55,000	892,306	1,880,965	583,351	-	3,411,622
Letters of credit and other commitments	-	61,820	-	-	-	-	61,820
<b>Total commitments and contingencies</b>	<b>810,615</b>	<b>550,378</b>	<b>917,387</b>	<b>4,803,333</b>	<b>1,344,950</b>	<b>-</b>	<b>8,426,663</b>

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicates, that these deposits provide a long-term and stable source of funding for the Bank. Therefore a substantial part of current accounts are considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
<b>FINANCIAL LIABILITIES</b>								
Due to banks	6.86%	-	-	1,091,039	-	-	-	1,091,039
Customer accounts	8.04%	8,448,045	9,421,661	24,661,316	1,076,286	490,209	-	44,097,517
Debt securities issued	9.07%	118,350	-	5,843,517	13,819,065	-	-	19,780,932
Subordinated debt	10.00%	-	-	198,100	792,400	990,500	1,800,856	3,781,856*
<b>Total interest bearing financial liabilities</b>		<b>8,566,395</b>	<b>9,421,661</b>	<b>31,793,972</b>	<b>15,687,751</b>	<b>1,480,709</b>	<b>1,800,856</b>	<b>68,751,344</b>
Customer accounts		12,870,664	-	-	-	-	-	12,870,664
Other financial liabilities		-	-	66,974	-	-	-	66,974
<b>Total financial liabilities</b>		<b>21,437,059</b>	<b>9,421,661</b>	<b>31,860,946</b>	<b>15,687,751</b>	<b>1,480,709</b>	<b>1,800,856</b>	<b>81,688,982</b>

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
<b>FINANCIAL LIABILITIES</b>								
Due to banks	11.00%	57	-	1,077,000	-	-	-	1,077,057
Customer accounts	7.35%	16,118,116	9,575,260	14,555,832	6,631,068	315,000	-	47,195,276
Debt securities issued	9.00%	114,062	-	127,963	21,318,922	-	-	21,560,947
Subordinated debt	10.00%	-	198,027	-	792,112	990,139	1,800,196	3,780,474*
<b>Total interest bearing financial liabilities</b>		<b>16,232,235</b>	<b>9,773,287</b>	<b>15,760,795</b>	<b>28,742,102</b>	<b>1,305,139</b>	<b>1,800,196</b>	<b>73,613,754</b>
Customer accounts		7,116,800	-	-	-	-	-	7,116,800
Other financial liabilities		53,904	10,317	-	-	-	-	64,221
<b>Total financial liabilities</b>		<b>23,402,939</b>	<b>9,783,604</b>	<b>15,760,795</b>	<b>28,742,102</b>	<b>1,305,139</b>	<b>1,800,196</b>	<b>80,794,775</b>

\* The contractual payments on subordinated debt, which is a liability component of preferred shares with undefined maturity, is calculated for 10 years ahead due to the fact that maturity of this financial investments is undefined.

## Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed.

The ALMC manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Treasury Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

All of the Bank's loan contracts and other financial assets and liabilities that bear interest are fixed. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

### Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Treasury Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at 31 December 2011 and 2010 is presented below:

	31 December 2011		31 December 2010	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets at fair value through profit or loss	139,817	(149,399)	(2)	2
<b>Net impact on profit before tax</b>	<u>139,817</u>	<u>(149,399)</u>	<u>(2)</u>	<u>2</u>

Interest rate sensitivity has no direct impact on equity.

### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Financial committee controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBRK.

The Bank's exposure to foreign currency exchange rate risk is presented in the tables below:

	KZT	USD USD 1 = KZT 148.40	EUR EUR 1 = KZT 191.72	Other currencies	31 December 2011 Total
<b>FINANCIAL ASSETS:</b>					
Cash and balances with the National Bank of the Republic of Kazakhstan	11,602,411	19,680	7,873	9,569	11,639,533
Financial assets at fair value through profit or loss	1,125,394	312,889	-	-	1,438,283
Due from banks	1,975	2,327,433	3,812	4,959	2,338,179
Loans to customers	64,438,230	4,111,478	-	-	68,549,708
Other financial assets	78,986	-	-	-	78,986
<b>TOTAL FINANCIAL ASSETS</b>	<b>77,246,996</b>	<b>6,771,480</b>	<b>11,685</b>	<b>14,528</b>	<b>84,044,689</b>
<b>FINANCIAL LIABILITIES:</b>					
Due to banks	1,028,250	74,286	-	-	1,102,536
Customer accounts	47,167,648	7,314,976	3,249	2,757	54,488,630
Debt securities issued	16,292,855	-	-	-	16,292,855
Other financial liabilities	66,974	-	-	-	66,974
Subordinated debt	1,998,956	-	-	-	1,998,956
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>66,554,683</b>	<b>7,389,262</b>	<b>3,249</b>	<b>2,757</b>	<b>73,949,951</b>
<b>NET BALANCE SHEET POSITION</b>	<b>10,692,313</b>	<b>(617,782)</b>	<b>8,436</b>	<b>11,771</b>	

	KZT	USD USD 1 = KZT 147.50	EUR EUR 1 = KZT 196.88	Other currencies	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>					
Cash and balances with the National Bank of the Republic of Kazakhstan	13,095,120	13,629	11,306	2,498	13,122,553
Financial assets at fair value through profit or loss	32	160,202	-	-	160,234
Due from banks	678	1,259,977	9,489	2,298	1,272,442
Loans to customers	63,873,415	3,521,118	-	-	67,394,533
Other financial assets	388,231	-	61,820	-	450,051
<b>TOTAL FINANCIAL ASSETS</b>	<b>77,357,476</b>	<b>4,954,926</b>	<b>82,615</b>	<b>4,796</b>	<b>82,399,813</b>
<b>FINANCIAL LIABILITIES:</b>					
Due to banks	1,034,585	-	-	-	1,034,585
Customer accounts	48,465,913	4,481,458	3,987	8,432	52,959,790
Debt securities issued	16,188,242	-	-	-	16,188,242
Other borrowed funds	64,160	-	-	61	64,221
Other financial liabilities	1,998,223	-	-	-	1,998,223
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>67,751,123</b>	<b>4,481,458</b>	<b>3,987</b>	<b>8,493</b>	<b>72,245,061</b>
<b>NET BALANCE SHEET POSITION</b>	<b>9,606,353</b>	<b>473,468</b>	<b>78,628</b>	<b>(3,697)</b>	

## Currency risk sensitivity

The following table gives an analysis of sensitivity of the Bank to increase or decrease in USD and EUR exchange rate against the KZT. +10% and -15% change is the sensitivity rate used inside the bank in preparation of currency risk reports for key management personnel of the Bank and represents an evaluation by the management of the Bank of a possible change in exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2011 and 2010, for +10% and -15% change in foreign currency rates compared to effective ones. The sensitivity analysis includes loans to customers of the Bank, if such loans are issued in the currency other than the functional currency of the creditor or borrower.

	31 December 2011		31 December 2010	
	KZT/USD +10%	KZT/USD -15%	KZT/USD +10%	KZT/USD -15%
Impact on profit and loss	(61,778)	92,667	47,347	(71,020)

	31 December 2011		31 December 2010	
	KZT/EUR +10%	KZT/EUR -15%	KZT/EUR +10%	KZT/EUR -15%
Impact on profit and loss	844	(1,265)	7,863	(11,794)

## Limitations of the sensitivity analysis

The above tables reflect the effect of change based on the main assumption whereas other assumptions remain unchanged. In fact, there is a connection between assumptions and other factors. It should also be noted that sensitivity does not have a linear nature, therefore interpolation or extrapolation of received results should not be performed.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

## Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in equity securities at the reporting date.

The results of the analysis of the sensitivity of the Bank's profit before tax and other comprehensive income for the year to changes in prices of securities on a simplified scenario of 10% symmetrical increase or decrease in all securities prices are given in the table below:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>10% increase in securities price</b>	<b>10% decrease in securities price</b>	<b>10% increase in securities price</b>	<b>10% decrease in securities price</b>
Impact on profits and losses	29,053	(29,053)	109	(109)
Impact on equity	29,053	(29,053)	109	(109)

### **30. SUBSEQUENT EVENTS**

Up to the date of issue of these financial statements Management have not identified any significant subsequent events which require disclosure.