

**JSC Kazinvestbank**

**International Financial Reporting Standards**

**Financial Statements and Independent Auditor's Report**

**31 December 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC Kazinvestbank

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

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's 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 whether the financial statements are free from material misstatement.

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

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

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*PricewaterhouseCoopers LLP*  
34 Al-Farabi Ave., Building A, 4th floor, 050059 Almaty, Kazakhstan  
T: +7 (727) 298 0448, F: +7 (727) 298 0252, [www.pwc.com/kz](http://www.pwc.com/kz)



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank 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.

*PricewaterhouseCoopers LLP*

Almaty, Kazakhstan  
18 April 2012

Approved by:

Zhanbota T. Bekenov

Managing Director of PricewaterhouseCoopers  
LLP (General State License of the Ministry of  
Finance of the Republic of Kazakhstan  
№0000005 dated 21 October 1999)



Signed by:

Svetlana Belokurova

Auditor in charge  
(Qualified Auditor's Certificate  
№00000357 dated 21 February 1998)



**Note:**

*Our report has been prepared in English and in Russian. In all matters of interpretation of information, views or opinions, the English version of our report takes precedence over the Russian version.*

**JSC Kazinvestbank**  
**Statement of Financial Position**

<i>In thousands of Tenge</i>	Note	31 December 2011	31 December 2010
<b>Assets</b>			
Cash and cash equivalents	7	14,738,951	13,041,268
Due from other banks	8	136,587	201,912
Loans and advances to customers	9	56,545,480	46,005,015
Other financial assets	10	17,037	10,551
Deferred tax asset	25	753,929	639,256
Intangible assets	11	276,225	302,784
Premises and equipment	11	907,553	991,067
Current income tax prepayment		90,987	86,661
Other assets	12	1,625,065	583,181
Non-current assets held for sale	13	298,825	-
<b>TOTAL ASSETS</b>		<b>75,390,639</b>	<b>61,861,695</b>
<b>LIABILITIES</b>			
Due to other banks	14	1,669,132	203,028
Customer accounts	15	62,683,054	50,941,662
Other financial liabilities	16	40,321	57,570
Subordinated debt	17	3,041,586	2,324,041
Other liabilities	18	100,647	125,671
<b>TOTAL LIABILITIES</b>		<b>67,534,740</b>	<b>53,651,972</b>
<b>EQUITY</b>			
Share capital	19	9,909,040	9,437,838
Other reserves	20	1,233,201	1,233,201
Special reserve		72,325	-
Accumulated deficit		(3,358,667)	(2,461,316)
<b>TOTAL EQUITY</b>		<b>7,855,899</b>	<b>8,209,723</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>75,390,639</b>	<b>61,861,695</b>

Approved for issue and signed on behalf of management on 18 April 2012.



Alexander Tsoy  
Deputy Chairman of the Board




Yelena Kim  
Chief Accountant

**JSC Kazinvestbank**  
**Statement of Comprehensive Income**

<i>In thousands of Tenge</i>	Note	2011	2010
Interest income	21	6,202,229	8,212,548
Interest expense	21	(3,338,956)	(4,746,571)
<b>Net interest income</b>		<b>2,863,273</b>	<b>3,465,977</b>
Provision for loan impairment	9	(1,920,439)	(5,012,520)
<b>Net interest income after provision for loan impairment</b>		<b>942,834</b>	<b>(1,546,543)</b>
Fee and commission income	22	406,844	370,196
Fee and commission expense	22	(103,406)	(100,325)
Loss on redemption of bonds		(243)	(6,112)
Losses less gains from foreign exchange forwards		5,175	-
Gains less losses from other financial assets		15,872	2,402
Gains less losses from foreign exchange and precious metal transactions		267,980	263,702
Foreign exchange translation gains less losses		(22,933)	14,583
Other operating income	23	3,715	5,642
Administrative and other operating expenses	24	(2,456,076)	(2,377,651)
<b>Loss before tax</b>		<b>(940,238)</b>	<b>(3,374,106)</b>
Income tax benefit	25	115,212	675,689
<b>Loss for the year</b>		<b>(825,026)</b>	<b>(2,698,417)</b>
<b>Total comprehensive loss for the year</b>		<b>(825,026)</b>	<b>(2,698,417)</b>
<b>Loss per share – basic (Tenge per share)</b>	26	<b>(11.53)</b>	<b>(39.24)</b>
<b>Loss per share – diluted (Tenge per share)</b>	26	<b>(10.10)</b>	<b>(33.02)</b>

**JSC Kazinvestbank**  
**Statement of Changes in Equity**

	Note	Share capital	Other reserves	Special reserve	Retained earnings/ (accumulated deficit)	Total equity
<i>In thousands of Tenge</i>						
<b>Balance at 1 January 2010</b>		9,437,920	1,224,349	-	245,953	<b>10,908,222</b>
Loss for the year		-	-	-	(2,698,417)	(2,698,417)
Total comprehensive loss for 2010		-	-	-	(2,698,417)	(2,698,417)
Treasury shares	19	(82)	-	-	-	(82)
Transfer to mandatory statutory reserve	20	-	8,852	-	(8,852)	-
<b>Balance at 31 December 2010</b>		<b>9,437,838</b>	<b>1,233,201</b>	-	<b>(2,461,316)</b>	<b>8,209,723</b>
Loss for the year		-	-	-	(825,026)	(825,026)
Total comprehensive loss for 2011		-	-	-	(825,026)	(825,026)
Transfer to special reserve		-	-	72,325	(72,325)	-
New shares issued	19	499,874	-	-	-	499,874
Treasury shares	19	(28,672)	-	-	-	(28,672)
<b>Balance at 31 December 2011</b>		<b>9,909,040</b>	<b>1,233,201</b>	<b>72,325</b>	<b>(3,358,667)</b>	<b>7,855,899</b>

**JSC Kazinvestbank**  
**Statement of Cash Flows**

<i>In thousands of Tenge</i>	Note	2011	2010
<b>Cash flows from operating activities</b>			
Interest received		5,059,713	5,617,412
Interest paid		(3,296,463)	(4,590,597)
Fees and commissions received		407,091	361,944
Fees and commissions paid		(102,597)	(74,902)
Realised loss on redemption of bonds		(243)	-
Income received from trading in foreign currencies		267,980	242,374
Other operating income received		3,715	12,614
Staff costs paid		(1,285,019)	(1,221,145)
Administrative and other operating expenses paid		(970,859)	(1,079,212)
Income tax paid		(4,141)	(16,547)
<b>Cash flows used in operating activities before changes in operating assets and liabilities</b>		<b>79,177</b>	<b>(748,059)</b>
Net (increase)/decrease in loans and advances to customers		(11,617,059)	2,954,311
Net decrease/(increase) in due from other banks		65,325	(201,912)
Net (increase)/decrease in other financial assets		(6,887)	52,475
Net increase in other assets		(1,041,887)	(183,618)
Net increase in due to other banks		1,400,000	200,000
Net decrease in other financial liabilities		(34,498)	(26,052)
Net increase/(decrease) in customer accounts		11,777,830	(3,894,118)
Net decrease in other liabilities		(24,186)	(43,180)
<b>Net cash from/(used in) operating activities</b>		<b>597,815</b>	<b>(1,890,153)</b>
<b>Cash flows from investing activities</b>			
Purchase of premises and equipment	11	(57,239)	(23,209)
Proceeds from disposal of premises and equipment	11	-	250
Purchase of intangible assets	11	(16,927)	(22,184)
Dividends received		336	1,867
<b>Net cash used in investing activities</b>		<b>(73,830)</b>	<b>(43,276)</b>
<b>Cash flows from financing activities</b>			
Issue of debt securities		-	2,185
Redemption of debt securities		-	(5,140,584)
Issue of ordinary shares	19	499,874	-
Acquisition of treasury shares	19	(28,672)	(82)
Placement of subordinated debt securities	17	704,718	1,162,717
<b>Net cash from/(used in) financing activities</b>		<b>1,175,920</b>	<b>(3,975,764)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(2,222)</b>	<b>24,660</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,697,683</b>	<b>(5,884,533)</b>
Cash and cash equivalents at the beginning of the year	7	13,041,268	18,925,801
<b>Cash and cash equivalents at the end of the year</b>		<b>14,738,951</b>	<b>13,041,268</b>

The notes set out on pages 7 to 60 form an integral part of these financial statements.

## 1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for joint-stock company Kazinvestbank ("Bank"). The Bank was established in September 1993, is incorporated and domiciled in the Republic of Kazakhstan. The Bank is a joint stock company limited by shares and was set up in accordance with the regulations of the Republic of Kazakhstan.

**Principal activity.** The Bank's principal business activity is commercial and retail banking operations within the Republic of Kazakhstan. The Bank operates under a banking license reissued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "Agency") on 25 January 2006. The Bank has seven (2010: seven) branches within the Republic of Kazakhstan. Information about the Bank's shareholders is presented in Note 19.

**Registered address and place of business.** The Bank's registered address is: 172 Dostyk Avenue, Almaty 050051, Kazakhstan

**Presentation currency.** All amounts in these financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated.

## 2 Operating Environment of the Bank

**Republic of Kazakhstan.** The economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. These characteristics include the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of state and private securities markets and lack of compliance and transparency in the markets.

The recent global financial crisis has had a severe effect on the Kazakhstan economy and the financial situation in the Kazakhstani financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Kazakhstani economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Kazakhstani Tenge against major foreign currencies, and increased money market liquidity levels.

Additionally, the banking sector is impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. These prospects for future economic stability in Kazakhstan in 2010-2011 are largely dependent upon the effectiveness of a range of measures undertaken by the Government. There remains the possibility of unpredictable changes in the financial and economic environment that may have an adverse effect on the Bank's operations.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

## 3 Summary of Significant Accounting Policies

**Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost, as described below.

**Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market.

### 3 Summary of Significant Accounting Policies (Continued)

For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately, and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

**Initial recognition of financial instruments** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognised when the Bank becomes a party to the contractual provisions of the instrument.

### 3 Summary of Significant Accounting Policies (Continued)

**Derecognition of financial assets** The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (b) the Bank has transferred rights for cash flows from financial assets and made an assignment agreement and meanwhile (i) has also substantially transferred all the risks and rewards of ownership of the assets or (ii) has neither transferred nor retained substantially all risks and rewards of ownership, but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the National Bank of the Republic of Kazakhstan ("NBRK") and all interbank placements with original maturities of less than three months. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

**Due from other banks.** Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Loans and advances to customers.** Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

**Impairment of financial assets carried at amortised cost.** Impairment loss is recognised through profit or loss as incurred as a result of one or more events (the "loss event") occurring after the initial recognition of the financial asset or affecting the value or period of the estimated future cash flows related to the financial asset or a group of financial assets which can be reliably estimated. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- borrower experiences a significant financial difficulty as evidenced by the borrowers financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

The Bank assesses corporate and mortgage loans, cash and cash equivalents and other financial assets on an individual basis because the number of counterparties in each of these categories is insignificant.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

### 3 Summary of Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

**Credit related commitments.** The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

**Repossessed collateral.** Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

**Sale and repurchase agreements and lending of securities.** Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate.

The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within "gains less losses arising from trading securities". The obligation to return the securities is recorded at fair value in other borrowed funds.

**Precious metals.** The Bank has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are carried at fair value with gains or losses recognised in profit or loss.

**Premises and equipment.** Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

### 3 Summary of Significant Accounting Policies (Continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

**Depreciation.** Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Annual rates</u>
Buildings	2%
Office and computer equipment	20 – 33%
Vehicles	20%
Other premises and equipment	10 – 33%

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Intangible assets.** All of the Bank's intangible assets have definite useful lives and include capitalised software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years.

**Operating leases.** Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

**Non-current assets classified as held for sale.** Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt. Obligations to return securities borrowed and sold to third parties are carried at fair value through profit or loss.

**Customer accounts.** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

### 3 Summary of Significant Accounting Policies (Continued)

**Debt securities in issue.** Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Upon the issue of convertible bonds, the liability component is determined by measuring the fair value of an equivalent non-convertible bond. The equity component is assigned the residual amount after deducting from the fair value of the convertible bonds as a whole the amount separately determined for the liability component. The obligation to make future payments of principal and interest to bondholders is carried at amortised cost until extinguished on conversion or maturity of the bonds.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts and currency rate swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

**Income tax.** Income taxes have been provided for in the financial statements using tax rates and in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge /credit comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Tax losses are allowed to be carried forward to the next ten years under the existing tax legislation.

**Uncertain tax positions.** The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Trade and other payables.** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present obligation (legal or constructive as a result of past events) which has arisen before the reporting date. In addition, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Share capital.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

### 3 Summary of Significant Accounting Policies (Continued)

**Share premium.** Share premium represents the excess of contributions received over the nominal value of shares issued.

**Treasury shares.** Where the Bank purchases its equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity attributable to the equity holders of the Bank until they are cancelled or disposed of. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

**Special reserve.** Special reserve represents the difference of amounts between impairment provisions on loans and receivables estimated under IFRS, and those estimated under regulations of the NBRK. The Special reserve is disclosed as the reallocation of retained earnings in equity accounts.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The financial statements prepared in accordance with IFRS are the basis for profit distribution and other appropriations. Kazakhstan legislation identifies the basis of distribution as the current year net profit and retained earnings.

**Income and expense recognition.** Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Bank relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

**Foreign currency translation.** Functional currency is the currency of the primary economic environment in which the Bank operates. The functional and presentation currency of the Bank is Tenge - the national currency of the Republic of Kazakhstan ("Tenge"). At 31 December 2011 the principal rate of exchange used for translating foreign currency balances was US Dollar = Tenge 148.40 (2010: US Dollar = Tenge 147.50); and EUR = Tenge 191.72 (2010: EUR = Tenge 196.88).

Monetary assets and liabilities are translated into the functional currency at the market exchange rate established during the morning trade session of the Kazakhstan Stock Exchange at reporting date. Foreign exchange gains and losses resulting from the settlement of transactions and translation of monetary assets and liabilities into the Bank's functional currency at year-end market exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

### 3 Summary of Significant Accounting Policies (Continued)

**Offsetting.** Financial assets and 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 recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Earnings per share.** Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

**Staff costs and related contributions.** Wages, salaries, contributions to the accumulation pension fund, social tax, paid annual leave and sick leave; bonuses are accrued in the year in which the associated services are rendered by the employees of the Bank. In accordance with the legal requirements of the Republic of Kazakhstan, the Bank withholds pension contributions from employees' salary and transfers them into the employee's designated accumulation pension fund. Upon retirement of employees, all pension payments are administered by the above pension funds.

The Bank does not have any legal or constructive obligation to provide further funding if the accumulation pension funds fail to make the pension payments.

**Segment reporting.** Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

### 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Going concern.** Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources. The Bank has also assessed the overall financial instability in the market, declining interest margins, large number of non-performing borrowers, tough market pressure and competition. To overcome these challenges the Bank has received additional capital injections as described in the Note 35.

**Impairment losses on loans and advances.** The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To the extent that the cash flow on repayment of the principal of loans provided for increases by 10 percent the provision would be approximately Tenge 1,446,582 thousand (2010: Tenge 1,449,089 thousand) lower. Should the cash flow decrease by 10 percent the provision would be approximately Tenge 1,449,620 thousand (2010: Tenge 1,498,238 thousand) higher.

#### 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

**Tax legislation.** Kazakhstan tax and customs legislation is subject to varying interpretations. Refer to Note 25.

**Deferred income tax asset recognition.** The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are:

- Increase in capital in 2012 through placement of additional shares to main shareholders, which will increase Tier 1 capital to Tenge 2,940,124 thousand and placement of subordinated convertible bonds to one of the shareholders, which will increase Tier 2 capital to Tenge 943,863 thousand.
- Significant increase in corporate lending by 30 percent in the next two years;
- The decrease in proportion of the loan provisioning to total loan portfolio from 16 percent in 2010 to 11 percent in 2013 is expected from the loan portfolio improvement in terms of the newly issued loans.
- Expected increase in client deposits by 35 percent annually in the next two years;
- Level of annual expenses for clients loans provisioning and related expenses on problem loans in comparison with 2010 base year will decrease by 61 percent, 50 percent and 87 percent in 2011, 2012 and 2013, respectively.
- Expected total profit of the Bank for the next three forecasted years is Tenge 2,809,432 thousand.

#### 5 Adoption of New or Revised Standards and Interpretations

The following new IFRS standards and interpretations became effective for the Bank from 1 January 2011:

**Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Bank shall also disclose contractual liabilities for sale or purchase of goods or services to the related parties.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

**Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify some requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The amendments above resulted in the presentation of additional or revised disclosures, but did not have material impact on the measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets")

**Other revised standards and interpretations are mandatory for the current year.** IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, amendments to IAS 32 in terms of classification of rights issues of shares, clarifications of IFRIC 14 relating to IAS 19, Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction, relating to prepayment of a minimum funding requirement and amendments to IFRS 1, First Time Adoption of IFRS did not have an impact on these financial statements.

## 6 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later and which the Bank has not early adopted.

**IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Subsequently IFRS 9 was revised in October 2010. Revised IFRS 9 addresses the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, the financial instrument has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments held to trading shall be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is currently considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

**IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Bank is currently assessing the impact of the amended standard on its financial statements.

**IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Bank is currently assessing the impact of the new standard on its financial statements.

**IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Bank is currently assessing the impact of the new standard on its financial statements.

## 6 New accounting pronouncements (Continued)

**IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, 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 for use across IFRSs. Currently, the Bank estimates the effect of the new standard on its financial statements.

**IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Bank is currently assessing the impact of the amended standard on its financial statements.

**IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**. The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Bank is currently assessing the impact of the amended standard on its financial statements.

**Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.)**. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements.

**Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 effective for annual periods beginning on or after 1 July 2012)** changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

**Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013)**, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Bank estimates the effect of the revised standard on its financial statements.

**Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013)**. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

**Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014)**. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Bank is considering the implications of the amendment, the impact on the Bank and the timing of its adoption by the Bank.

## 6 New accounting pronouncements (Continued)

**Other revised standards and interpretations:** The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions will not have any impact on these financial statements. The amendment to IAS 12, Income taxes, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

## 7 Cash and Cash Equivalents

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Cash on hand	611,280	523,054
Cash balances with the NBRK (other than mandatory reserve deposits)	6,135,706	5,846,274
Mandatory cash balances with the NBRK	1,718,684	761,123
Correspondent accounts and overnight placements with other banks:	6,273,281	5,411,765
- Republic of Kazakhstan	602,616	628,231
- other countries	5,670,665	4,783,534
NBRK notes with original maturities of less than three months	-	499,052
<b>Total cash and cash equivalents</b>	<b>14,738,951</b>	<b>13,041,268</b>

At 31 December 2011 the Bank had no cash and cash equivalents of securities purchased under reverse sale and repurchase agreements (31 December 2010: nil). Interest rate analysis of cash and cash equivalents is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

Mandatory cash balances with the NBRK are carried at amortised cost and represent non-interest bearing mandatory reserve balances which are not available to finance the Bank's day to day operations.

The credit quality of cash and cash equivalents, except cash on hand, balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2011:

<i>In thousands of Tenge</i>	Cash balances with the NBRK	Correspondent accounts and overnight placements	Total
<i>Neither past due nor impaired</i>			
NBRK	7,854,390	-	7,854,390
- AA- rated	-	35,954	35,954
- A- to A+ rated	-	5,597,159	5,597,159
- Lower than A- rated	-	640,168	640,168
<b>Total cash and cash equivalents excluding cash on hand</b>	<b>7,854,390</b>	<b>6,273,281</b>	<b>14,127,671</b>

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**7 Cash and Cash Equivalents (Continued)**

The credit quality of cash and cash equivalents, except cash on hand, balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2010:

<i>In thousands of Tenge</i>	Cash balances with the NBRK	Correspondent accounts and overnight placements	Total
<i>Neither past due nor impaired</i>			
NBRK	7,106,449	-	7,106,449
- AA- rated	-	18,253	18,253
- A- to A+ rated	-	4,751,425	4,751,425
- Lower than A- rated	-	642,087	642,087
<b>Total cash and cash equivalents excluding cash on hand</b>	<b>7,106,449</b>	<b>5,411,765</b>	<b>12,518,214</b>

**8 Due from Other Banks**

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Placements with other banks	-	201,912
Metal account with foreign bank	136,587	-
<b>Total due from other banks</b>	<b>136,587</b>	<b>201,912</b>

The credit quality of due from other banks balances based on Standard and Poor's ratings as follows:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
<i>Neither past due nor impaired</i>		
- A rated	-	201,912
- A- rated	136,587	-
<b>Total due from other banks</b>	<b>136,587</b>	<b>201,912</b>

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**9 Loans and Advances to Customers**

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Corporate loans	65,594,793	53,651,658
Consumer loans	1,371,402	1,673,925
Mortgage loans	541,886	374,710
<b>Total loans and advances to customers (gross)</b>	<b>67,508,081</b>	<b>55,700,293</b>
Less: provision for loan impairment	(10,962,601)	(9,695,278)
<b>Total loans and advances to customers</b>	<b>56,545,480</b>	<b>46,005,015</b>

Movements in the provision for loan impairment during 2011 are as follows:

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
Provision for loan impairment at 1 January	9,447,286	231,960	16,032	9,695,278
Provision for impairment during the year	1,903,787	7,899	8,753	1,920,439
Unwinding effect on the discounting	(652,497)	-	-	(652,497)
Amounts written off during the year as uncollectible	-	(619)	-	(619)
<b>Provision for loan impairment at 31 December</b>	<b>10,698,576</b>	<b>239,240</b>	<b>24,785</b>	<b>10,962,601</b>

Movements in the provision for loan impairment during 2010 are as follows:

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
Provision for loan impairment at 1 January	4,448,293	248,249	16,032	4,712,574
Provision for impairment during the year	5,028,809	(16,289)	-	5,012,520
Amounts written off during the year as uncollectible	(29,816)	-	-	(29,816)
<b>Provision for loan impairment at 31 December</b>	<b>9,447,286</b>	<b>231,960</b>	<b>16,032</b>	<b>9,695,278</b>

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**9 Loans and Advances to Customers (Continued)**

Below presented is the risk concentration of the customer loan portfolio by economic sector:

<i>In thousands of Tenge</i>	31 December 2011		31 December 2010	
	Amount	%	Amount	%
Trading of agriculture commodities	10,401,181	15.4	7,843,008	14.1
Food and beverages	6,643,376	9.8	4,546,775	8.2
Wholesale and retail of consumer electronics	5,626,100	8.3	2,956,630	5.3
Recycling	5,308,743	7.9	4,321,699	7.8
Wholesale and retail of FMCG, food & beverages	4,916,031	7.3	4,146,133	7.4
Computer equipment	4,816,062	7.1	4,779,846	8.6
Construction	3,259,430	4.8	4,648,573	8.3
Oil and oil products trading	3,640,035	5.4	3,692,210	6.6
Agriculture	2,618,018	3.9	3,526,959	6.3
Coastal infrastructure	2,608,650	3.9	-	-
Auto sales and servicing	2,579,953	3.8	2,489,694	4.5
Consumer goods	2,030,863	3.0	1,782,382	3.2
Individuals	1,913,288	2.8	2,048,634	3.7
Energy	1,877,504	2.8	-	-
Concrete production and sale	1,868,901	2.8	2,209,794	4.0
Printing and packaging	1,863,300	2.8	1,727,580	3.1
Customs brokerage	944,394	1.4	1,060,634	1.9
Tannery	674,701	1.0	1,197,610	2.2
Host and travel	283,580	0.4	320,716	0.6
Private holding company	191,548	0.3	568,198	1.0
Recruitment	101,378	0.2	101,378	0.2
Road repair and maintenance	97,078	0.1	209,190	0.4
Other	3,243,967	4.8	1,522,650	2.7
<b>Total gross loans and advances to customers before deduction of impairment provision</b>	<b>67,508,081</b>	<b>100</b>	<b>55,700,293</b>	<b>100</b>

At 31 December 2011 the Bank had twenty-one borrowers (31 December 2010: fourteen borrowers) with aggregated loan amounts above Tenge 1,350,000 thousand. The total aggregate amount of these loans at 31 December 2011 was Tenge 42,273,430 thousand (31 December 2010: Tenge 32,948,665 thousand) or 70 percent of the gross loan portfolio (31 December 2010: 65 percent).

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**9 Loans and Advances to Customers (Continued)**

Information about collateral at 31 December 2011 is as follows:

<i>In thousands of Tenge</i>	<b>Corporate loans</b>	<b>Consumer loans</b>	<b>Mortgage loans</b>	<b>Total</b>
Loans collateralised by:				
- non residential real estate	29,226,086	247,365	-	29,473,451
- inventory	22,024,561	-	-	22,024,561
- residential real estate	952,161	313,381	504,019	1,769,561
- equipment	876,606	-	-	876,606
- cash deposits	9,163	-	-	9,163
- other assets	1,767,073	12,291	-	1,779,364
<b>Total secured loans</b>	<b>54,855,650</b>	<b>573,037</b>	<b>504,019</b>	<b>55,932,706</b>
Unsecured loans	10,739,143	798,365	37,867	11,575,375
<b>Total gross loans and advances to customers before deduction of impairment provision</b>	<b>65,594,793</b>	<b>1,371,402</b>	<b>541,886</b>	<b>67,508,081</b>

Information about collateral at 31 December 2010 is as follows:

<i>In thousands of Tenge</i>	<b>Corporate loans</b>	<b>Consumer loans</b>	<b>Mortgage loans</b>	<b>Total</b>
Loans collateralised by:				
- non residential real estate	28,947,300	249,462	-	29,196,762
- inventory	16,273,180	-	-	16,273,180
- residential real estate	3,281,222	346,602	267,578	3,895,402
- equipment	800,776	-	-	800,776
- cash deposits	9,163	-	-	9,163
- other assets	2,364,948	12,905	-	2,377,853
<b>Total secured loans</b>	<b>51,676,589</b>	<b>608,969</b>	<b>267,578</b>	<b>52,553,136</b>
Unsecured loans	1,975,069	1,064,956	107,132	3,147,157
<b>Total gross loans and advances to customers before deduction of impairment provision</b>	<b>53,651,658</b>	<b>1,673,925</b>	<b>374,710</b>	<b>55,700,293</b>

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**9 Loans and Advances to Customers (Continued)**

Presented below is the analysis of loans outstanding by credit quality as at 31 December 2011:

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
<i>Neither past due nor impaired</i>				
- No sign of weakness	37,186,631	959,949	501,862	38,648,442
- Signs of weakness	944,394	20,147	-	964,541
- Timely repayment at risk	3,599,102	111,001	-	3,710,103
<b>Total neither past due nor impaired</b>	<b>41,730,127</b>	<b>1,091,097</b>	<b>501,862</b>	<b>43,323,086</b>
<i>Past due but not impaired</i>				
- less than 30 days overdue	-	22,605	14,230	36,835
- 30 to 90 days overdue	113,176	18,577	-	131,753
<b>Total past due but not impaired</b>	<b>113,176</b>	<b>41,182</b>	<b>14,230</b>	<b>168,588</b>
<b>Loans individually impaired but not past due (gross)</b>	<b>9,528,650</b>	<b>-</b>	<b>-</b>	<b>9,528,650</b>
<i>Individually past due and impaired (gross)</i>				
- less than 180 days overdue	-	19,114	-	19,114
- 180 to 360 days overdue	2,500,214	17,364	-	2,517,578
- over 360 days overdue	11,722,626	202,645	25,794	11,951,065
<b>Total Individually past due and impaired (gross)</b>	<b>14,222,840</b>	<b>239,123</b>	<b>25,794</b>	<b>14,487,757</b>
Gross loans and advances to customers	65,594,793	1,371,402	541,886	67,508,081
<b>Less impairment provisions</b>	<b>(10,698,576)</b>	<b>(239,240)</b>	<b>(24,785)</b>	<b>(10,962,601)</b>
<b>Total loans and advances to customers</b>	<b>54,896,217</b>	<b>1,132,162</b>	<b>517,101</b>	<b>56,545,480</b>

The Bank's internal rating scale of loans neither past due nor impaired is as follows:

No sign of weakness – Timely repayment of these loans is not in doubt. The borrower is a financially stable company, which has an adequate capital level, high level profitability and sufficient cash flow to meet its all existing obligations, including present debt. When estimating the reputation of the borrower such factors as the history of previous repayments, marketability of collateral (movable and immovable property guarantee) are taken into consideration.

Signs of weakness – These are loans which are secured with a reliable source of secondary repayment (guarantee or collateral). On the whole, the financial situation of borrower is stable, but some unfavourable circumstances or tendencies are on the present, which raise doubts on the ability of the borrower to repay the loan on time.

Timely repayment at risk – The primary source of repayment is not sufficient and the Bank has to seek additional loan repayment sources, which in case of non-repayment is a sale of collateral.

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**Notes to Financial Statements – 31 December 2011**

**9 Loans and Advances to Customers (Continued)**

Presented below is the analysis of loans outstanding by credit quality as at 31 December 2010:

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
<i>Neither past due nor impaired</i>				
- No sign of weakness	22,523,460	1,206,031	349,704	24,079,195
- Signs of weakness	1,584,033	-	-	1,584,033
- Timely repayment at risk	4,390,093	103,347	-	4,493,440
<b>Total neither past due nor impaired</b>	<b>28,497,586</b>	<b>1,309,378</b>	<b>349,704</b>	<b>30,156,668</b>
<i>Past due but not impaired</i>				
- less than 30 days overdue	-	57,950	-	57,950
- 30 to 90 days overdue	-	87,393	8,974	96,367
<b>Total past due but not impaired</b>	<b>-</b>	<b>145,343</b>	<b>8,974</b>	<b>154,317</b>
<b>Loans individually impaired but not past due (gross)</b>	<b>7,662,559</b>	<b>-</b>	<b>-</b>	<b>7,662,559</b>
<i>Individually past due and impaired (gross)</i>				
- less than 180 days overdue	6,248,662	21,969	-	6,270,631
- 180 to 360 days overdue	2,333,908	33,520	-	2,367,428
- over 360 days overdue	8,908,943	163,715	16,032	9,088,690
<b>Total Individually past due and impaired (gross)</b>	<b>17,491,513</b>	<b>219,204</b>	<b>16,032</b>	<b>17,726,749</b>
Gross loans and advances to customers	53,651,658	1,673,925	374,710	55,700,293
Less impairment provisions	(9,447,286)	(231,960)	(16,032)	(9,695,278)
<b>Total loans and advances to customers</b>	<b>44,204,372</b>	<b>1,441,965</b>	<b>358,678</b>	<b>46,005,015</b>

The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status, financial position, prolongation and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

**9 Loans and Advances to Customers (Continued)**

The financial effect of collateral is presented by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral as at 31 December 2011 is as follows:

<i>In thousands of Tenge</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	46,586,587	136,503,321	8,309,631	4,592,362
Consumer loans	754,085	1,758,339	353,291	-
Mortgage loans	541,886	1,184,297	-	-
<b>Total</b>	<b>47,882,558</b>	<b>139,445,957</b>	<b>8,662,922</b>	<b>4,592,362</b>

The effect of collateral as at 31 December 2010 is as follows:

<i>In thousands of Tenge</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	38,462,833	94,162,482	5,741,539	2,935,210
Consumer loans	531,170	1,547,338	894,763	112,429
Mortgage loans	374,710	740,300	-	-
<b>Total</b>	<b>39,368,713</b>	<b>96,450,120</b>	<b>6,636,302</b>	<b>3,047,639</b>

All past due but not impaired and impaired consumer loans are unsecured.

Fair value of all collateral is determined by the Bank with the assistance of professional appraisers at initiation of each loan. The fair value of collateral is regularly updated by the Bank's credit department using the Bank's internal guidelines. Re-appraisal of real estate is done through professional appraisers for impaired loans.

Refer to Note 32 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 28. The information on related party balances is disclosed in Note 34.

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

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**10 Other Financial Assets**

<i>In thousands of Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Net receivable under spot deal	6,887	-
Restricted cash held with market makers	6,882	7,036
Investments in stock exchange	2,200	2,200
Fee and commission income receivable	1,068	1,315
<b>Total other financial assets</b>	<b>17,037</b>	<b>10,551</b>

Investments in stock exchange as of 31 December 2011 represent the Bank's 1.10 percent ownership in the equity of Kazakhstan Stock Exchange (31 December 2010: 1.33 percent). These investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. Therefore, investments in stock exchange are measured at cost.

As of 31 December 2011 the Bank had Tenge nil (31 December 2010: nil) commission income receivable overdue above 30 days. Other items of other financial assets had no weaknesses and were classified as neither past due nor impaired.

The primary factors that the Bank considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. Information on related party balances is disclosed in Note 34. Refer to Note 32 for the disclosure of the fair value of each class of other financial assets.

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**11 Premises, Equipment and Intangible Assets**

	Buildings and premises	Office and computer equipment	Vehicles	Construction-in-progress	Total premises and equipment	Software
<i>In thousands of Tenge</i>						
Cost at 31 December 2009	657,648	562,791	107,023	121,315	1,448,777	444,668
Accumulated depreciation/amortisation	(65,480)	(228,239)	(51,001)	-	(344,720)	(119,392)
<b>Carrying amount at 31 December 2009</b>	<b>592,168</b>	<b>334,552</b>	<b>56,022</b>	<b>121,315</b>	<b>1,104,057</b>	<b>325,276</b>
Additions	252	22,639	245	73	23,209	22,184
Disposals	-	(1,457)	(1,521)	-	(2,978)	(440)
Depreciation/amortisation charge (Note 24)	(35,972)	(76,112)	(21,137)	-	(133,221)	(44,236)
<b>Carrying amount at 31 December 2010</b>	<b>556,448</b>	<b>279,622</b>	<b>33,609</b>	<b>121,388</b>	<b>991,067</b>	<b>302,784</b>
Cost at 31 December 2010	657,900	545,629	104,228	121,388	1,429,145	448,411
Accumulated depreciation/amortisation	(101,452)	(266,007)	(70,619)	-	(438,078)	(145,627)
<b>Carrying amount at 31 December 2010</b>	<b>556,448</b>	<b>279,622</b>	<b>33,609</b>	<b>121,388</b>	<b>991,067</b>	<b>302,784</b>
Additions	21,269	35,970	-	-	57,239	16,927
Disposals	(22,077)	(24,823)	-	(25)	(46,925)	(14,308)
Internal transfers	121,363	-	-	(121,363)	-	-
Disposal of accumulated depreciation/amortisation	14,340	17,280	-	-	31,620	5,546
Depreciation/amortisation charge (Note 24)	(35,842)	(71,301)	(18,305)	-	(125,448)	(34,724)
<b>Carrying amount at 31 December 2011</b>	<b>655,501</b>	<b>236,748</b>	<b>15,304</b>	<b>-</b>	<b>907,553</b>	<b>276,225</b>
Cost at 31 December 2011	778,455	556,776	104,228	-	1,439,459	451,030
Accumulated depreciation/amortisation	(122,954)	(320,028)	(88,924)	-	(531,906)	(174,805)
<b>Carrying amount at 31 December 2011</b>	<b>655,501</b>	<b>236,748</b>	<b>15,304</b>	<b>-</b>	<b>907,553</b>	<b>276,225</b>

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**12 Other Assets**

<i>In thousands of Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Repossessed collateral	930,516	-
Prepayments for services	564,546	445,394
Prepayments for construction in progress	112,932	116,046
Prepaid taxes	13,461	15,744
Settlements with employees	1,854	3,182
Inventory	1,756	2,815
<b>Total other assets</b>	<b>1,625,065</b>	<b>583,181</b>

**13 Non-Current Assets Classified as Held for Sale**

<i>In thousands of Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Residential real estate	298,825	-
<b>Total non-current assets held for sale</b>	<b>298,825</b>	<b>-</b>

In August 2011 the Bank has registered ownership right for apartments located in the residential complex "Algabas", transferred to the Bank by "Hold Trading Company" LLP against partial repayment debt according to the Settlement Agreement dated 12 July 2011.

Management approved the plan to sell these apartments in August 2011. The Bank actively markets these assets and expects the sale to complete by August 2013.

**14 Due to Other Banks**

<i>In thousands of Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Short-term placements with other local banks	1,669,132	203,028
<b>Total due to other banks</b>	<b>1,669,132</b>	<b>203,028</b>

**15 Customer Accounts**

<i>In thousands of Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>State and public organisations</b>		
- Current/settlement accounts	8,043,019	7,825,313
- Term deposits	17,147,697	17,813,539
<b>Other legal entities</b>		
- Current/settlement accounts	18,043,493	8,139,760
- Term deposits	8,034,243	7,605,532
<b>Individuals</b>		
- Current/settlement accounts	737,263	616,959
- Term deposits	10,677,339	8,940,559
<b>Total customer accounts</b>	<b>62,683,054</b>	<b>50,941,662</b>

**15 Customer Accounts (Continued)**

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Tenge</i>	<b>31 December 2011</b>		<b>31 декабря 2010</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	11,414,590	18.2	9,557,520	18.8
Insurance and financial services	8,112,124	12.9	7,147,117	14.0
Government holding companies	6,964,566	11.1	7,428,648	14.6
Construction	6,837,070	10.9	2,238,422	4.4
Transportation	6,305,168	10.1	3,939,586	7.7
Mining and metallurgy	6,189,586	9.9	475,036	0.9
Education	3,769,808	6.0	4,249,716	8.3
Communication services	3,426,602	5.5	4,720,152	9.3
Electronic and electrical equipment	2,743,452	4.4	45,027	0.1
Professional services	1,688,322	2.7	240,012	0.5
Public associations	1,351,143	2.2	17,271	-
Post and courier services	1,006,250	1.6	-	-
Wholesale and retail	999,406	1.6	990,983	1.9
Oil and gas sector	573,874	0.9	4,483,567	8.8
Health	556,393	0.9	149,701	0.3
Host and travel	40,540	0.1	1,196,758	2.3
Agriculture	29,682	-	3,135,020	6.2
Other	674,478	1.1	927,126	1.8
<b>Total customer accounts</b>	<b>62,683,054</b>	<b>100</b>	<b>50,941,662</b>	<b>100</b>

At 31 December 2011 the Bank had seventeen customers (31 December 2010: fourteen customers) with balances above Tenge 1,000,000 thousand. The aggregate balance of these customers was Tenge 39,769,718 thousand (31 December 2010: Tenge 31,279,909 thousand) or 63.4 percent (31 December 2010: 61.4 percent) of total customer accounts.

At 31 December 2011 included in customer accounts are deposits of Tenge 2,540,163 thousand (31 December 2010: Tenge 9,163 thousand) held as collateral for loans and advances to customers.

Refer to Note 31 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 28. Information on related party transactions is disclosed in Note 34.

**16 Other Financial Liabilities**

Other financial liabilities comprise the following:

<i>In thousands of Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Operating expense accruals	37,696	54,136
Fee and commission payable	2,625	3,434
<b>Total other financial liabilities</b>	<b>40,321</b>	<b>57,570</b>

Refer to Note 32 for the disclosure of the fair value of each class of other financial liabilities.

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**Notes to Financial Statements – 31 December 2011**

**17 Subordinated Debt**

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Bonds issued on domestic market	3,040,668	2,323,125
Convertible bonds	918	916
<b>Total subordinated debt</b>	<b>3,041,586</b>	<b>2,324,041</b>

The bonds issued in the domestic market of Tenge 1,227,759 thousand as of 31 December 2011 (31 December 2010: Tenge 1,206,456 thousand) carry a variable interest rate of 10.5 percent (31 December 2010: 8.8 percent) per annum and mature in December 2012. The debt ranks after all other creditors in case of liquidation. The above interest rate is fixed every six months at the current Kazakhstan inflation rate plus two percent, but not to exceed 11 percent. The convertible bonds of Tenge 918 thousand (31 December 2010: Tenge 916 thousand) is the liability portion of the compound instrument issued in 2007. Refer to Note 19.

On 29 June 2010 the Bank made its first emission of subordinated bonds within its first Bond program in the domestic market that carry a fixed interest rate of 10 percent and mature in June 2015. As at 31 December 2010 bonds of Tenge 1,850,000 thousand were placed out of a total emission that constitutes Tenge 4,000,000 thousand.

Refer to Note 32 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 28. The information on related party transactions is disclosed in Note 34.

**18 Other Liabilities**

Other liabilities comprise the following:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Advances received	43,238	67,779
Taxes payables other than income tax	38,230	50,738
Salaries and bonuses	19,179	7,154
<b>Total other liabilities</b>	<b>100,647</b>	<b>125,671</b>

During 2011 the Bank accrued and paid annual performance bonus of Tenge 47,252 to the Bank's personnel for the results of 2010. There were no bonuses were accrued as of 31 December 2011.

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**Notes to Financial Statements – 31 December 2011**

**19 Share Capital**

<i>In thousands of Tenge except for number of shares</i>	Number of outstanding shares in thousands	Ordinary shares	Share premium	Convertible bonds equity component	Treasury shares	Total
<b>At 1 January 2010</b>	<b>68,958</b>	<b>6,932,966</b>	<b>1,538,796</b>	<b>1,003,374</b>	<b>(37,216)</b>	<b>9,437,920</b>
Treasury shares	(1)	-	(36)	-	(46)	(82)
<b>At 31 December 2010</b>	<b>68,957</b>	<b>6,932,966</b>	<b>1,538,760</b>	<b>1,003,374</b>	<b>(37,262)</b>	<b>9,437,838</b>
New issued shares	4,999	499,874	-	-	-	499,874
Treasury shares	(179)	-	(10,782)	-	(17,890)	(28,672)
<b>At 31 December 2011</b>	<b>73,777</b>	<b>7,432,840</b>	<b>1,527,978</b>	<b>1,003,374</b>	<b>(55,152)</b>	<b>9,909,040</b>

The nominal registered amount of the Bank's issued share capital as of 31 December 2011 is Tenge 7,432,842 thousand (31 December 2010: Tenge 6,932,966 thousand).

The total authorised number of shares as of 31 December 2011 is 325,000 thousand shares (31 December 2010: 325,000 thousand shares) with a par value of Tenge 100 per share (2010: Tenge 100 per share). 73,777 thousand shares among total authorised are fully paid and each share carries one vote. Each share carries one vote.

At 31 December 2011 treasury shares include 551,519 shares of the Bank (31 December 2010: 372,625 shares) owned by the Bank.

Share premium represents the excess of contributions received over the nominal value of shares issued.

During 2007 the Bank issued 1,018 convertible bonds with a par value of Tenge 1,000 thousand. These bonds mature on 29 May 2106 and have a coupon rate of 0.01 percent. Each bond can be converted into ten thousand shares on demand of the bond holders. The bond is made up of three components: equity, subordinated debt and early redemption call options exercisable by the Bank. The early redemption call options exercisable by the Bank is callable after twenty five years and has a nil value at 31 December 2011 (31 December 2010: nil) due to the very low coupon rate. The liability portion has been disclosed in Note 17.

As at 31 December the shareholders' structure was as follows:

Shareholder	2011	2010
Mr. Kapparov N. D.	25.1%	24.2%
European Bank for Reconstruction and Development	23.0%	24.6%
Mr. Dosaev E. A.	16.4%	15.8%
Mr. Kaniyev B. S.	15.6%	15.0%
Mr. Pak Yu. E.	10.6%	10.2%
Citigroup Venture Capital International G.P.L.P.	8.8%	9.4%
Citigroup Venture Capital International Co-Investment L.P.	0.5%	0.5%
Other shareholders	-	0.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**19 Share Capital (Continued)**

Citigroup Venture Capital International G.P.L.P. and Citigroup Venture Capital International Co-Investment L.P. are registered in the Cayman Islands that were included to the list of off-shore zones in 2009 by the regulatory body. Under current banking legislation shareholders registered in the territories officially included to the list of off-shore zones shall have no voting rights. To be in compliance with legislative requirements, the Bank plans to repurchase ordinary shares of the shareholder and issue subordinated bonds convertible into shares in return during 2012 – 2013.

**20 Other Reserves**

<i>In thousands of Tenge</i>	<b>Mandatory statutory reserve</b>	<b>Total reserves</b>
<b>At 1 January 2010</b>	1,224,349	1,224,349
Change of mandatory statutory reserve	8,852	8,852
<b>At 31 December 2010</b>	1,233,201	1,233,201
Change of mandatory statutory reserve	-	-
<b>At 31 December 2011</b>	1,233,201	1,233,201

The mandatory statutory reserve for credit risk represents mandatory statutory reserves created by the Bank's shareholder in accordance with the statutory requirements. Under applicable regulations approved in 2009, the mandatory general reserve as of 31 December 2009 should not be less than sum of reserve capital as of 1 January 2009 and net income of the period adjusted to the ration of classified assets as per the statutory definition. These reserves are not provisions in line with IFRS and have therefore been taken directly to equity.

**21 Interest Income and Expense**

<i>In thousands of Tenge</i>	<b>2011</b>	<b>2010</b>
<b>Interest income</b>		
Loans and advances to customers	6,165,461	8,109,698
Cash and cash equivalents	22,895	84,940
Reverse repurchase agreements	10,511	1,245
Correspondent accounts with other banks	2,069	2,813
Placements with other banks	1,293	13,852
<b>Total interest income</b>	<b>6,202,229</b>	<b>8,212,548</b>
<b>Interest expense</b>		
Term deposits of legal entities	1,565,536	1,005,863
Term deposits of individuals	842,053	1,998,958
Current/settlement accounts of clients	525,406	1,145,586
Subordinated debt	317,150	151,059
Term placements of other banks	88,811	3,028
Other	-	442,077
<b>Total interest expense</b>	<b>3,338,956</b>	<b>4,746,571</b>
<b>Net interest income</b>	<b>2,863,273</b>	<b>3,465,977</b>

Interest income on impaired loans and advances in 2011 is Tenge 2,241,645 thousand (2010: Tenge 3,238,625 thousand).

**JSC Kazinvestbank**  
**Notes to Financial Statements – 31 December 2011**

**22 Fee and Commission Income and Expense**

<i>In thousands of Tenge</i>	<b>2011</b>	<b>2010</b>
<b>Fee and commission income</b>		
Settlement transactions	152,914	157,388
Cash transactions	83,240	63,814
Card transactions	68,757	74,584
Guarantees issued	58,574	59,087
Letters of credit	32,329	7,623
Other	11,030	7,700
<b>Total fee and commission income</b>	<b>406,844</b>	<b>370,196</b>
<b>Fee and commission expense</b>		
Cash transactions	49,843	53,170
Settlement transactions	23,813	23,705
Cash collection services	21,020	12,397
Interbank deposits	8,515	6,186
Transactions with securities	-	2,962
Other	215	1,905
<b>Total fee and commission expense</b>	<b>103,406</b>	<b>100,325</b>
<b>Net fee and commission income</b>	<b>303,438</b>	<b>269,871</b>

**23 Other Operating Income**

<i>In thousands of Tenge</i>	<b>2011</b>	<b>2010</b>
Other operating income	24,232	12,614
Recovery of provisions/(provision) for credit related liabilities	3,526	(3,804)
Loss on disposal of premises and equipment	(24,043)	(3,168)
<b>Total other operating income</b>	<b>3,715</b>	<b>5,642</b>

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**Notes to Financial Statements – 31 December 2011**

**24 Administrative and Other Operating Expenses**

<i>In thousands of Tenge</i>	Note	2011	2010
Staff costs		1,297,044	1,145,639
Rent expense		338,843	342,305
Depreciation of premises and equipment	11	125,448	133,221
Taxes other than on income		120,357	92,996
Professional services		71,035	113,471
Other costs of premises and equipment		67,011	52,097
Security services		59,235	41,406
Deposit insurance payments		44,820	147,693
Communication services		36,662	42,132
Amortisation of software and other intangible assets	11	34,724	44,236
Business trip and representative expenses		20,706	23,195
Software maintenance		19,273	17,526
Insurance expenses		15,398	22,150
Advertising and marketing services		14,535	3,750
Transportation services		12,957	11,412
Membership fees		9,302	8,605
Card expenses		5,969	4,913
Legal services		5,062	57,709
Stationery		5,030	3,809
Listing fees		3,213	3,897
Training		1,013	3,543
Subscription fees		503	1,904
Other general and administrative expenses		147,936	60,042
<b>Total administrative and other operating expenses</b>		<b>2,456,076</b>	<b>2,377,651</b>

Included in staff costs for 2011 is social tax of Tenge 94,067 thousand (2010: Tenge 91,813 thousand).

**25 Income Tax**

**(a) Components of income tax benefit**

Income tax expense recorded in the statement of comprehensive income comprises the following:

<i>In thousands of Tenge</i>	2011	2010
Current income tax (benefit)/expense	(540)	6,129
Deferred income tax benefit	(114,672)	(681,818)
<b>Income tax benefit for the year</b>	<b>(115,212)</b>	<b>(675,689)</b>

**25 Income Taxes (Continued)**

**(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate**

The income tax rate applicable to the majority of the Bank's income is 20 percent (2010: 20 percent). A reconciliation between the expected and the actual taxation charge is provided below:

<i>In thousands of Tenge</i>	2011	2010
<b>Loss before tax</b>	<b>(940,238)</b>	<b>(3,374,106)</b>
Theoretical tax (benefit)/charge at statutory rate (2011: 20 percent; 2010: 20 percent)	(188,048)	(674,821)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable items	(5,202)	8,872
Non-deductible items	39,295	-
Income on government securities taxed at different rates	(7,638)	(15,872)
Adjustment of prior year tax expense estimate	(540)	6,132
Provisions under rules of NBRK	46,921	-
<b>Income tax benefit for the year</b>	<b>(115,212)</b>	<b>(675,689)</b>

On 17 November 2009 the President of the Republic of Kazakhstan approved new amendments to the Tax Code. The key amendment was to keep corporate income tax rate at 20 percent until 1 January 2013, and to apply the rate of 17.5 percent in 2013 and 15 percent onwards.

On 26 November 2010 the President of the Republic of Kazakhstan signed a Law Concerning Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the Issues of Taxation which stipulates corporate income tax rate at 20% without any changes in subsequent periods. The mentioned reconsideration of the tax rates resulted in an increase of deferred tax liabilities arising from long term temporary differences.

**(c) Tax loss carry forwards**

The Bank has recognised deferred tax asset in respect of tax loss carry forwards of Tenge 796,571 thousand (2010: Tenge 686,978 thousand). The tax loss carry forwards expire as follows:

<i>In thousands of Tenge</i>	2011	2010
Tax loss carry-forwards expiring by the end of:		
- 31 December 2011	-	100,649
- 31 December 2012	135,320	190,514
- 31 December 2013	211,099	270,750
- 31 December 2014	327,845	125,065
- 31 December 2015	122,307	-
<b>Total tax loss carry forwards</b>	<b>796,571</b>	<b>686,978</b>

**(d) Deferred taxes analysed by type of temporary difference**

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate applicable to the period when the differences are expected to be deducted or taxed (2010: 20 percent).

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**Notes to Financial Statements – 31 December 2011**

**25 Income Taxes (Continued)**

<i>In thousands of Tenge</i>	31 December 2009	(Charged) credited to profit or loss	31 December 2010	(Charged) credited to profit or loss	31 December 2011
<b>Tax effect of deductible temporary differences</b>					
Accruals	19,426	(12,044)	7,382	875	8,257
Bonds discount accrual	12	(12)	-	-	-
Tax loss carry forward	-	686,978	686,978	109,593	796,571
<b>Gross deferred tax asset</b>	<b>19,438</b>	<b>674,922</b>	<b>694,360</b>	<b>110,468</b>	<b>804,828</b>
<b>Tax effect of taxable temporary differences</b>					
Premises and equipment	(62,000)	7,790	(54,210)	2,237	(51,973)
Accruals	-	(894)	(894)	1,967	1,074
<b>Gross deferred tax liability</b>	<b>(62,000)</b>	<b>6,896</b>	<b>(55,104)</b>	<b>4,204</b>	<b>(50,899)</b>
<b>Net deferred tax asset/(liability)</b>	<b>(42,562)</b>	<b>681,818</b>	<b>639,256</b>	<b>114,672</b>	<b>753,929</b>

As at 31 December 2011 deferred income tax asset in the amount of Tenge 753,929 thousand (31 December 2010: Tenge 639,256 thousand) was expected to be realised after more than three years.

**26 Earnings per Share**

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

<i>In thousands of Tenge</i>	2011	2010
Loss for the year attributable to ordinary shareholders	(825,026)	(2,698,417)
<b>Loss for the year</b>	<b>(825,026)</b>	<b>(2,698,417)</b>
Weighted average number of ordinary shares in issue (thousands)	71,561	68,769
<b>Basic loss per ordinary share (Tenge per share)</b>	<b>(11.53)</b>	<b>(39.24)</b>

Diluted earnings per share are calculated by dividing the diluted earnings for the year by the diluted weighted average number of shares in issue during the year.

<i>In thousands of Tenge</i>	2011	2010
Loss for the year attributable to ordinary shareholders	(825,026)	(2,698,417)
Interest incurred on convertible bonds	-	104
<b>Loss for the year</b>	<b>(825,026)</b>	<b>(2,698,313)</b>
Diluted weighted average number of ordinary shares in issue (thousands)	81,713	81,713
<b>Diluted basic loss per ordinary share (Tenge per share)</b>	<b>(10.10)</b>	<b>(33.02)</b>

**27 Segment Analysis**

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by CEO and Management Board of the Bank.

**(a) Description of products and services from which each reportable segment derives its revenue**

The Bank's primary format for reporting segment information is business segments. The Bank is organised on the basis of two main business segments:

- Retail banking – savings, deposits, and consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise loans and deposits, being the majority of the balance sheet.

**(b) Factors that management used to identify the reportable segments**

Business segments of the Bank are represented by strategic business units, oriented at various client bases. They are managed separately because each business unit requires different marketing strategies and service level.

Analysis of segment financial information is performed by the Board of Directors of the Bank, responsible for operating decision making. This financial information coincides with the internal management information provided to the Board of Directors for decision making purposes. Thus, management applied the core principle of IFRS 8, Operating segments, in deciding what components of financial information have to be the base for operating segments disclosure.

**(c) Information about reportable segment profit or loss, assets and liabilities**

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

<i>In thousands of Tenge</i>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Total</b>
<b>Assets</b>			
Cash on hand and cash balances with NBRK	8,282,207	320,050	8,602,257
Correspondent accounts with other banks	6,136,694	-	6,136,694
Due from other banks	136,587	-	136,587
Loans and advances to customers	55,320,326	1,225,154	56,545,480
Premises and equipment	916,385	267,393	1,183,778
Non-current assets held for sale	298,825	-	298,825
<b>Total reportable segment assets</b>	<b>71,091,024</b>	<b>1,812,597</b>	<b>72,903,621</b>
<b>Liabilities</b>			
Other bank placements and customer accounts	51,269,174	11,413,880	62,683,054
Subordinated debt and issued securities	3,041,586	-	3,041,586
Other placements with the Bank	1,669,132	-	1,669,132
<b>Total reportable segment liabilities</b>	<b>55,979,892</b>	<b>11,413,880</b>	<b>67,393,772</b>

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**Notes to Financial Statements – 31 December 2011**

**27 Segment Analysis (Continued)**

<i>In thousands of Tenge</i>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Total</b>
<b>2011</b>			
Interest income	5,923,800	278,429	6,202,229
Interest expense	(2,497,897)	(841,059)	(3,338,956)
<b>Net interest (expense)/income</b>	<b>3,425,903</b>	<b>(562,630)</b>	<b>2,863,273</b>
Provision for loan impairment	(1,903,786)	(16,653)	(1,920,439)
<b>Net interest (expense)/income after provision for loan portfolio impairment</b>	<b>1,522,117</b>	<b>(579,283)</b>	<b>942,834</b>
Fee and commission and other operating income	907,995	108,434	1,016,429
Fee and commission and other operating expense	(352,865)	(61,642)	(414,507)
<b>Total (expense)/revenue</b>	<b>2,077,247</b>	<b>(532,491)</b>	<b>1,544,756</b>

<i>In thousands of Tenge</i>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Total</b>
<b>Administrative and other operating expenses</b>			
Staff costs	(1,155,960)	(177,599)	(1,333,559)
Trainings	(1,130)	-	(1,130)
Depreciation and amortisation of premises and equipment	(101,172)	(59,000)	(160,172)
Rent of premises	(295,176)	(40,293)	(335,469)
Repair and maintenance of premises and equipment	(36,439)	(6,698)	(43,137)
Software maintenance	(19,683)	(18,773)	(38,456)
Insurance expenses	(14,650)	(361)	(15,011)
Utilities	(51,033)	(22,552)	(73,585)
Audit, consulting and legal serviced	(22,243)	(499)	(22,742)
Communication services	(37,230)	(11,197)	(48,427)
Business trip and representative expenses	(29,125)	(485)	(29,610)
Advertising and marketing services	(27,429)	(384)	(27,813)
Other general and administrative expenses	(87,383)	(8,632)	(96,015)
Taxes other than on income	(11,188)	(336)	(11,524)
Fines and penalties	(726)	-	(726)
Work with delinquent borrowers	(168,485)	-	(168,485)
Deposit insurance payments	-	(62,978)	(62,978)
<b>Segment result</b>	<b>18,195</b>	<b>(942,278)</b>	<b>(924,083)</b>

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**27 Segment Analysis (Continued)**

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

<i>In thousands of Tenge</i>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Total</b>
<b>Assets</b>			
Cash on hand and cash balances with NBRK	6,866,025	264,426	7,130,451
Correspondent accounts with other banks	5,411,765	-	5,411,765
Securities available for sale	499,052	-	499,052
Pledged deposits	201,912	-	201,912
Loans and advances to customers	44,196,311	1,808,704	46,005,015
Premises and equipment	826,484	467,367	1,293,851
<b>Total reportable segment assets</b>	<b>58,001,549</b>	<b>2,540,497</b>	<b>60,542,046</b>
<b>Liabilities</b>			
Other bank placements and customer accounts	41,384,143	9,557,519	50,941,662
Subordinated debt and issued securities	2,324,041	-	2,324,041
Other placements with the Bank	203,028	-	203,028
<b>Total reportable segment liabilities</b>	<b>43,911,212</b>	<b>9,557,519</b>	<b>53,468,731</b>

<i>In thousands of Tenge</i>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Total</b>
<b>2010</b>			
Interest income	7,671,474	541,074	8,212,548
Interest expense	(2,747,613)	(1,998,958)	(4,746,571)
<b>Net interest (expense)/income</b>	<b>4,923,861</b>	<b>(1,457,884)</b>	<b>3,465,977</b>
Provision for loan impairment	(5,028,809)	16,289	(5,012,520)
<b>Net interest (expense)/income after provision for loan portfolio impairment</b>	<b>(104,948)</b>	<b>(1,441,595)</b>	<b>(1,546,543)</b>
Fee and commission and other operating income	550,401	84,084	634,485
Fee and commission and other operating expense	(26,801)	(58,094)	(84,895)
<b>Total (expense)/revenue</b>	<b>418,652</b>	<b>(1,415,605)</b>	<b>(996,953)</b>

27 Segment Analysis (Continued)

<i>In thousands of Tenge</i>	Corporate banking	Retail banking	Total
<b>Administrative and other operating expenses</b>			
Staff costs	(1,028,064)	(191,773)	(1,219,837)
Trainings	(4,275)	-	(4,275)
Depreciation and amortisation of premises and equipment	(97,207)	(80,250)	(177,457)
Rent of premises	(295,252)	(47,492)	(342,744)
Repair and maintenance of premises and equipment	(15,084)	(297)	(15,381)
Software maintenance	(16,604)	(17,349)	(33,953)
Insurance expenses	(20,990)	(655)	(21,645)
Utilities	(53,233)	(8,756)	(61,989)
Audit, consulting and legal serviced	(15,072)	(467)	(15,539)
Communication services	(36,391)	(6,609)	(43,000)
Business trip and representative expenses	(34,883)	(326)	(35,209)
Advertising and marketing services	(5,011)	(8)	(5,019)
Other general and administrative expenses	(64,457)	(2,390)	(66,847)
Taxes other than on income	(61,267)	(8,010)	(69,277)
Fines and penalties	(8,386)	(988)	(9,374)
Work with delinquent borrowers	(117,902)	-	(117,902)
Deposit insurance payments	-	(147,693)	(147,693)
<b>Segment result</b>	<b>(1,455,426)</b>	<b>(1,928,668)</b>	<b>(3,384,094)</b>

The cash management is performed by the Treasury Department to support liquidity of the Bank as a whole. Related income and expense are associated with interbank placements and transactions on correspondent accounts.

**(d) Reconciliation of income and expenses, assets and liabilities for reportable segments:**

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
<b>Total reportable segment assets</b>	<b>72,903,621</b>	<b>60,542,046</b>
Deferred income tax asset	753,929	639,256
Current income tax prepayment	90,987	86,661
Other unallocated assets	1,642,102	593,732
<b>Total assets</b>	<b>75,390,639</b>	<b>61,861,695</b>
<b>Total reportable segment liabilities</b>	<b>67,393,772</b>	<b>53,468,731</b>
Other unallocated liabilities	140,968	183,241
<b>Total liabilities</b>	<b>67,534,740</b>	<b>53,651,972</b>

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**27 Segment Analysis (Continued)**

<i>In thousands of Tenge</i>	2011	2010
<b>Total segment result</b>	<b>(924,083)</b>	<b>(3,384,094)</b>
Foreign exchange translation gains less losses	(23,878)	14,583
Other operating income/(loss)	7,723	(4,595)
<b>Loss before tax</b>	<b>(940,238)</b>	<b>(3,374,106)</b>
Income tax benefit	115,212	675,689
<b>Total loss</b>	<b>(825,026)</b>	<b>(2,698,417)</b>

All revenues mainly come from Kazakhstani customers. All of the Bank's assets are located in Kazakhstan. Geographical segments of the Bank have been reported in Note 28 to these financial statements based on the physical location of the counterparty, i.e. based on economic risk rather than legal risk of the counterparty.

The Bank has no customers which represent ten percent or more of the total revenues generated in 2011 (2010: nil).

**28 Financial Risk Management**

The risk management framework at the Bank broadly covers credit risk, financial risk, operational risks and legal risks.

Financial risks consist of interest rate, currency, liquidity and refinancing risks. The objective of financial risk management is to reduce the impact of price fluctuations and other factors of uncertainty in financial markets on earnings, cash flows and balance sheet, as well as to ensure sufficient liquidity for the Bank. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise losses arising from operational and legal risks.

All risk management functions described below in the notes are supervised by the Management Board.

**Credit risk.** The Bank manages all of its businesses in a disciplined and conservative manner with a strict focus on maintaining close relationships with all clients. Its primary objective is to create a thorough, transparent and methodological approach to credit risk in order to better understand, select and dynamically manage credit exposures to deliver reduced earnings volatility. The strategy is to ensure strong central oversight of credit risk in each business, reinforcing a culture of accountability, independence and balance. The Credit Approval process takes place in various tiers, i.e. Corporate Banking and Consumer Banking. The Bank has implemented a process of delegation of authorities.

Policies and procedures have been updated in the form of manuals and product programs and these are reviewed at least annually.

A centralised Credit Administration Department and a Risk Monitoring unit have been established to ensure Regulatory Compliance and a close follow-up on all exposures. The Bank has its own credit rating system. The review process is capable of identifying problem loans at an early stage. A centralised Remedial Unit is responsible for the classified portfolio and its recovery.

## 28 Financial Risk Management (Continued)

Credit Risk is managed through a centralised infrastructure based on:

- The centralised approval of all credit risk and separate limits set to staff (credit officers) to issue loans.
- The fundamental principle that underlines the Bank's Credit approval policy is that no credit is extended on the judgment of one Officer alone. The joint credit approval process which involves a minimum of "3 initials system" combines individuals with different skills, expertise and experience to bring a balanced perspective to credit decisions.
- The establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with the credit approved, Risk Diversification policy, industry risk and group exposures.
- Obligor Risk Ratings (Internal Risk Rating system) to quantify the level of risk for each credit and facilitate its management. These models are reviewed on a regular basis to ensure ongoing appropriateness, accuracy and validity.
- The Bank has a very robust credit risk exposure monitoring process. The key element of this process is the Stock Monitoring Report which was developed at the Bank and has now been implemented across the portfolio. This report captures the key elements of the cash flows on a monthly basis and significant changes and deviations are escalated to senior levels. Other elements of this process of monitoring are quarterly credit review and monthly portfolio reviews, comprehensive reports on the portfolio to ensure that the credit portfolio is current, updated and all securities are legally enforceable. All these elements contribute towards making a Comprehensive Monitoring Process which is capable of providing early warning signals on any negative changes in an account.
- Maximum exposure to credit risk is reflected in the carrying amounts of current assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure is the amount of the commitment underwritten by the Bank. While assessing credit, the focus is on the cash flow of the borrower however security is also used to mitigate the risk.
- The Bank's risk management department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed further in these notes.

The credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of failure of the Obligor to perform in accordance with the terms of the contract. The Bank uses the same criteria in taking off balance sheet exposures as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 30.

In response to the deterioration in the loan portfolio, as a result of the economic crisis, the Bank revised the target market risk acceptance criteria for screening the potential clients and a greater emphasis is now being placed on corporate governance and credibility of the key shareholders/finance providers. As a result of the initiatives taken by the management during the last three years, the Bank has managed to contain its non-performing portfolio. The Bank has not added any new account to its non-performing loans and as a result of increase in the asset portfolio the non-performing loans stand at 28% of the Gross Portfolio as compared with 42% in the previous year. Provisions covering the non-performing loans were 56% at 31 December 2011 compared with 43% at 31 December 2010.

28 Financial Risk Management (Continued)

**Market risk.** Market risk is the risk of loss that results from changes in interest rate and foreign exchange rates, equity and commodity prices and credit spread.

At the Bank, the Asset-Liability Management Committee (ALCO), comprising senior management, is responsible for the supervision and management of market risk, while an independent middle office is responsible for measurement monitoring and analysis of risks inherent in treasury operations. Market risks arise from open positions in (a) currency and (b) interest rate products, all of which are exposed to general and specific market movements. Value at risk (VAR) limits are set for the treasury portfolio and these limits are monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of significant market movements.

**Currency risk.** In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Tenge</i>	31 December 2011				31 December 2010		
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Tenge	53,737,268	(48,086,144)	(1,768,180)	5,651,124	48,230,641	(42,201,589)	6,029,052
US Dollars	15,524,393	(17,460,974)	1,775,067	(1,936,581)	8,866,563	(9,167,322)	(300,759)
Euro	1,627,305	(1,347,137)	-	280,168	1,262,394	(1,262,725)	(331)
Pound Sterling	500,590	(502,101)	-	(1,511)	338,100	(337,813)	287
Russian Roubles	37,705	(37,737)	-	(32)	12,553	(13,667)	(1,114)
Swiss Franc	485	-	-	485	890	-	890
Japanese Yen	177	-	-	177	543,244	(543,163)	81
UAE Dirham	1,045	-	-	1,045	2,161	(22)	2,139
<b>Total</b>	<b>71,428,968</b>	<b>(67,434,093)</b>	<b>6,887</b>	<b>3,994,875</b>	<b>59,256,546</b>	<b>(53,526,301)</b>	<b>5,730,245</b>

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss to reasonably probable changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

<i>In thousands of Tenge</i>	31 December 2011		31 December 2010	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars strengthening by 5% (2010: 5%)	(3,787)	(3,787)	(15,038)	(15,038)
US Dollars weakening by 5% (2010: 5%)	3,787	3,787	15,038	15,038
Euro strengthening by 5% (2010: 5%)	(347)	(347)	(17)	(17)
Euro weakening by 5% (2010: 5%)	347	347	17	17
Pound Sterling strengthening by 5% (2010: 5%)	(71)	(71)	14	14
Pound Sterling weakening by 5% (2010: 5%)	71	71	(14)	(14)
Russian Rouble strengthening by 5% (2010: 5%)	24	24	(56)	(56)
Russian Rouble weakening by 5% (2010: 5%)	(24)	(24)	56	56
Swiss Franc strengthening by 5% (2010: 5%)	(2)	(2)	45	45
Swiss Franc weakening by 5% (2010: 5%)	2	2	(45)	(45)
Japanese Yen strengthening by 5% (2010: 5%)	7	7	4	4
Japanese Yen weakening by 5% (2010: 5%)	(7)	(7)	(4)	(4)
<b>Total strengthening</b>	<b>(4,176)</b>	<b>(4,176)</b>	<b>(15,048)</b>	<b>(15,048)</b>
<b>Total weakening</b>	<b>4,176</b>	<b>4,176</b>	<b>15,048</b>	<b>15,048</b>

## 28 Financial Risk Management (Continued)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank. The Bank's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year.

**Interest rate risk.** Interest rate risk is defined as exposure of the Bank's financial condition to adverse movements in interest rates. The Bank is exposed to the fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Bank applies gap analysis for interest rate risk management. The Bank combines financial assets and financial liabilities into periods of maturity or contractual repricing, whichever occurs earlier, and identifies the gap. The positive gap implies that increase in interest rates for this particular maturity would lead to increase of net interest income (decrease of interest rates would lead to decrease of net interest income). The negative gap implies that increase in interest rates for this particular maturity would lead to decrease of net interest income (decrease of interest rates would lead to increase of net interest income).

When interest rates are expected to increase the Bank increases maturity of borrowings; reduces fixed rate loans; reduces maturity of investment portfolio; disposes of securities; and recalls credit lines.

When interest rates are expected to decrease the Bank decreases maturity of borrowings; increases share of fixed rate loans; invests in securities with longer maturity; and extends credit lines.

To mitigate interest risk exposure the Bank includes provisions that envisage variable interest rates and early repayment into loan agreements; changes interest rates on deposits; may enter into swap and option agreements; and revises loan portfolio structure.

The table below summarises the model used by the Bank to monitor its exposure to interest rate risks at 31 December 2011 and 31 December 2010. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non- monetary	Total
<b>31 December 2011</b>						
Total financial assets	69,777,957	-	-	1,657,898	2,200	71,438,055
Total financial liabilities	(26,367,208)	(18,997,674)	(16,310,983)	(5,758,228)	-	(67,434,093)
<b>Net interest sensitivity gap at 31 December 2011</b>	<b>43,410,749</b>	<b>(18,997,674)</b>	<b>(16,310,983)</b>	<b>(4,100,330)</b>	<b>2,200</b>	<b>4,003,962</b>
<b>31 December 2010</b>						
Total financial assets	56,735,981	700,964	-	1,819,601	2,200	59,258,746
Total financial liabilities	(23,057,200)	(15,550,844)	(7,572,770)	(7,345,487)	-	(53,526,301)
<b>Net interest sensitivity gap at 31 December 2010</b>	<b>33,678,781</b>	<b>(14,849,880)</b>	<b>(7,572,770)</b>	<b>(5,525,886)</b>	<b>2,200</b>	<b>5,732,445</b>

The Bank also calculates the Earnings at Risk (EaR) which measures the potential pre-tax earnings impact on the non-trading portfolio for the given period of a specified parallel movement in interest rates. The Bank combines financial assets and liabilities at the end of the reporting period into groups with expected, rather than contractual, maturities or repricing periods. The Bank identifies gaps for maturities ranging from overnight to five years. The Bank applies possible shift in the interest rates to identified gaps and computes effect on the earnings.

At 31 December 2011, if interest rates at that date had been 200 basis points lower with all other variables held constant, profit for the year would have been Tenge 80,079 thousand higher, mainly as a result of lower interest expense on interest bearing liabilities.

## 28 Financial Risk Management (Continued)

At 31 December 2010, if interest rates at that date had been 200 basis points lower with all other variables held constant, profit for the year would have been Tenge 114,467 thousand higher, mainly as a result of lower interest expense on interest bearing liabilities.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

% p.a.	2011				2010			
	KZT	USD	Euro	Other	KZT	USD	Euro	Other
<b>Assets</b>								
Cash and cash equivalents	4.56	0.03	-	-	1.27	1.12	1.07	-
Loans and advances to customers	10.26	12.08	8.06	-	15.18	15.31	14.32	-
<b>Liabilities</b>								
Due to other banks	5.98	-	-	-	4.30	-	-	-
Customer accounts								
- current and settlement accounts	3.70	0.50	0.32	0.24	5.16	3.15	0.36	1.45
- term deposits	7.15	5.76	5.38	5.54	8.74	10.84	5.24	6.74
Other borrowed funds	-	-	-	-	0.45	-	-	-
Subordinated debt	11.10	-	-	-	9.27	-	-	-

The sign "-" in the table above means that the Bank does not have the respective material interest bearing assets or liabilities in corresponding currency.

There is a significant decrease in the average rate of interest on the loan portfolio. This is a reflection of price competition among banks to retain good customers and also the Bank's endeavour to book good quality new customers.

**Other price risk.** The Bank is exposed to prepayment risk through providing fixed and variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2010: no material impact). The Bank is not exposed to equity price risk, since transactions in equity products are not significant.

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28 Financial Risk Management (Continued)

**Geographical risk concentrations.** The geographical concentration of the Bank's financial assets at 31 December 2011 is set out below:

<i>In thousands of Tenge</i>	Kazakhstan	OECD	Other countries	Total
<b>Assets</b>				
Cash and cash equivalents	9,068,286	5,632,068	38,597	14,738,951
Due from other banks	-	-	136,587	136,587
Loans and advances to customers	56,525,333	20,147	-	56,545,480
Other financial assets	16,502	535	-	17,037
<b>Total financial assets</b>	<b>65,610,121</b>	<b>5,652,750</b>	<b>175,184</b>	<b>71,438,055</b>
<b>Non-financial assets</b>	<b>3,932,820</b>	<b>19,764</b>	<b>-</b>	<b>3,952,584</b>
<b>Total assets</b>	<b>69,542,941</b>	<b>5,672,514</b>	<b>175,184</b>	<b>75,390,639</b>
<b>Liabilities</b>				
Due to other banks	1,669,132	-	-	1,669,132
Customer accounts	61,916,939	766,113	2	62,683,054
Other financial liabilities	37,696	2,625	-	40,321
Subordinated debt	3,040,668	918	-	3,041,586
<b>Total financial liabilities</b>	<b>66,664,435</b>	<b>769,656</b>	<b>2</b>	<b>67,434,093</b>
<b>Non-financial liabilities</b>	<b>100,647</b>	<b>-</b>	<b>-</b>	<b>100,647</b>
<b>Total liabilities</b>	<b>66,765,082</b>	<b>769,656</b>	<b>2</b>	<b>67,534,740</b>
<b>Net balance sheet position</b>	<b>2,777,859</b>	<b>4,902,858</b>	<b>175,182</b>	<b>7,855,899</b>
<b>Credit related commitments (Note 30)</b>	<b>9,877,983</b>	<b>-</b>	<b>-</b>	<b>9,877,983</b>

**28 Financial Risk Management (Continued)**

The geographical concentration of the Bank's financial liabilities at 31 December 2010 is set out below:

<i>In thousands of Tenge</i>	Kazakhstan	OECD	Other countries	Total
<b>Assets</b>				
Cash and cash equivalents	8,257,734	4,769,678	13,856	13,041,268
Due from other banks	-	201,912		201,912
Loans and advances to customers	45,964,594	40,421	-	46,005,015
Other financial assets	10,551	-	-	10,551
<b>Total financial assets</b>	<b>54,232,879</b>	<b>5,012,011</b>	<b>13,856</b>	<b>59,258,746</b>
<b>Non-financial assets</b>	<b>2,598,179</b>	<b>4,770</b>	<b>-</b>	<b>2,602,949</b>
<b>Total assets</b>	<b>56,831,058</b>	<b>5,016,781</b>	<b>13,856</b>	<b>61,861,695</b>
<b>Liabilities</b>				
Due to other banks	203,028	-	-	203,028
Customer accounts	50,265,367	676,293	2	50,941,662
Other financial liabilities	53,583	3,987	-	57,570
Subordinated debt	2,323,079	962	-	2,324,041
<b>Total financial liabilities</b>	<b>52,845,057</b>	<b>681,242</b>	<b>2</b>	<b>53,526,301</b>
<b>Non-financial liabilities</b>	<b>125,470</b>	<b>201</b>	<b>-</b>	<b>125,671</b>
<b>Total liabilities</b>	<b>52,970,527</b>	<b>681,443</b>	<b>2</b>	<b>53,651,972</b>
<b>Net balance sheet position</b>	<b>3,860,531</b>	<b>4,335,338</b>	<b>13,854</b>	<b>8,209,723</b>
<b>Credit related commitments (Note 30)</b>	<b>16,147,318</b>	<b>-</b>	<b>-</b>	<b>16,147,318</b>

Assets, liabilities and credit related commitments have generally been based in the country in which the counterparty is located. Balances with Kazakhstan counterparties actually outstanding to/from off-shore companies of these Kazakhstan counterparties are allocated to the caption "Kazakhstan". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

**Other risk concentrations.** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10 percent of net assets. Refer to Note 9.

**Liquidity risk.** Liquidity risk is the risk that an institution is unable to generate sufficient cash or its equivalent – in a timely and cost-effective manner to meet its commitments as they become due. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by ALCO at the Bank.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

**28 Financial Risk Management (Continued)**

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short – term deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity position is monitored on a daily basis while liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed quarterly by the Market Risk Department.

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, gross loan commitments, and interest payments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the latter is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

A significant portion of deposits are with a maturity of less than one month. Deposits with a maturity longer than 1 month (Term Deposits) have a specific structure envisaged in the deposit agreements. Any withdrawal of deposits before the agreed date entails a penalty in favour of the Bank. The assessable penalty makes withdrawal of deposits before the agreed date economically unfavourable.

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Liabilities</b>					
Due to other banks	-	1,699,868	-	-	1,699,868
Customer accounts	26,160,015	17,577,705	13,865,756	6,004,551	63,608,027
Other financial liabilities	40,321	-	-	-	40,321
Subordinated debt	-	157,181	1,407,760	2,590,000	4,154,941
Credit related commitments	49,612	1,216,748	1,632,088	6,979,535	9,877,983
<b>Total potential future payments</b>	<b>26,249,948</b>	<b>20,651,502</b>	<b>16,905,604</b>	<b>15,574,086</b>	<b>79,381,140</b>

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Liabilities</b>					
Due to other banks	-	205,528	-	-	205,528
Customer accounts	23,000,763	15,689,258	8,061,895	5,702,047	52,453,963
Other financial liabilities	57,570	-	-	-	57,570
Subordinated debt	-	112,245	112,144	3,838,854	4,063,243
Credit related commitments	1,145,433	3,778,944	681,158	10,541,783	16,147,318
<b>Total potential future payments</b>	<b>24,203,766</b>	<b>19,785,975</b>	<b>8,855,197</b>	<b>20,082,684</b>	<b>72,927,622</b>

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**28 Financial Risk Management (Continued)**

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2011:

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Assets</b>					
Cash and cash equivalents	13,117,413	-	-	1,622,000	14,739,413
Due from other banks	136,587	-	-	-	136,587
Loans and advances to customers	-	-	-	56,545,000	56,545,000
Other financial assets	17,000	-	-	-	17,000
<b>Total financial assets</b>	<b>13,271,000</b>	<b>-</b>	<b>-</b>	<b>58,167,000</b>	<b>71,438,000</b>
<b>Liabilities</b>					
Due to other banks	-	1,669,000	-	-	1,669,000
Customer accounts	15,805,979	-	-	46,877,000	62,682,979
Other financial liabilities	40,021	-	-	-	40,021
Subordinated debt	-	-	3,042,000	-	3,042,000
<b>Total financial liabilities</b>	<b>15,846,000</b>	<b>1,669,000</b>	<b>3,042,000</b>	<b>46,877,000</b>	<b>67,434,000</b>
<b>Net liquidity gap</b>	<b>(2,575,000)</b>	<b>(1,669,000)</b>	<b>(3,042,000)</b>	<b>11,290,000</b>	<b>4,004,000</b>
<b>Cumulative liquidity gap at 31 December 2011</b>	<b>(2,575,000)</b>	<b>(4,244,000)</b>	<b>(7,286,000)</b>	<b>4,004,000</b>	<b>-</b>

The analysis by expected maturity can be summarised as follows at 31 December 2010:

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Assets</b>					
Cash and cash equivalents	12,280,000	-	-	761,000	13,041,000
Due from other banks	26,000	176,000	-	-	202,000
Loans and advances to customers	2,385,000	-	-	43,620,000	46,005,000
Other financial assets	-	-	9,000	2,000	11,000
<b>Total financial assets</b>	<b>14,691,000</b>	<b>176,000</b>	<b>9,000</b>	<b>44,383,000</b>	<b>59,259,000</b>
<b>Liabilities</b>					
Due to other banks	-	203,000	-	-	203,000
Customer accounts	8,264,000	-	-	42,678,000	50,942,000
Other financial liabilities	58,000	-	-	-	58,000
Subordinated debt	-	-	-	2,324,000	2,324,000
<b>Total financial liabilities</b>	<b>8,322,000</b>	<b>203,000</b>	<b>-</b>	<b>45,002,000</b>	<b>53,527,000</b>
<b>Net liquidity gap</b>	<b>6,369,000</b>	<b>(27,000)</b>	<b>9,000</b>	<b>(619,000)</b>	<b>5,732,000</b>
<b>Cumulative liquidity gap at 31 December 2010</b>	<b>6,369,000</b>	<b>6,342,000</b>	<b>6,351,000</b>	<b>5,732,000</b>	<b>-</b>

## 28 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank sets limits on liquidity gap, which allow these negative gaps. The Bank accepts the following assumptions in order to monitor liquidity in a more realistic way (business as usual situation):

- Loan portfolio is long term based on assumption of continued short-term loan rollover basis in the 'business as usual' environment. Committed lines and unused overdrafts are also included.
- Foreign exchange swaps/forwards impact future cash flow in a particular currency. The overall liquidity position will not be affected.
- Current accounts are split between stable and unstable based on volatility analysis of the daily balances for the last 12 months for each currency. Volatility calculation is performed monthly. The amount of stable balances is updated accordingly.
- Term deposits are a substantial part of funding. Contractual schedule will be ignored except for large fund providers. Instead the Bank will run volatility analysis of daily balances for the last 12 months to determine stable balances.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Should the Bank face a significant unexpected liquidity gap, Management will apply to the Bank's shareholders for financing required to support the Bank's liquidity. Management believes that shareholders will be able to provide requested financing. Management carefully monitors the Bank's liquidity and believes that significant liquidity gaps are unlikely.

## 29 Management of Capital

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the NBRK, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a strong capital base to support the development of its business. The Bank considers total capital under management to be equity as shown in the consolidated the statement of financial position. The amount of capital that the Bank managed as of 31 December 2011 was Tenge 7,855,899 thousand (31 December 2010: Tenge 8,209,723 thousand).

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's Management, employing techniques based on the guidelines developed by the NBRK for supervisory purposes. The required information is filed with the NBRK on a monthly basis.

The Bank's regulatory capital is managed by the Bank's Asset and Liability Committee. The regulatory capital is divided into two tiers:

Tier 1 capital: capital (net of any book values of the treasury shares), additional capital, retained earnings and reserves created by appropriations of retained earnings of previous period, perpetual agreements. The book value of intangible assets (except for licensed software), previous and this period's losses are deducted in arriving at Tier 1 capital; and

Tier 2 capital: current period net profits, qualifying subordinated loan capital and perpetual instruments, collective impairment allowances and unrealised gains arising on the fair valuation of fixed assets and securities.

Under the current capital requirements set by the NBRK, banks have to maintain a ratio of Tier 1 capital to total assets (K1-1) of not less than 6 percent (2010: 6 percent), a ratio of total regulatory capital to risk weighted assets (K2) of not less than 12 percent (2010: 12 percent) and a ratio of Tier 1 capital to risk weighted assets (K1-2) of not less than 9 percent (2010: 6 percent).

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**29 Management of Capital (Continued)**

Regulatory capital is based on the Bank's reports prepared under the NBRK's accounting standards and comprises:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
<b>Tier 1 capital</b>		
Share capital	8,905,667	8,434,465
Reserves	1,232,129	1,232,477
Retained earnings of prior years	(3,358,667)	(2,461,362)
<b>Total Tier 1 capital</b>	<b>6,779,129</b>	<b>7,205,580</b>
<b>Tier 2 capital</b>		
Revaluation	-	194
Subordinated debt	2,698,093	2,600,415
<b>Total Tier 2 capital</b>	<b>2,698,093</b>	<b>2,600,609</b>
<b>Total regulatory capital</b>	<b>9,477,222</b>	<b>9,806,189</b>

In 2010 – 2011, the Bank experienced high net provisioning losses which decreased the own capital level. As a result during 2011, the Bank attracted capital in the amount of Tenge 499,876 by issuing new shares. In 2012, the Bank expects additional capital injection through placement of additional shares to main shareholders, which will increase Tier 1 capital to Tenge 2,940,124 thousand and placement of subordinated convertible bonds to one of the shareholders, which will increase Tier 2 capital to Tenge 943,863 thousand. Please refer to the Note 35.

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

The Bank's K1-1, K1-2 and K2 ratios were:

	31 December 2011	31 December 2010
K1 - 1	9.00%	11.25%
K1 - 2	9.93%	12.41%
K2	13.88%	16.89%

The Bank has requirements set by the NBRK as noted above, to maintain minimum ratio in respect of its regulatory capital.

**30 Contingencies and Commitments**

**Tax legislation.** The tax and customs legislation within the Republic of Kazakhstan is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. The Kazakhstani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Republic of Kazakhstan and the changes in the approach of the Kazakhstani tax authorities, that such transfer prices could be challenged. Given the brief nature of the current transfer pricing rules of Kazakhstan, the impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and/or the overall operations of the entity.

### 30 Contingencies and Commitments (Continued)

Kazakhstan tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

**Capital expenditure commitments.** At 31 December 2011 the Bank has no contractual capital expenditure commitments in respect of premises and equipment or in respect of software and other intangible assets (31 December 2010: nil).

**Operating lease commitments.** Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Not later than 1 year	342,804	318,268
Later than 1 year and not later than 5 years	1,317,769	66,826
<b>Total operating lease commitments</b>	<b>1,660,573</b>	<b>385,094</b>

The most significant operating lease relates to the rental of the Bank's head office in Almaty. The lease expires on 31 October 2016.

**Compliance with covenants.** The Bank is not subject to any covenants.

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Undrawn credit lines represent unused portions of credit facilities approved for which credit agreements have been signed with clients. The Bank does not have a legal commitment to extend unused credit lines.

Commitments to extend credit represent the Bank's unconditional commitment to extend credit to clients.

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Undrawn credit lines	8,996,801	14,232,141
Guarantees issued	881,182	1,649,712
Import letters of credit	-	265,465
<b>Total commitments and undrawn credit lines</b>	<b>9,877,983</b>	<b>16,147,318</b>

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was Tenge 41,057 thousand at 31 December 2011 (31 December 2010: Tenge 62,140 thousand).

**30 Contingencies and Commitments (Continued)**

Credit related commitments are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Tenge	9,356,654	13,618,315
US Dollars	519,871	2,402,975
Euro	1,458	126,028
<b>Total</b>	<b>9,877,983</b>	<b>16,147,318</b>

**31 Derivative Financial Instruments**

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair value, at 31 December 2011 (31 December 2010: nil), of currencies receivable or payable under foreign currency swap contract entered into by the Bank. The table reflects gross position before the netting of any counterparty position (and payment) and covers the contract with settlement date after the respective reporting date. The contract is short-term in nature.

<i>In thousands of Tenge</i>	Contract with positive fair value
Foreign exchange swap: fair values, at the end of the reporting period, of	
- USD receivable on settlement (+)	1,775,067
- KZT payable on settlement (-)	(1,768,180)
<b>Net fair value of foreign exchange swap</b>	<b>6,887</b>

## 32 Fair Value of Financial Instruments

### (a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

<i>In thousands of Tenge</i>	31 December 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
<b>FINANCIAL ASSETS</b>				
<b>Cash and cash equivalents</b>				
Cash on hand	611,280	611,280	523,054	523,054
Cash balances with the NBRK (other than mandatory reserve deposits)	6,135,706	6,135,706	5,846,274	5,846,274
Mandatory cash balances with the NBRK	1,718,684	1,718,684	761,123	761,123
Correspondent accounts and overnight placements with other banks	6,273,281	6,273,281	5,411,765	5,411,765
NBRK notes with original maturities of less than three months	-	-	499,052	499,246
<b>Due from other banks</b>				
Placements with other banks with original maturity of more than three months	136,587	136,587	201,912	201,912
<b>Loans and advances to customers</b>				
Corporate loans	54,896,217	54,717,099	44,204,372	44,204,372
Consumer loans	1,132,162	1,132,162	1,441,965	1,441,965
Mortgage loans	517,101	517,101	358,678	279,529
<b>Other financial assets</b>				
Restricted cash held with market makers	6,882	6,882	7,036	7,036
Fee and commission income receivable	1,068	1,068	1,315	1,315
<b>Total financial assets carried at amortised cost</b>	<b>71,428,968</b>	<b>71,249,850</b>	<b>59,256,546</b>	<b>59,177,591</b>

<i>In thousands of Tenge</i>	31 December 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
<b>FINANCIAL LIABILITIES</b>				
<b>Due to other banks</b>				
Short-term placements with other local banks	1,669,132	1,669,132	203,028	203,028
<b>Customer accounts</b>				
Current/settlement accounts of state and public organisations	8,043,019	8,043,019	7,825,313	7,825,313
Term deposits of state and public organisations	17,147,697	17,147,697	17,813,539	17,813,539
Current/settlement accounts of other legal entities	18,043,493	18,043,493	8,139,760	8,139,760
Term deposits of other legal entities	8,034,243	8,034,243	7,605,532	7,605,532
Current/settlement accounts of individuals	737,263	737,263	616,959	616,959
Term deposits of individuals	10,677,339	10,677,339	8,940,559	8,940,559
<b>Other financial liabilities</b>				
Operating expense accruals	37,696	37,696	54,136	54,136
Fee and commission payable	2,625	2,625	3,434	3,434
<b>Other borrowed funds</b>				
Subordinated debt	3,040,668	3,224,303	2,323,125	2,455,459
Convertible bonds	918	918	916	916
<b>Total financial liabilities carried at amortised cost</b>	<b>67,434,093</b>	<b>67,617,728</b>	<b>53,526,301</b>	<b>53,658,635</b>

### 32 Fair Value of Financial Instruments (Continued)

Corporate loans were granted by the Bank at the rates similar to the market with an adjustment to a credit risk associated with a borrower on arm length basis; therefore it is considered the carrying value of such loans is equal to their fair value.

**(b) Analysis by fair value hierarchy of financial instruments carried at fair value.**

Effective 1 January 2009, the Bank adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

In the current year the Bank has no financial instruments carried at fair value, except derivatives mainly represented by forward and swap deals. As of the 31 December 2011 all derivatives were presented by assets of Tenge 1,775,067 thousand and liabilities of Tenge 1,768,180 thousand (31 December 2010: nil).

Gains and losses on derivatives are included in net gain/loss from forward and swap deals.

**(c) Reconciliation of movements in instruments belonging to level 3 of the fair value hierarchy.**

No derivatives were included as Level 3 instruments since they are traded in an active market.

**(d) The methods and assumptions applied in determining fair values.**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value is best evidenced by an active quoted market price of the instrument. Where quoted market prices are not available, the Bank uses valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The total net fair value gain estimated using valuation techniques that was recognised in profit or loss amounts was nil for 2011 (2010: nil).

Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

**Loans and receivables carried at amortised cost.** Fair value of floating rate instruments is usually equal to their carrying value. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. Analysis of these discount rates is presented below:

<i>In thousands of Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<i>Loans and advances to customers</i>		
Corporate loans	10% - 25% p.a.	10% - 25% p.a.
Consumer loans	10% - 28% p.a.	10% - 28% p.a.
Mortgage loans	6.5% - 16% p.a.	6.5% - 16% p.a.

For loans and advances to customers, fair value incorporates expected future losses while the carrying value (amortised cost and related impairment) includes only incurred losses at the end of the reporting period.

### 32 Fair Value of Financial Instruments (Continued)

**Liabilities carried at amortised cost.** The fair value of subordinated debt and notes issued on the domestic market is based on quoted market prices. The estimated fair value of unquoted fixed interest rate instruments with stated maturity is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or prior notice ("liabilities repayable on demand") is determined as an amount payable on demand discounted over the period starting from the first date of a potential claim for repayment. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 4 percent per annum to 14 percent per annum (2010: from 4 percent per annum to 14 percent per annum).

### 33 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, the Bank classifies its financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The table below provides a reconciliation of financial assets with the measurement categories above at 31 December 2011:

<i>In thousands of Tenge</i>	Loans and receivables	At cost	Total
<b>ASSETS</b>			
<b>Cash and cash equivalents</b>			
- Cash on hand	611,280	-	611,280
- Cash balances with the NBRK (other than mandatory reserve deposits)	6,135,706	-	6,135,706
- Mandatory cash balances with the NBRK	1,718,684	-	1,718,684
- Correspondent accounts and overnight placements with other banks	6,273,281	-	6,273,281
<b>Due from other banks</b>	136,587	-	136,587
<b>Loans and advances to customers</b>			
- Corporate loans	54,896,217	-	54,896,217
- Consumer loans	1,132,162	-	1,132,162
- Mortgage loans	517,101	-	517,101
<b>Other financial assets</b>			
- Restricted cash held with market makers	6,882	-	6,882
- Fee and commission income receivable	1,068	-	1,068
- Investments in stock exchange	-	2,200	2,200
<b>TOTAL FINANCIAL ASSETS</b>	<b>71,428,968</b>	<b>2,200</b>	<b>71,431,168</b>

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**33 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)**

The following table provides a reconciliation of financial assets with the measurement categories above at 31 December 2010:

<i>In thousands of Tenge</i>	<b>Loans and receivables</b>	<b>At cost</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Cash and cash equivalents</b>			
- Cash on hand	523,054	-	<b>523,054</b>
- Cash balances with the NBRK (other than mandatory reserve deposits)	5,846,274	-	<b>5,846,274</b>
- Mandatory cash balances with the NBRK	761,123	-	<b>761,123</b>
- Correspondent accounts and overnight placements with other banks	5,411,765	-	<b>5,411,765</b>
- NBRK notes with original maturities of less than three months	499,052	-	<b>499,052</b>
<b>Due from other banks</b>	<b>201,912</b>	<b>-</b>	<b>201,912</b>
<b>Loans and advances to customers</b>			
- Corporate loans	44,204,372	-	<b>44,204,372</b>
- Consumer loans	1,441,965	-	<b>1,441,965</b>
- Mortgage loans	358,678	-	<b>358,678</b>
<b>Other financial assets</b>			
- Restricted cash held with market makers	7,036	-	7,036
- Fee and commission income receivable	1,315	-	1,315
- Investments in stock exchange	-	2,200	2,200
<b>TOTAL FINANCIAL ASSETS</b>	<b>59,256,546</b>	<b>2,200</b>	<b>59,258,746</b>

All of the Bank's financial assets except for derivatives and investments in stock exchange are carried at amortised cost as at 31 December 2011 and 31 December 2010. Derivatives belong to the financial assets at fair value with allocation of revaluation results to financial results. Investments in stock exchange do not have a quoted market price in an active market and their fair value cannot be reliably measured, therefore they are measured at cost

All liabilities in the statement of financial position are recorded at amortised cost.

**34 Related Party Transactions**

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2011 and 31 December 2010 the Bank was jointly controlled by its shareholders. Entities under common control are those which are controlled both directly and indirectly by Bank's shareholders.

At 31 December 2011, the outstanding balances with related parties were as follows:

<i>In thousands of Tenge</i>	<b>Main shareholders</b>	<b>Key management personnel</b>	<b>Entities under common control</b>
<b>Assets</b>			
Gross amount of loans and advances (7-15% p.a.)	259,359	67,014	161,831
<b>Liabilities</b>			
Customer accounts (3-8% p.a.)	1,201,528	182,066	6,719,090

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**34 Related Party Transactions (Continued)**

The income and expense items with related parties for 2011 were as follows:

<i>In thousands of Tenge</i>	Main shareholders	Key management personnel	Entities under common control
Interest income	45,282	3,356	93,669
Interest expense	27,109	12,943	77,642
Administrative and other operating expenses	2,222	-	293,622

Aggregate amounts lent to and repaid by related parties during 2011 were as follows:

<i>In thousands of Tenge</i>	Main shareholders	Key management personnel	Entities under common control
Amounts lent to related parties during the period	147,855	11,976	1,501,229
Amounts repaid by related parties during the period	49,655	4,498	1,899,438

At 31 December 2010, the outstanding balances with related parties were as follows:

<i>In thousands of Tenge</i>	Main shareholders	Key management personnel	Entities under common control
<b>Assets</b>			
Gross amount of loans and advances (7-15% p.a.)	163,903	95,236	638,595
<b>Liabilities</b>			
Customer accounts (3-8% p.a.)	77,091	406,628	1,005,739

The income and expense items with related parties for 2010 were as follows:

<i>In thousands of Tenge</i>	Main shareholders	Key management personnel	Entities under common control
Interest income	22,946	8,093	80,813
Interest expense	4,742	28,503	27,328
Administrative and other operating expenses	1,112	-	275,066

Aggregate amounts lent to and repaid by related parties during 2010 were as follows:

<i>In thousands of Tenge</i>	Main shareholders	Key management personnel	Entities under common control
Amounts lent to related parties during the period	219,694	-	1,591,914
Amounts repaid by related parties during the period	101,894	108,922	1,408,390

### 34 Related Party Transactions (Continued)

Key management compensation is presented below:

<i>In thousands of Tenge</i>	2011		2010	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	147,409	-	222,948	-
- Short-term bonuses	24,893	1,575	60,670	3,782
<b>Total</b>	<b>172,302</b>	<b>1,575</b>	<b>283,618</b>	<b>3,782</b>

Short-term bonuses fall due to a full extent within twelve months after the end of the period in which management rendered the related services.

### 35 Events After the End of the Reporting Period

To further strengthen the equity of the Bank, the shareholders made additional capital injections of Tenge 2,362,964 thousand in three installments: on 30 March 2012 - Mr. Dosaev E.A. (Tenge 371,684 thousand), Mr. Kaniyev B.S. (Tenge 377,324 thousand) and Mr. Pak Yu.E. (Tenge 414,666 thousand); on 17 April 2012 - Citigroup Venture Capital International (Tenge 629,290 thousands); and on 17 April 2012 - European Bank for Reconstruction and Development (Tenge 570,000 thousands). Refer to Note 29.