

Development Bank of Kazakhstan JSC

Unaudited Consolidated Interim
Condensed Financial Statements

for the Six-Month Period ended 30 June 2011

Contents

Independent Auditors' Report on review of Consolidated Interim Condensed Financial Information	
Consolidated Interim Condensed Statement of Comprehensive Income	4
Consolidated Interim Condensed Statement of Financial Position	5
Consolidated Interim Condensed Statement of Cash Flows	6-7
Consolidated Interim Condensed Statement of Changes in Equity	8-9
Notes to the Consolidated Interim Condensed Financial Statements	10-21



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Independent Auditors' Report on review of Consolidated Interim Condensed Financial Information

To the Board of Directors and the Management Board of Development Bank of Kazakhstan JSC

Introduction


We have reviewed the accompanying consolidated interim condensed statement of financial position of Development Bank of Kazakhstan JSC (the "Bank") and its subsidiary (the "Group") as at 30 June 2011, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

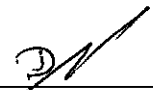
Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2011 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.


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


Alun Bowen
Managing Partner

KPMG Audit LLC

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


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

31 August 2011


Development Bank of Kazakhstan JSC
Consolidated Interim Condensed Statement of Comprehensive Income for the six-month period ended 30 June 2011

	Note	Unaudited Six-month period ended 30 June 2011 '000 KZT	Unaudited Six-month period ended 30 June 2010 '000 KZT
Interest income	4	25,985,735	26,743,503
Interest expense	4	(16,359,105)	(14,457,095)
Net interest income		9,626,630	12,286,408
Fee and commission income		103,625	97,321
Fee and commission expense	11	(2,442,900)	(43,490)
Net fee and commission (expense)/income		(2,339,275)	53,831
Net foreign exchange gain/(loss)		1,069,369	(420,242)
Net realised (loss)/gain on available-for-sale assets		(200,136)	371,293
Net (loss)/gain on derivative financial instruments		(858,608)	161,441
Gain on repurchase of debt securities issued		46,017	246,712
Other income, net		18,849	399,209
Operating income		7,362,846	13,098,652
Impairment losses	5	(21,114,314)	(5,640,340)
General administrative expenses		(1,593,726)	(1,370,003)
(Loss)/profit before taxes		(15,345,194)	6,088,309
Income tax benefit/(expense)	6	2,307,719	(2,638,636)
(Loss)/profit for the period		(13,037,475)	3,449,673
Other comprehensive income			
Net change in fair value of available-for-sale assets		(21,048,224)	(1,477,057)
Net change in fair value of available-for-sale assets transferred to profit and loss		11,250	(445,903)
Net unrealised gains/(losses) on hedging instruments, net of tax of KZT (11,094) thousand (2010: KZT 31,528 thousand)		44,379	(148,633)
Other comprehensive income for the period, net of tax		(20,992,595)	(2,071,593)
Total comprehensive (loss)/profit for the period		(34,030,070)	1,378,080

The consolidated interim condensed financial statements as set out on pages 4 to 21 were approved by the Management Board on 31 August 2011 and were signed on its behalf by:



 Orumbayev Ardak Siyazbekovich
 Acting Chairman of the Management Board


 Dyussupova Gulmira Vladimirovna
 Acting Chief Accountant

Development Bank of Kazakhstan JSC
Consolidated Interim Condensed Statement of Financial Position as at 30 June 2011

	Note	Unaudited 30 June 2011 '000 KZT	31 December 2010 '000 KZT
ASSETS			
Cash and cash equivalents		219,357,614	198,229,869
Placements with banks and other financial institutions		16,328,389	25,030,901
Amounts receivable under reverse repurchase agreements		31,078,779	33,194,707
Loans to customers	7	276,915,234	320,890,895
Finance lease receivables		25,098,493	24,565,877
Available-for-sale assets			
- Held by the Group	8	296,127,578	335,703,432
- Pledged under repurchase agreements	8	25,912,874	-
- Pledged under foreign currency swap	8	1,951,087	2,931,290
Held-to-maturity investments	9	2,834,654	2,707,099
Equipment and intangible assets		243,139	190,157
Advances for finance leases		240,946	333,124
Assets to be transferred under finance lease agreements		1,230,219	1,411,789
Other assets		6,229,117	6,732,447
Current tax asset		187,024	188,248
Deferred tax assets		8,372,083	6,058,441
Derivative financial instruments	10	245,910	442,500
Total assets		912,353,140	958,610,776
LIABILITIES			
Current accounts and deposits from customers		2,020,551	1,706,272
Loans from the Government of the Republic of Kazakhstan		24,752,741	24,023,328
Loan from the Parent Company		2,499,240	2,420,070
Loans from banks and other financial institutions	11	443,487,276	517,302,044
Government grants		11,098,495	11,133,326
Amounts payable under repurchase agreements	12	20,403,748	-
Debt securities issued	13	162,046,335	117,706,938
Subordinated debt	14	4,948,447	4,542,761
Other liabilities		3,873,031	4,428,201
Derivative financial instruments	10	6,609,135	7,466,820
Total liabilities		681,738,999	690,729,760
EQUITY			
Share capital		255,975,958	255,975,958
Reserve capital		17,712,311	17,712,311
Hedging reserve		(298,490)	(342,869)
Revaluation reserve for available-for-sale assets		15,631,483	36,668,457
Retained earnings		(58,407,121)	(42,132,841)
Total equity		230,614,141	267,881,016
Total liabilities and equity		912,353,140	958,610,776

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 21.

	Unaudited Six-month period ended 30 June 2011 '000 KZT	Unaudited Six-month period ended 30 June 2010 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	21,850,249	14,927,728
Interest payments	(17,719,154)	(9,560,176)
Fee and commission receipts	286,626	154,788
Fee and commission payments	(1,524,335)	(72,306)
Net receipts from foreign exchange	237,646	483,235
Net receipts/(payments) from derivative financial instruments	132,365	(16,288)
Other receipts, net	25,240	257,139
General and administrative payments	(1,619,907)	(1,396,740)
	1,668,730	4,777,380
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	8,834,130	(5,561,203)
Amounts receivable under reverse repurchase agreements	3,188,004	-
Loans to customers	24,294,394	(69,294,325)
Finance lease receivables	(3,459,469)	1,038,667
Advances for finance lease	92,178	(2,314,984)
Assets to be transferred under finance lease agreements	60,515	(1,002,868)
Derivative financial instruments	37,587	(1,086)
Other assets	31,122	576,924
Increase/(decrease) in operating liabilities		
Loans from the Government of the Republic of Kazakhstan	704,333	(931,416)
Loans from the Parent Company	-	5,000,000
Loans from banks and other financial institutions	(68,547,483)	60,810,331
Current accounts and deposits from customers	343,893	(42,768,870)
Amounts payable under repurchase agreements	20,377,000	-
Other liabilities	(449,858)	959
Net cash used in operating activities before taxes paid	(12,824,924)	(49,670,491)
Income tax paid	(17,017)	(33,332)
Cash flows used in operating activities	(12,841,941)	(49,703,823)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment and intangible assets	(102,681)	(30,059)
Disposal of equipment and intangible assets	2,196	-
Acquisition of held-to-maturity investments	(2,084,395)	-
Acquisition of available-for-sale assets	(39,678,264)	(62,802,477)
Disposal and redemption of available-for-sale assets	31,325,172	50,247,984
Cash flows used in investing activities	(10,537,972)	(12,584,552)

Development Bank of Kazakhstan JSC
Consolidated Interim Condensed Statement of Cash Flows for the six-month period ended 30 June 2011

	Unaudited Six-month period ended 30 June 2011 '000 KZT	Unaudited Six-month period ended 30 June 2010 '000 KZT
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subordinated debt issued	2,084,395	4,606,146
Other distributions	(2,962,906)	(1,567,267)
Proceeds from debt securities issued	46,696,592	-
Repurchase of debt securities issued	(907,290)	(1,828,681)
Cash flows from financing activities	44,910,791	1,210,198
Effects of exchange rate changes on cash and cash equivalents	(403,133)	(798,145)
Net increase/(decrease) in cash and cash equivalents	21,127,745	(61,876,322)
Cash and cash equivalents at the beginning of the period	198,229,869	293,316,214
Cash and cash equivalents at the end of the period	219,357,614	231,439,892

Development Bank of Kazakhstan JSC
Consolidated Interim Condensed Statement of Changes in Equity for the six-month period ended 30 June 2011

	Share capital '000 KZT	Reserve capital '000 KZT	Hedging reserve '000 KZT	Revaluation reserve for available-for-sale assets '000 KZT	Retained earnings '000 KZT	Total equity '000 KZT
Balance at 1 January 2010	255,975,958	17,666,734	(847,701)	36,064,330	(39,817,384)	269,041,937
Profit for the period (unaudited)	-	-	-	-	3,449,673	3,449,673
Other comprehensive income						
Net change in fair value of available-for-sale assets (unaudited)	-	-	-	(1,477,057)	-	(1,477,057)
Net change in fair value of available-for-sale assets transferred to profit or loss (unaudited)	-	-	-	(445,903)	-	(445,903)
Net unrealised loss on hedging instruments , net of tax of KZT 31,528 thousand (unaudited)	-	-	(148,633)	-	-	(148,633)
Total comprehensive profit for the period (unaudited)	-	-	(148,633)	(1,922,960)	3,449,673	1,378,080
Other distributions (unaudited)	-	-	-	-	(1,937,318)	(1,937,318)
Transfer to reserve capital (unaudited)	-	45,577	-	-	(45,577)	-
Balance at 30 June 2010 (unaudited)	255,975,958	17,712,311	(996,334)	34,141,370	(38,350,606)	268,482,699

Development Bank of Kazakhstan JSC
Consolidated Interim Condensed Statement of Changes in Equity for the six-month period ended 30 June 2011

	Share capital '000 KZT	Reserve capital '000 KZT	Hedging reserve '000 KZT	Revaluation reserve for available-for-sale assets '000 KZT	Retained earnings '000 KZT	Total equity '000 KZT
Balance at 1 January 2011	255,975,958	17,712,311	(342,869)	36,668,457	(42,132,841)	267,881,016
Loss for the period (unaudited)	-	-	-	-	(13,037,475)	(13,037,475)
Other comprehensive income						
Net change in fair value of available-for-sale assets (unaudited)	-	-	-	(21,048,224)	-	(21,048,224)
Net change in fair value of available-for-sale assets transferred to profit or loss (unaudited)	-	-	-	11,250	-	11,250
Net unrealised gain on hedging instruments, net of tax of KZT (11,094) thousand (unaudited)	-	-	44,379	-	-	44,379
Total comprehensive loss for the period (unaudited)	-	-	44,379	(21,036,974)	(13,037,475)	(34,030,070)
Other distributions (Note 14) (unaudited)	-	-	-	-	(3,236,805)	(3,236,805)
Balance at 30 June 2011 (unaudited)	255,975,958	17,712,311	(298,490)	15,631,483	(58,407,121)	230,614,141

1 Background

(a) Principal activities

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

Development Bank of Kazakhstan JSC was established in the Republic of Kazakhstan as a joint-stock company under the laws of the Republic of Kazakhstan as defined in the Civil Code of the Republic of Kazakhstan. The Bank was established in 2001 in accordance with the Law of the Republic of Kazakhstan “On the Development Bank of Kazakhstan” # 178-II dated 25 April 2001 (the “Law”). The Bank operates according to the Law, the Statutes of the Development Bank of Kazakhstan and the Memorandum on the crediting policy, approved by the decision of the Sovereign Wealth Fund “Samruk-Kazyna” JSC #63/09 dated 18 June 2009 amended as of the date of the consolidated interim condensed financial statements.

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

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

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

Eurobonds issued by the Bank are listed on London Stock Exchange, Luxemburg Stock Exchange and Kazakhstan Stock Exchange (the “KASE”).

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

(b) Shareholders

As at 30 June 2011 and 31 December 2010 the sole shareholder of the Bank was Sovereign Wealth Fund “Samruk-Kazyna” JSC, the “Parent Company”. The ultimate controlling party is the Government of the Republic of Kazakhstan.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated interim condensed financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010, as these consolidated interim condensed financial statements provide an update of previously reported financial information.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge (“KZT”). Management has determined the Group’s functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Group. The KZT is the Group’s presentation currency for the purposes of these consolidated interim condensed financial statements.

Financial information presented in KZT has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s knowledge of current events and actions, the actual results could differ from those estimates.

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

In preparing these consolidated interim condensed financial statements the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty are the same as those that applied to the Group’s financial statements for the year ended 31 December 2010, except as described in the Note 6 – “Income tax benefit/(expense)”, Note 7 – “Loans to customers” and Note 10 – “Derivative financial instruments”.

(e) Comparative information

Prior period reclassification

Comparative information has been reclassified to conform to changes in presentation in the current period.

In the consolidated interim statement of comprehensive income for the six-month period ended 30 June 2010 a gain on repurchase of debt securities issued of KZT 246,712 thousand was reclassified from interest expense to gain on repurchase of debt securities issued.

In the consolidated interim statement of cash flows for the six-month period ended 30 June 2010 proceeds from subordinated debt issued of KZT 4,606,146 thousand were reclassified from acquisition of available-for-sale assets to proceeds from subordinated debt issued.

The above reclassification does not impact the comparative consolidated interim condensed statement of financial position, and the loss for the period or equity.

2 Basis of preparation, continued

(f) Adoption of revised standards

From 1 January 2011 the Group has applied Revised IAS 24 *Related Party Disclosures* (2009) in disclosing transactions with related parties of the Group. The new accounting policy has been applied prospectively. Application of this standard did not have a significant impact on these consolidated interim condensed financial statements.

3 Significant accounting policies

The accounting policies applied by the Group in these consolidated interim condensed financial statements are consistent with those applied by the Group in the consolidated financial statements for the year ended 31 December 2010.

4 Interest income and expense

	Unaudited Six-month period ended 30 June 2011 '000 KZT	Unaudited Six-month period ended 30 June 2010 '000 KZT
Interest income		
Available-for-sale assets	11,819,612	9,388,970
Loans to customers	10,521,212	12,138,313
Amounts receivable under reverse repurchase agreements	1,563,151	67,618
Finance lease receivables	1,026,534	917,437
Placements with banks	955,588	4,231,165
Held-to-maturity investments	99,638	-
	25,985,735	26,743,503
Interest expense		
Loans from banks and other financial institutions	(11,515,005)	(12,603,361)
Debt securities issued	(4,593,840)	(1,723,905)
Subordinated debt	(99,638)	(65,929)
Loans from the Parent Company	(84,170)	(22,803)
Loans from the Government of the Republic of Kazakhstan	(39,689)	(39,727)
Amounts payable under repurchase agreements	(26,748)	(773)
Current accounts and deposits from customers	(15)	(597)
	(16,359,105)	(14,457,095)

5 Impairment losses

	Unaudited Six-month period ended 30 June 2011 '000 KZT	Unaudited Six-month period ended 30 June 2010 '000 KZT
Impairment losses		
Loans to customers	19,299,996	4,807,328
Finance lease receivables	1,501,527	212,664
Other assets	191,736	596,936
Assets to be transferred under finance lease agreements	121,055	-
Letters of credit	-	21,867
Available-for-sale assets	-	1,545
	21,114,314	5,640,340

6 Income tax benefit/(expense)

	Unaudited Six-month period ended 30 June 2011 '000 KZT	Unaudited Six-month period ended 30 June 2010 '000 KZT
Current tax expense		
Withholding tax not claimed	(17,017)	(33,332)
Adjustment of current tax expense for prior years	-	(771,731)
	(17,017)	(805,063)
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	2,600,368	(1,893,595)
Change in unrecognised deferred tax assets	(275,632)	60,022
	2,324,736	(1,833,573)
Total income tax benefit/(expense) in the consolidated interim condensed statement of comprehensive income	2,307,719	(2,638,636)

The Group's applicable tax rate for the six-month period ended 30 June 2011 is the income tax rate of 20% (31 December 2010: 20%). In 2009 the Government announced that the income tax rates for Kazakhstan companies would be 20% in 2009-2012, 17.5% in 2013 and 15% in later years. In November 2010 the Government cancelled the reductions and announced that the income tax rate would remain at 20%. The 20% tax rate has been used in the calculation of deferred tax assets and liabilities as at 30 June 2011.

6 Income tax benefit/(expense), continued

Reconciliation of effective tax rate:

	Unaudited Six-month period ended 30 June 2011 '000 KZT	%	Unaudited Six-month period ended 30 June 2010 '000 KZT	%
(Loss)/profit before taxes	<u>(15,345,194)</u>	<u>100</u>	<u>6,088,309</u>	<u>100</u>
Income tax benefit/(expense) at the applicable tax rate	3,069,039	(20)	(1,217,662)	(20)
(Non-deductible impairment losses)/non-taxable gains on reversal of impairment losses	(116,390)	1	119,214	2
Other non-deductible expense	(352,281)	2	(795,147)	(13)
Adjustment of current tax expense for prior years	-	-	(771,731)	(13)
Withholding tax not claimed	(17,017)	-	(33,332)	-
Change in unrecognised deferred tax assets	<u>(275,632)</u>	<u>2</u>	<u>60,022</u>	<u>1</u>
	<u>2,307,719</u>	<u>(15)</u>	<u>(2,638,636)</u>	<u>(43)</u>

Recognised deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 30 June 2011 and 31 December 2010. These deferred tax assets have been recognised in these consolidated interim condensed financial statements except for temporary differences of KZT 561,443 thousand (31 December 2010: KZT 285,811 thousand) relating to the subsidiary that have not been recognised due to uncertainties concerning their realisation. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

7 Loans to customers

	Unaudited 30 June 2011 '000 KZT	31 December 2010 '000 KZT
Loans to large corporates	370,338,972	394,412,955
Mortgage loans	652,136	673,905
Interest accrued	15,417,169	16,968,281
Total loans to customers	<u>386,408,277</u>	<u>412,055,141</u>
Impairment allowance	(109,493,043)	(91,164,246)
Net loans to customers	<u>276,915,234</u>	<u>320,890,895</u>

7 Loans to customers, continued

Movements in the loan impairment allowance for the six-month period ended 30 June 2011 and 2010 are as follows:

	Unaudited Six-month period ended 30 June 2011 <u>'000 KZT</u>	Unaudited Six-month period ended 30 June 2010 <u>'000 KZT</u>
Balance at the beginning of the period	(91,164,246)	(79,540,418)
Net charge for the period	(19,299,996)	(4,807,328)
Effect of foreign currency movements	971,199	487,551
Write-offs	-	1,361,569
Balance at the end of the period	(109,493,043)	(82,498,626)

Credit quality of loan portfolio

The following table provides information on the credit quality of the loan portfolio at 30 June 2011:

	Unaudited Gross loans <u>'000 KZT</u>	Unaudited Impairment <u>'000 KZT</u>	Unaudited Net loans <u>'000 KZT</u>	Unaudited Impairment to gross loans %
Loans without individual signs of impairment	174,682,970	(4,615,443)	170,067,527	2.64
Impaired loans:				
- not past due	21,582,450	(4,669,018)	16,913,432	21.63
- overdue less than 90 days	29,329,781	(5,586,594)	23,743,187	19.05
- overdue more than 90 days and less than 360 days	63,532,593	(32,972,071)	30,560,522	51.90
- overdue more than 360 days	97,280,483	(61,649,917)	35,630,566	63.37
Total impaired loans	211,725,307	(104,877,600)	106,847,707	49.53
Total loans	386,408,277	(109,493,043)	276,915,234	28.34

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

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

7 Loans to customers, continued

Credit quality of loan portfolio, continued

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

The objective indicators of loan impairment include the following:

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

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

In determining the impairment allowance for loans to legal entities, management made the following key assumptions:

- historic annual loss rate of 2.64%
- a discount of between 20% and 70% to the originally appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

As at 30 June 2011 included in the loan portfolio is one renegotiated loan that would otherwise be past due or impaired of KZT 4,281,641 thousand (31 December 2010: five loans of KZT 23,036,253 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above unless the borrower is not able to meet the restructured terms.

8 Available-for-sale assets

	Unaudited 30 June 2011 '000 KZT	31 December 2010 '000 KZT
<i>Held by the Group</i>		
Debt instruments		
Corporate bonds	189,996,587	211,788,248
Bonds of Kazakh banks	49,260,282	36,677,694
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	26,768,895	43,120,388
Bonds of the Parent Company	19,773,713	28,282,315
Bonds of Kazakh credit institutions, other than banks	9,326,686	9,340,988
Treasury bills of the Treasury Department of the United States of America	738,883	83,487
Recovery notes of Kazakh banks	262,532	428,632
Bonds of OECD banks	-	5,981,680
	296,127,578	335,703,432
<i>Pledged under repurchase agreements</i>		
Debt instruments		
Bonds of the Parent Company	23,794,558	-
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,118,316	-
	25,912,874	-
<i>Pledged under foreign currency swap</i>		
Debt instruments		
Treasury bills of the Treasury Department of the United States of America	1,951,087	2,931,290

During the reporting period the Group has revised assumptions regarding discount rates applied in determination of fair value of bonds of National Company "Kazmunaigaz" JSC and Kazakhtelecom JSC following changes in appropriate observable market inputs. As a result a loss of KZT 22,162,912 thousand has been recognised in other comprehensive income as part of revaluation reserve for available-for-sale assets.

On 18 April 2011 the Group purchased bonds of the Parent Company with a nominal value of KZT 18,000,000 thousand. These bonds are denominated in KZT, pay a coupon of 5.99% p.a. and mature in September 2017. These bonds were purchased at 100.60 per cent of par.

8 Available-for-sale assets, continued

Analysis of movements in the impairment allowance

Movements in the available-for-sale assets impairment allowance for the six-month periods ended 30 June 2011 and 2010 are as follows:

	Unaudited Six-month period ended 30 June 2011 '000 KZT	Unaudited Six-month period ended 30 June 2010 '000 KZT
Balance at the beginning of the period	-	(4,731,504)
Net charge for the period	-	(1,545)
Write-offs	-	3,192,558
Balance at the end of the period	-	(1,540,491)

During the six-month period ended 30 June 2010 the Group wrote-off impairment allowances in relation to defaulted bonds of BTA Bank JSC, which were disposed of, and Alliance Bank JSC that were replaced with bonds upon the completion of its restructuring program.

9 Held-to-maturity investments

During the reporting period the Group purchased bonds of the Parent Company for their nominal value of KZT 2,084,395 thousand. The bonds have a term of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 32,149 thousand by applying an appropriate market interest rate. The receipt occurred simultaneously with the issue of subordinated securities for the same consideration under terms discussed in Note 14.

10 Derivative financial instruments

Significant foreign currency transactions

The Group had the following derivative financial instruments:

Type of instrument	Notional amount	Maturity	Payments made by the Group	Payments received by the Group	Fair value Asset	Fair value Liability
30 June 2011						
Foreign currency swap	USD 160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	-	(3,503,919)
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	-	(2,889,173)
Non-deliverable foreign currency forward	USD 100,000,000	31/05/12	USD 100,000,000 at maturity	KZT'000 14,435,000 at maturity	-	(146,356)
Non-deliverable foreign currency forward	USD 50,000,000	07/06/12	USD 50,000,000 at maturity	KZT'000 7,221,000 at maturity	-	(69,687)
Non-deliverable foreign currency forward	USD 100,000,000	31/05/12	KZT'000 14,415,000 at maturity	USD 100,000,000 at maturity	166,268	-
Non-deliverable foreign currency forward	USD 50,000,000	07/06/12	KZT'000 7,211,000 at maturity	USD 50,000,000 at maturity	79,642	-
					245,910	(6,609,135)

10 Derivative financial instruments, continued

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

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

During the reporting period Management revised the assumptions used to value the foreign currency swaps following changes in underlying market conditions. In determining the fair value of the swaps the Management assumed the following discount rates appropriate for the Group: 2.82% in KZT and 1.16% in USD (31 December 2010: 3.82% and 2.00%, respectively).

11 Loans from banks and other financial institutions

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

During the reporting period the Group repaid a syndicated loan facility of USD 300,000 thousand from HSBC Bank Plc., ING Bank N.V. and Sumitomo Mitsui Banking Corporation Europe Limited, a loan of USD 100,000 thousand from Bayerische Landesbank and principal amount of USD 64,444 thousand on loans from Credit Suisse.

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

12 Amounts payable under repurchase agreements

In April 2011 the Group concluded repurchase agreements with Deutsche Bank AG, London of KZT 20,377,000 thousand. These repurchase agreements are denominated in KZT, mature in October 2011 and bear an interest rate of 0.54% p.a.

As at 30 June 2011, included in amounts payable under repurchase agreements is accrued interest expense of KZT 26,748 thousand.

As at 30 June 2011 amounts payable under repurchase agreements were collateralised by securities with a fair value of KZT 25,912,874 thousand (Note 8).

13 Debt securities issued

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

On 8 February 2011 the Group issued KZT denominated non-secured coupon bonds with a nominal value of KZT 5,000,000 thousand, which bear a coupon rate of 8.0% p.a. and mature in February 2016.

14 Subordinated debt

During the reporting period the Group issued additional subordinated bonds to the Parent Company with a nominal value of KZT 2,084,395 thousand. At initial recognition these bonds were measured at fair value of KZT 32,149 thousand applying an appropriate market interest rate.

The entire amount of the subordinated debt is represented by subordinated bonds issued to the Parent Company. The bonds are denominated in KZT, mature in September 2059 and bear a fixed interest rate of 0.01% per annum. In addition, the bonds have a discretionary coupon of 6.99% per annum which the Group can unilaterally and unconditionally waive with no further obligation. The discretionary coupon for the six-month period ended 30 June 2011 of KZT 3,236,805 thousand was recognised as “other distributions” in equity as the management expects not to waive discretionary coupon, and the amount of other distributions paid was KZT 2,962,906 thousand.

15 Risk management

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

As at 30 June 2011 the most significant changes in relation to market, credit and liquidity risks since 31 December 2010 were the change in the credit risk of loans to customers discussed in the Note 7 and the change in USD currency net on and off balance sheet position by KZT (33,258,962) thousand due to decrease in USD denominated loans to customers, repayment of USD denominated loans from banks and other financial institutions (Note 11) and issuance of USD denominated debt securities (Note 13).

16 Analysis by segment

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

17 Events after the reporting date

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

17 Events after the reporting date, continued

On 10 August 2011 the Decree of the President of the Republic of Kazakhstan related to the transfer of the entire amount of ordinary shares of the Bank into the trust management by the Ministry of Industry and New Technologies of the Republic of Kazakhstan (the “Ministry”) was signed. The shares will be transferred into trust management by the Ministry upon signing of a trust management agreement between the Parent Company and the Ministry.