

Nurbank JSC
Consolidated financial statements

For the year ended 31 December 2011
Together with Independent Auditors' Report

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Independent auditors' report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Nurbank JSC –

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 consolidated financial statements.

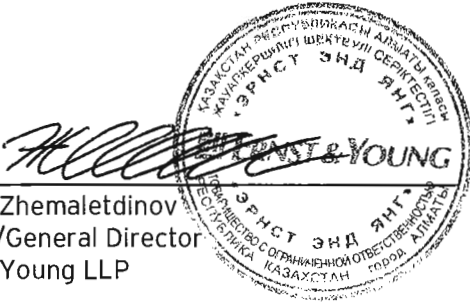
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

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

Ernst & Young LLP



Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP



Auditor Qualification Certificate No. 0000553
dated 24 December 2003

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

18 April 2012

Consolidated statement of financial position

At 31 December 2011

(Thousands of Kazakh Tenge)

	Notes	2011	2010* Restated	2009* Restated
Assets				
Cash and cash equivalents	7	24,618,693	55,971,175	22,792,472
Trading securities	8	2,147,069	3,742,792	–
Amounts due from credit institutions	9	1,525,817	1,522,622	4,075,109
Investment securities:	10			
- available-for-sale		29,158,740	23,477,643	13,740,338
- held-to-maturity		–	778,274	1,137,924
Loans to customers	11	196,725,594	190,444,143	245,435,301
Property and equipment	12	4,436,011	4,774,037	5,978,281
Current corporate income tax assets	13	425,162	488,863	207,724
Deferred corporate income tax assets	13	3,652,628	1,761,838	723,101
Other assets	14	5,124,855	3,142,011	2,988,905
Total assets		267,814,569	286,103,398	297,079,155
Liabilities				
Amounts due to the Government of the Republic of Kazakhstan	16	9,792,737	12,190,166	13,874,225
Amounts due to credit institutions	17	2,305,230	3,259,554	10,443,537
Amounts due to customers	18	161,458,963	150,584,760	179,762,853
Debt securities issued	19	21,282,543	46,994,360	48,134,158
Provisions	15	1,128,867	2,167,851	108,086
Other liabilities		1,100,092	1,270,301	1,638,329
Total liabilities		197,068,432	216,466,992	253,961,188
Equity				
Share capital:	20			
- common shares		127,316,185	127,316,185	31,652,370
- preferred shares		295,056	303,711	303,711
Treasury shares		(273,597)	(282,252)	(278,401)
Additional paid-in capital		100	100	237,220
Other reserves		1,597,272	944,862	616,778
(Accumulated deficit) / retained earnings		(58,418,820)	(58,796,555)	10,323,638
Total equity attributable to shareholders of the Bank		70,516,196	69,486,051	42,855,316
Non-controlling interest		229,941	150,355	262,651
Total equity		70,746,137	69,636,406	43,117,967
Total equity and liabilities		267,814,569	286,103,398	297,079,155

* Certain amounts given in this column are not consistent with those in the financial statements for 2010 and 2009 and reflect the adjustments made which detailed in Note 2.

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

Idrisov M.U.

Chairman of the Board

Suleimanova G.A.

Chief Accountant



18 April 2012

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December 2011

(Thousands of Kazakh Tenge)

	<i>Notes</i>	<i>2011</i>	<i>2010</i>
Interest income			
Loans to customers		20,750,918	25,198,058
Investment securities available-for-sale		1,601,190	1,414,294
Cash and cash equivalents and amounts due from credit institutions		182,888	289,739
		<u>22,534,996</u>	<u>26,902,091</u>
Trading securities		247,799	182,939
		<u>22,782,795</u>	<u>27,085,030</u>
Interest expenses			
Amounts due to the Government of the Republic of Kazakhstan		(798,438)	(980,101)
Amounts due to customers		(8,637,379)	(12,482,780)
Amounts due to credit institutions		(54,268)	(556,822)
Debt securities issued		(4,221,478)	(5,156,138)
		<u>(13,711,563)</u>	<u>(19,175,841)</u>
Net interest income		9,071,232	7,909,189
Allowance for loan impairment	11	(6,325,071)	(67,470,940)
Net interest income after allowance for loan impairment		<u>2,746,161</u>	<u>(59,561,751)</u>
Net fee and commission income	22	3,167,262	3,303,033
Net losses on trading securities		(875,338)	(432,715)
Net losses from investment securities available-for-sale		(103,298)	(625,563)
Net gains from foreign currency:			
- dealing		485,655	176,045
- translation differences		293,673	175,918
Loss from issuance of loans with non-market interest rates		-	(587,960)
Net income from insurance operations	23	283,939	591,347
Other income		191,172	155,247
Non-interest (loss)/income		<u>3,443,065</u>	<u>2,755,352</u>
Personnel expenses	24	(4,362,310)	(4,745,113)
Other operating expenses	24	(3,491,245)	(3,437,795)
Depreciation and amortization	12	(651,077)	(610,337)
Impairment of property and equipment	12	(11,724)	(987,813)
Other impairment and provisions	15	1,291,037	(3,270,799)
Taxes other than income tax		(329,418)	(356,266)
Non-interest expense		<u>(7,554,737)</u>	<u>(13,408,123)</u>
Loss before corporate income tax benefit		<u>(1,365,511)</u>	<u>(70,214,522)</u>
Corporate income tax benefit	13	1,867,808	980,216
Profit / (loss) for the year		<u>502,297</u>	<u>(69,234,306)</u>
Attributable to:			
- shareholders of the Bank		468,553	(69,173,651)
- non-controlling interests		33,744	(60,655)
Basic and diluted income / (loss) per share (in Tenge)	25	44.56	(20,927.06)

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

(Thousands of Kazakh Tenge)

	<i>Notes</i>	<i>2011</i>	<i>2010</i>
Profit / (loss) for the year		502,297	(69,234,306)
Other comprehensive income			
Unrealised gains / (losses) on investment securities available-for-sale, net of tax		633,276	(124,723)
Realised income on investment securities available-for-sale reclassified to the income statement, net of tax		(598,137)	(207,073)
Loss on impairment of available-for-sale investment securities, net of tax	10	494,839	802,832
Revaluation of property and equipment	12, 20	37,211	(158,850)
Currency translation differences	20	106	54,368
Effect of income tax to the provision for revaluation of property and equipment, including changes in tax rate	20	(7,442)	(18,709)
Other comprehensive income for the year, net of tax		559,853	347,845
Total comprehensive income/(loss) for the year		1,062,150	(68,886,461)
Attributable to:			
- shareholders of the Bank		1,030,145	(68,825,806)
- non-controlling interests		32,005	(60,655)
		1,062,150	(68,886,461)

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

(Thousands of Kazakh Tenge)

	Share capital		Treasury shares			Attributable to shareholders of the Bank					Total equity
	Common shares	Preferred shares	Common shares	Preferred shares	Additional paid-in capital	Other reserves	(Accumulated deficit) / retained earnings	Total	Non-controlling interest		
At 31 December 2009	31,652,370	303,711	(263,398)	(15,003)	237,220	616,778	10,323,638	42,855,316	262,651	43,117,967	
Total comprehensive income/(loss) for the year	-	-	-	-	-	347,845	(69,173,651)	(68,825,806)	(60,655)	(68,886,461)	
Depreciation of revaluation reserve, net of tax	-	-	-	-	-	(19,761)	19,761	-	-	-	
Increase in share capital (Note 20)	95,545,255	-	-	-	-	-	-	95,545,255	-	95,545,255	
Transfer (Note 20)	118,560	-	-	-	(237,120)	-	-	(118,560)	-	(118,560)	
Acquisition of non-controlling interests (Note 5)	-	-	-	-	-	-	33,697	33,697	(51,641)	(17,944)	
Purchase of treasury shares (Note 20)	-	-	(3,851)	-	-	-	-	(3,851)	-	(3,851)	
At 31 December 2010	127,316,185	303,711	(267,249)	(15,003)	100	944,862	(58,796,555)	69,486,051	150,355	69,636,406	
Total comprehensive income/(loss) for the year	-	-	-	-	-	561,592	468,553	1,030,145	32,005	1,062,150	
Depreciation of revaluation reserve, net of tax	-	-	-	-	-	(20,302)	20,302	-	-	-	
Reclassification	-	(8,655)	-	8,655	-	-	-	-	-	-	
Acquisition of non-controlling interests (Note 5)	-	-	-	-	-	-	-	-	47,581	47,581	
Transfers (Note 20)	-	-	-	-	-	111,120	(111,120)	-	-	-	
At 31 December 2011	127,316,185	295,056	(267,249)	(6,348)	100	1,597,272	(58,418,820)	70,516,196	229,941	70,746,137	

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2011

(Thousands of Kazakh Tenge)

	<i>Notes</i>	<i>2011</i>	<i>2010 (Restated)</i>
Cash flows from operating activities:			
Interest received		9,057,331	18,409,035
Interest paid		(13,044,925)	(19,295,322)
Realised gains less losses from dealing in foreign currencies		485,655	333,926
Realised losses less gains from trading securities		(151,246)	–
Commissions received		3,419,866	3,522,924
Commissions paid		(268,434)	(341,011)
Other operating income received		631,848	170,590
Operating expenses paid		(3,447,181)	(4,296,036)
Personnel expenses paid		(4,254,967)	(4,751,679)
Cash flows used in operating activities before changes in operating assets and liabilities		(7,572,053)	(6,247,573)
<i>Net decrease / (increase) in operating assets</i>			
Trading securities		800,600	(3,742,792)
Amounts due from credit institutions		(565)	2,554,733
Loans to customers		1,701,064	(4,808,261)
Other assets		(2,112,579)	(1,408,549)
<i>Net increase / (decrease) in operating liabilities</i>			
Amounts due to the Government of the Republic of Kazakhstan		(2,442,465)	(1,684,033)
Amounts due to credit institutions		(950,609)	(7,344,441)
Amounts due to customers		10,458,541	(28,824,906)
Other liabilities		(495,337)	247,252
Net cash flows used in operating activities before income tax		(613,403)	(51,258,570)
Corporate income tax paid		(51,667)	(353,429)
Net cash used in operating activities		(665,070)	(51,611,999)
Cash flows from investing activities:			
Purchase of property and equipment	12	(186,960)	(448,311)
Proceeds from sale of property and equipment	12	97,291	9,635
Purchase of investment securities		(20,250,752)	(35,956,252)
Proceeds from sale and redemption of investment securities		15,914,230	26,689,760
Net cash used in investing activities		(4,426,191)	(9,705,168)
Cash flows from financing activities:			
Acquisition of non-controlling interests	5	–	(169,164)
Proceeds from shares issuance	19	–	95,545,255
Purchase of treasury shares	19	–	(3,851)
Redemption of debt securities		(26,105,432)	(780,319)
Net cash flows from financing activities		(26,105,432)	94,591,921
Effect of exchange rates changes on cash and cash equivalents		(155,789)	(96,051)
Net (decrease) / increase in cash and cash equivalents		(31,352,482)	33,178,703
Cash and cash equivalents, beginning of the year	7	55,971,175	22,792,472
Cash and cash equivalents, ending of the year	7	24,618,693	55,971,175

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

*(Thousands of Kazakh Tenge)***1. Principal activities**

Nurbank JSC (the "Bank") was formed in 1993 under the laws of the Republic of Kazakhstan. The Bank operates under a general banking licence No. 142 issued on 13 December 2007 by Agency of the Republic of Kazakhstan for Regulation and Supervision of Financial Markets and Financial Organizations (the "FMSA" or the "FMSC").

Nurbank JSC and its subsidiaries (together the "Group") provide retail and corporate banking, pension, asset management and insurance services in Kazakhstan. The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank has a primary listing on the Kazakhstani Stock Exchange ("KASE") and certain of the Bank's debt securities issued are primarily listed on the London Stock Exchange with secondary listing on KASE. The head office of the Bank is located in Almaty, Kazakhstan.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Law of the Republic of Kazakhstan on "Obligatory insurance of second tier banks deposits" dated 7 July 2006. Insurance covers the Bank's liabilities to individual depositors for amounts up to five million Kazakh Tenge for each individual in the event of business failure and revocation of the National Bank's of the Republic of Kazakhstan (the "NBRK") banking license.

The Bank's registered and actual address is: 51–53 Abylai Khan str., Almaty, 050004, Republic of Kazakhstan. As at 31 December 2011, the Bank had 16 branches and 54 cash settlement units (31 December 2010: the Bank had 16 branches and 55 cash settlement units) located throughout Kazakhstan.

As at 31 December, the Bank's shares were owned by the following shareholders:

	<i>2011 %</i>	<i>2010 %</i>
Sarsenova S.T.	68.56	68.56
Helios LLP	9.67	9.67
Other shareholders owing less than 5%	21.77	21.77
Total	100.00	100.00

As at 31 December 2011 (31 December 2010), members of the Board of Directors and Management Board did not possess shares of the Bank. As at 31 December, the Bank was ultimately controlled by Mrs. Sarsenova S.T.

2. Basis of preparation**General**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities, investment securities available-for-sale, land and buildings have been measured at fair value. These consolidated financial statements are presented in thousands of Kazakh Tenge ("KZT" or "Tenge"), except per share amounts and unless otherwise indicated.

Restatement

In the process of preparation of the consolidated financial statements for the year ended 31 December 2011, the Group has noted an error of prior period. Obligatory reserves that are not restricted and represent a portion of cash and cash equivalents, were separated from cash and cash equivalents. In accordance with IAS 8 "Accounting policy, changes in accounting estimates and errors" the Group has also restated comparative information for the years ended 31 December 2010 and 2009.

(Thousands of Kazakh Tenge)

2. Basis of preparation (continued)**Reclassification**

In addition, provisions were reclassified from other liabilities in separate category in the statement of financial position as at 31 December 2010 and 2009 to conform to the presentation of current year financial statements.

Effect from restatement and reclassification discussed above is presented in the following way:

Statement of financial position

<i>31 December 2010</i>	<i>Notes</i>	<i>As previously reported</i>	<i>Restatement</i>	<i>Reclassification</i>	<i>Restated</i>
Assets:					
Cash and cash equivalents	7	52,567,628	3,403,547	–	55,971,175
Obligatory reserves		3,403,547	(3,403,547)	–	–
Liabilities:					
Provisions	15	–	–	2,167,851	2,167,851
Other liabilities		3,438,152	–	(2,167,851)	1,270,301
<i>31 December 2009</i>					
Assets:					
Cash and cash equivalents	7	18,266,670	4,525,802	–	22,792,472
Obligatory reserves		4,525,802	(4,525,802)	–	–
Liabilities:					
Provisions	15	–	–	108,086	108,086
Other liabilities		1,746,415	–	(108,086)	1,638,329

Statement of cash flow for the year ended 31 December 2010

	<i>As previously reported</i>	<i>Restatement</i>	<i>Reclassification</i>	<i>Restated</i>
Obligatory reserves	1,122,255	(1,122,255)	–	–
Cash and cash equivalents, beginning	18,266,670	4,525,802	–	22,792,472
Cash and cash equivalents, ending	52,567,628	3,403,547	–	55,971,175

3. Summary of significant accounting policies**Changes in accounting policies***IAS 24 Related Party Disclosures*

The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The Bank has decided to early adopt the revised IAS 24 from 1 January 2010. This amendment had no impact on the Group's consolidated financial statements.

Amendment to IAS 32 "Financial Instruments: Presentation": Classification of Rights Issues"

The amendment was issued in October 2009 and became effective for financial years beginning on or after 1 February 2010. The amendment alters the definition of a financial liability to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment had no impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This interpretation had no impact on the Group's financial statements.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. Each standard has its own transitional provisions. Amendments included in Improvements to IFRS had some impact on the financial policy, financial position or financial results of the Group as follows:

- ▶ IFRS 3 Business combinations: limits the scope of the measurement choices of the method of assessing non-controlling interest (NCI). It indicates that only the components of NCI that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
- ▶ IFRS 7 Financial Instruments: Disclosures introduces the amendments to quantitative and credit risk disclosures. Additional requirements have had little impact, since the required information was easily accessible.
- ▶ Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

The following amendments to standards and interpretations did not have any impact on the Group's accounting policies, financial position or results of operations:

- ▶ IFRS 1 First-time Adoption of International Financial Reporting Standards – Voluntary exclusion with the limited scope from the requirement on disclosure of comparative information under IFRS 7, for companies using IFRS for the first time
- ▶ IFRIC 14 Prepayments of a minimum funding requirement

Basis of consolidation

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Day 1' profit

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

Trading securities

Financial assets classified as held for trading are included in the category 'trading securities'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement. Interest income on trading securities is recorded in the financial statements separately from net income / losses on trading securities.

Held-to-maturity investments

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

Loans and receivables

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

Financial assets available-for-sale

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

Determination of fair value

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

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

Offsetting

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

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

If as the result of change in the Group's intention or abilities, classification of investments as held-to-maturity is no more appropriate, the Group reclassifies them to the category of available-for-sale and measures at fair value. The difference between carrying amount and fair value is recognised in other comprehensive income up the time of investment disposal or derecognition. After such reclassification the Group does not classify any financial assets as held-to-maturity during the period of reclassification and two subsequent financial years.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

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

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value within amounts due to credit institutions.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, mostly currency swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as other assets when their fair value is positive and as other liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement within gains less losses from trading securities. Derivatives embedded in other financial instruments are accounted for separately and recorded at fair value if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not held for trading or revalued at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to Government and amounts due to credit institutions, due to the customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Lease

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term and included a component of loans to customers in the consolidated statement of financial position. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Group as lessee

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

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment on trading securities and financial assets available-for-sale is recognized directly through reduction in the asset's cost. Impairment on financial assets held-to-maturity and loans and accounts receivable is recognized through establishment of account of provision for related class of financial asset.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement as a component of provision for impairment.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses by the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

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

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

Investment securities available-for-sale

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

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

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

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Restructuring of loans to customers

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised in the statement of financial position.
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities described below.
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to customers to ensure that all criteria are met and that future payments are likely to occur. The loans to customers continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

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

Financial liabilities

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

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

Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of: the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

*(Thousands of Kazakh Tenge)***3. Summary of significant accounting policies (continued)****Taxation**

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan also has various operating taxes that are assessed on the Group's activities. These taxes are recorded as part of taxes other than income tax in the consolidated income statement.

Property and equipment

Following initial recognition at cost, buildings and land are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

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

	<u>Years</u>
Buildings	40
Motor vehicles	7
Computers and bank equipment	4 – 10
Leasehold improvements	5
Other	5 – 15
Land	–

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Goodwill (continued)

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- ▶ represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- ▶ is not larger than the operating segment as defined in IFRS 8 "Operating Segments" before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Other intangible assets

Other intangible assets include computer software and licences. Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include computer software and licences. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 6 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets are included in the consolidated statement of financial position as a component of other assets.

Inventories

Inventories are valued at the lower of: acquisition cost and net realizable value. Net realisable value is the estimated asset's selling price in the ordinary course of business of the Bank, less the estimated costs to sell. Cost reduction is recognized by the Bank as impairment provision.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and 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 obligation can be made. Provisions are included in the consolidated statement of financial position as a component of other liabilities.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional capital.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Share capital (continued)

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

Preferred shares

IAS 32 "Financial instruments: Presentation" requires that preferred shares or their components be classified as financial liabilities or equity instruments in accordance with the essence of contractual agreement and definitions of financial liability or equity instrument. Preferred shares which carry a mandatory dividend payment are classified as debt securities issued.

On initial recognition the fair value of the debt is equivalent to the present value of the mandatory dividend obligations over the term of the preferred share discounted at the interest rate for a similar instrument that does not retain a residual benefit to discretionary dividends.

Dividends on preferred shares are classified as an expense and are recognized in the consolidated income statement within interest expense on debt securities issued.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Group functions.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Group earns commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- ▶ *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, asset management fees and fees for issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

- ▶ *Commission income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Income from dividends

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

Expenses

Expenses are recognized on an accrual basis when the services are provided.

Income / (loss) from insurance operations

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded insurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the consolidated statement of financial position.

Losses and loss adjustments are charged to the consolidated income statement as a component of net insurance underwriting income as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recognised in the consolidated income statement as incurred. Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses are included in the consolidated statement of financial position within other liabilities and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

Reserve for insurance losses and loss adjustment expenses (continued)

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated income statement.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Reinsurance

The Group cedes insurance risk in the normal course of business. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the consolidated statement of financial position within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

Foreign currency translation

The consolidated financial statements are presented in Kazakh Tenge, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as net gains from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The KASE market exchange rates at 31 December 2011 and 2010 were 148.40 KZT and 147.5 KZT to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Kazakh Tenge at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments (first phase)

In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. A requirement relating to accounting of changes in fair value specified by credit risk was introduced with respect to financial liabilities through profit or loss using fair value measurement in other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

IFRS 11 eliminates the possibility of accounting for jointly controlled entities using the proportionate consolidation. Instead, the jointly controlled entities that meet the definition of joint ventures are accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. This Standard will not have any impact on the financial position and performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 combines the disclosure requirements that were previously contained in IAS 27 as related to consolidated financial statements, as well as IAS 31 and IAS 28. These disclosure requirements apply to shares of the company's participation in subsidiaries, joint venture, associates and structured companies. With respect to such companies were introduced a number of new disclosure requirements. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of this standard will required additional disclosures in the financial statements of the Group however it will have no effect on its financial position of financial performance.

IFRS 13 Fair Value Measurement

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

IAS 27 Separate Financial Statements (Revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2013.

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

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

Amendments to IFRS 7 Financial Instruments: Disclosures

In October 2010 the IASB issued amendments to IFRS 7 effective for financial years beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects requirements to disclosures only and does not have any impact on the Group's financial position or performance.

(Thousands of Kazakh Tenge)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 12 Income Taxes – Deferred tax: Recovery of underlying assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group now evaluates the impact of the adoption of this amendment.

IAS 19 Employee Benefits (Amendment)

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

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

The amendment becomes effective for annual periods beginning on or after 1 July 2012. The amendment to IAS 1 changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment will not have any impact on the financial position or performance of the Group.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – A significant hyperinflation and cancellation of fixed dates for companies applying IFRS for the first time

This amendment is effective for annual periods beginning on or after 1 July 2011. The amendment introduces an additional exemption for the use of deemed cost by companies that had undergone significant hyperinflation. The amendment will not have any impact on the financial position or performance of the Group.

4. Significant accounting judgements and estimates

Judgments and estimation of uncertainty

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- ▶ Allowances for impairment of assets and other provisions;
- ▶ Fair value of financial instruments;
- ▶ Taxation and deferred income tax assets

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below:

Fair value of financial instruments

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

(Thousands of Kazakh Tenge)

4. Significant accounting judgements and estimates (continued)

Judgments and estimation of uncertainty (continued)

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation and deferred income tax assets

Kazakh tax, currency and customs legislations are subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislations as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. As such, 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. The review may cover longer periods under certain circumstances.

As at 31 December 2011, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and custom positions will be sustained. Management judgment is required for the calculation of current and deferred income taxes. Deferred income tax assets are recognised to the extent that their utilization is probable. The utilization of deferred income tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred income tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred income tax assets must be reduced and this reduction be recognised in the income statement.

Revaluation of property, plant and equipment

Buildings and land were revalued at fair value as of 31 December 2011 (the previous revaluation was carried out as of 31 December 2010). Revaluation was based on the valuation carried out by an independent, professional company, appropriately licensed for valuation of fixed assets. The methodology used was based on the comparative (sales comparison approach) and the cost method approaches.

The comparative approach involves comparison of the evaluated item with similar items sold in the market. In most cases the value was determined based on offer prices.

In applying the cost approach, certain key elements were used such as:

- ▶ the full cost of reproduction or replacement (total costs for creation of item of comparable usefulness with the use of the project and materials currently used at the market);
- ▶ remaining useful life;
- ▶ standard useful life;
- ▶ depreciation (physical depreciation, functional deterioration, economic obsolescence)

Valuation was performed in accordance with International Standards of Valuation.

(Thousands of Kazakh Tenge)

5. Business combination

Acquisition of additional interest in Accumulated Pension Fund “Atameken” JSC

Acquisitions in 2011

On 14 March 2011, 28 March 2011 and 14 December 2011, Accumulated Pension Fund “Atameken” JSC declared of increase in its share capital by KZT 870,200 thousand, KZT 129,800 thousand and KZT 925,600 thousand, respectively, that were fully paid by the Bank. However, other shareholders rejected to use their right to purchase shares. This resulted in additional increase in the Bank's share in capital of Accumulated Pension Fund “Atameken” JSC by 5.11%, 0.46% and 2.11%, as at the abovementioned dates, respectively. As the result, the Bank's gross share of interest in Accumulated Pension Fund “Atameken” JSC increased from 87.02% to 94.67%.

The carrying amount of net assets of Accumulated Pension Fund “Atameken” JSC as at these dates amounted to KZT 2,296,115 thousand, KZT 2,478,164 thousand and KZT 3,517,428 thousand, respectively.

As a result, non-controlling share has increased by KZT 47,581 thousand.

Acquisitions in 2010

On 27 April 2010 and 20 May 2010, the Group acquired an additional 1.87% and 10.70% of the voting shares of Accumulated Pension Fund “Atameken” JSC, respectively, increasing its ownership from 74.43% to 87.02%. A net cash consideration of KZT 169,164 thousand was paid to the non-controlling interest shareholders.

The carrying value of the net assets of Atameken at these dates was KZT 1,017,069 thousand and KZT 1,424,627 thousand, respectively, and the carrying value of the additional interest acquired was KZT 51,641 thousand. The difference of KZT 33,697 thousand between the consideration paid and the carrying value of the interest acquired has been recognized in accumulated loss/retained earnings within equity.

6. Segment information

For management purposes, the Group is organised into three business segments as follows:

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Group function	Treasury functions, including balances and transactions with trading securities and investment securities available-for-sale and held-to-maturity.

The Group's geographical segments are based on the location of the Group's assets.

Income from external customers disclosed by geographical segments is based on the geographical location of its customers.

Where the Group cannot directly attribute or reasonably allocate items of revenue and operating expense to segments, it reports them as unallocated.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2011 or 2010.

(Thousands of Kazakh Tenge)

6. Segment information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments:

<i>2011</i>	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Group function</i>	<i>Unallocated</i>	<i>Total</i>
Revenue					
Third party					
Interest income	3,773,085	17,160,721	1,848,989	–	22,782,795
Fee and commission income	1,117,849	1,967,206	34,368	366,464	3,485,887
Net loss from trading securities	–	–	(875,338)	–	(875,338)
Net losses from investment securities available-for-sale	–	–	(103,298)	–	(103,298)
Net gains from foreign currencies	–	–	779,328	–	779,328
Net insurance income	283,939	–	–	–	283,939
Other income	24,151	42,875	39	124,107	191,172
Total income	5,199,024	19,170,802	1,684,088	490,571	26,544,485
Interest expenses	(4,372,598)	(9,338,965)	–	–	(13,711,563)
Fee and commission expenses	(66,086)	(131,342)	(18,711)	(102,486)	(318,625)
Allowance for loan impairment	(1,544,028)	(4,781,043)	–	–	(6,325,071)
Personnel expenses	–	–	–	(4,362,310)	(4,362,310)
Depreciation and amortization	–	–	–	(651,077)	(651,077)
Impairment of property and equipment	–	–	–	(11,724)	(11,724)
Other impairment and provisions	(173,935)	1,297,747	–	167,225	1,291,037
Taxes other than income tax	–	–	–	(329,418)	(329,418)
Other operating expenses	–	–	–	(3,491,245)	(3,491,245)
Total expenses	(6,156,647)	(12,953,603)	(18,711)	(8,781,035)	(27,909,996)
Segment's financial results before corporate income tax expenses	(957,623)	6,217,199	1,665,377	(8,290,464)	(1,365,511)
Corporate income tax expense	–	–	–	1,867,808	1,867,808
Net segment result after corporate income tax expenses	(957,623)	6,217,199	1,665,377	(6,422,656)	502,297
Segment assets	26,241,839	173,513,439	55,924,502	12,134,789	267,814,569
Segment liabilities	54,917,231	120,076,768	21,282,543	791,890	197,068,432
Other segment information					
Capital expenditures	–	–	–	(186,960)	(186,960)

(Thousands of Kazakh Tenge)

6. Segment information (continued)

2010	Retail Banking	Corporate Banking	Group function	Unallocated	Total
Revenue					
Third party					
Interest income	4,340,362	22,744,668	–	–	27,085,030
Fee and commission income	1,017,508	2,231,405	30,661	310,875	3,590,449
Net loss from trading securities	–	–	(432,715)	–	(432,715)
Net losses from investment securities available-for-sale	–	–	(625,563)	–	(625,563)
Net gains from foreign currencies	–	–	351,963	–	351,963
Net insurance income	591,347	–	–	–	591,347
Other income	2,679	(605,592)	67,565	690,595	155,247
Total income	5,951,896	24,370,481	(608,089)	1,001,470	30,715,758
Expenses					
Interest expenses	(3,519,401)	(11,682,704)	–	(3,973,736)	(19,175,841)
Fee and commission expenses	(381,156)	232,887	(35,334)	(103,813)	(287,416)
Loss from issuance of loans with non- market interest rates	–	(587,960)	–	–	(587,960)
Allowance for loan impairment	(543,356)	(66,927,584)	–	–	(67,470,940)
Personnel expenses	–	–	–	(4,745,113)	(4,745,113)
Depreciation and amortization	–	–	–	(610,337)	(610,337)
Impairment of property and equipment	–	–	–	(987,813)	(987,813)
Other impairment and provisions	(771,792)	(1,668,515)	–	(830,492)	(3,270,799)
Taxes other than income tax	–	–	–	(356,266)	(356,266)
Other operating expenses	–	–	–	(3,437,795)	(3,437,795)
Total expenses	(5,215,705)	(80,633,876)	(35,334)	(15,045,365)	(100,930,280)
Segment's financial results before corporate income tax benefit	736,191	(56,263,395)	(643,423)	(14,043,895)	(70,214,522)
Corporate income tax benefit	–	–	–	980,216	980,216
Net segment result after corporate income tax benefit	736,191	(56,263,395)	(643,423)	(13,063,679)	(69,234,306)
Segment assets	34,660,085	160,710,821	46,271,134	44,461,358	286,103,398
Segment liabilities	42,114,466	85,514,122	41,273,650	47,564,754	216,466,992
Other segment information					
Capital expenditures	–	–	–	(448,311)	(448,311)

Geographic information

The following tables show the distribution of the Group's revenues from third party customers and non-current assets allocated based on the location of the customers and assets respectively for the years ended 31 December 2011 and 2010:

2011	Kazakhstan	OECD	Non-OECD	Total
Revenue				
Revenues from third party customers	26,544,485	–	–	26,544,485
Non-current assets	4,980,867	–	–	4,980,867

Non-current assets consist of property, equipment and intangible assets.

2010	Kazakhstan	OECD	Non-OECD	Total
Revenue				
Revenues from third party customers	28,718,579	1,771,186	225,993	30,715,758
Non-current assets	5,313,130	–	–	5,313,130

Non-current assets consist of property, equipment and intangible assets.

*(Thousands of Kazakh Tenge)***7. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<i>2011</i>	<i>2010 Restated</i>	<i>2009 Restated</i>
Cash on hand	7,475,448	6,807,393	5,378,885
Current accounts with other credit institutions	7,840,116	10,367,021	7,413,309
Time deposits with credit institutions with contractual maturity up to 90 days	958,600	35,006,111	10,000,278
Reverse repurchase agreements with credit institutions with maturity over 90 days	8,344,529	3,790,650	–
Cash and cash equivalents	24,618,693	55,971,175	22,792,472

As at 31 December 2011 and 2010, the Bank entered into short-term reverse repurchase agreements on KASE. The subject of these agreements are treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the National Bank of the Republic of Kazakhstan with a fair value of KZT 9,007,523 thousand (31 December 2010: KZT 4,188,587 thousand).

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank.

Such reserves must be held in either deposits with the NBRK or as cash in hand, and the scope of such provisions depends upon monthly average balance of aggregate deposits with NBRK or cash in hand. These funds can be used by the Bank for its current needs.

As at 31 December 2011, the obligatory reserves amounted to KZT 5,102,651 thousand (31 December 2010: KZT 3,403,547 thousand, 31 December 2009: KZT 4,525,802 thousand).

8. Trading securities

	<i>2011</i>	<i>2010</i>
Debt securities:		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,050,901	1,926,470
Treasury bills of OECD central state management bodies	47,953	–
Bonds of Kazakh banks	–	1,287,322
Eurobonds of Kazakh banks	–	330,603
Eurobonds of foreign banks	28,817	
	2,127,671	3,544,395
Equity securities:		
Preferred shares of Kazakh banks	227	107,965
Common shares of Kazakh financial institutions	19,171	90,432
	19,398	198,397
	2,147,069	3,742,792

Reclassification

On 25 November 2011, the Group reclassified certain financial assets from trading securities to the financial assets available-for-sale due to the absence of active market for these securities. Information about the reclassified financial assets is presented in the table below:

	<i>2011</i>
Fair value of securities reclassified from trading securities to available-for-sale at reclassification date	433,140
Carrying amount and fair value at 31 December	234,647
Loss that would have been recognized on the reclassified assets for the year if the reclassification had not been made	(981,727)
Loss recognized in profit or loss in the year of reclassification	(981,727)
Effective interest rate as at date of reclassification	14.28%
Estimated cash flows expected to be recovered as at date of reclassification	2,157,808

*(Thousands of Kazakh Tenge)***9. Amounts due from credit institutions**

Amounts due from credit institutions comprise:

	<i>2011</i>	<i>2010</i>
Time deposits with contractual maturity over 90 days	604,696	1,522,622
Long-term deposits	921,121	–
Amounts due from credit institutions	1,525,817	1,522,622

As at 31 December 2011 and 2010, amounts due from credit institutions were placed with 4 second-tier banks of the Republic of Kazakhstan.

Long-term deposits as at 31 December 2011 comprise deposits at the amount of KZT 562,221 thousand that represent collateral on the Bank's liabilities on processing services, related to transactions on credit cards.

10. Investment securities

Available-for-sale investment securities comprise:

	<i>2011</i>	<i>2010</i>
Debt securities:		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	17,922,753	19,626,759
Corporate bonds	4,118,172	75,583
Eurobonds of Kazakh banks	2,633,923	794,652
Bonds of Kazakh banks	2,152,892	449,094
Eurobonds of foreign banks	1,006,456	–
Notes of foreign banks	579,210	333,893
Bonds of Kazakh credit institutions, other than banks	580,905	2,030,989
	28,994,311	23,310,970
Equity securities:		
Corporate shares	150,479	70,669
Shares of Kazakh banks and other credit institutions	13,950	96,004
	164,429	166,673
Investment securities available-for-sale	29,158,740	23,477,643

Held-to-maturity securities comprise:

	<i>2011</i>	<i>2010</i>
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	–	441,016
Bonds of Kazakh banks	–	99,397
Bonds of Kazakh credit institutions, other than banks	–	237,861
Held-to-maturity securities	–	778,274

Held-to-maturity securities were transferred to available-for-sale investment securities on 3 November 2011 due to changes in the management's intention with respect to these securities. The carrying amount of reclassified securities as at the date of reclassification amounted to KZT 854,999 thousand. Fair value as at date of reclassification amounted to KZT 897,499 thousand. The difference between carrying amount and fair value was recorded in other comprehensive income in the amount of KZT 42,500 thousand.

11. Loans to customers

Loans to customers comprise:

	<i>2011</i>	<i>2010</i>
Individually significant corporate loans	219,822,407	192,187,444
Individually not significant corporate, small and medium size loans	22,695,752	39,596,572
Consumer loans	20,086,589	20,033,572
Residential mortgages	8,794,988	8,856,527
Gross loans to customers	271,399,736	260,674,115
Less: Allowance for impairment	(74,674,142)	(70,229,972)
Loans to customers	196,725,594	190,444,143

(Thousands of Kazakh Tenge)

11. Loans to customers (continued)**Allowance for impairment of loans to customers**

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

<i>2011</i>	<i>Individually significant corporate loans</i>	<i>Individually not significant corporate, small and medium size loans</i>	<i>Consumer loans</i>	<i>Residential mortgages</i>	<i>Total</i>
	At 1 January 2011	64,755,071	4,376,159	836,764	
Charge / (reversal) for the year	7,771,893	(2,990,850)	1,513,783	30,245	6,325,071
Write-offs	(1,873,750)	(4,119)	(3,032)	–	(1,880,901)
At 31 December 2011	70,653,214	1,381,190	2,347,515	292,223	74,674,142
Individual impairment	67,896,249	334,848	1,528,590	227,342	69,987,029
Collective impairment	2,756,965	1,046,342	818,925	64,881	4,687,113
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	139,068,895	334,848	1,528,590	227,342	141,159,675

<i>2010</i>	<i>Individually significant corporate loans</i>	<i>Individually not significant corporate, small and medium size loans</i>	<i>Consumer loans</i>	<i>Residential mortgages</i>	<i>Total</i>
	At 1 January 2010	10,100,127	9,655,905	510,539	
Charge / (reversal) for the year	75,343,589	(8,416,005)	326,225	217,131	67,470,940
Write-offs	(17,443,599)	(108,787)	–	–	(17,552,386)
At 31 December 2010	68,000,117	1,131,113	836,764	261,978	70,229,972
Individual impairment	64,755,071	–	–	–	64,755,071
Collective impairment	3,245,046	1,131,113	261,978	836,764	5,474,901
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	112,194,153	–	–	–	112,194,153

Loans individually determined as impaired

Interest income accrued on loans, individually determined as impaired during 2011 comprises KZT 3,967,393 thousand (31 December 2010: KZT 6,228,262 thousand).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired as at 31 December 2011 amounts to KZT 51,036,479 thousand (31 December 2010: KZT 44,390,321 thousand). In accordance with the Group policies loans to customers may only be written off upon approval by the Credit Committee or the decision of the Court.

*(Thousands of Kazakh Tenge)***11. Loans to customers (continued)****Collateral and other credit enhancements**

The amounts and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For commercial lending, charges over real estate properties, equipment and inventory;
- ▶ For retail lending, mortgages over residential properties, charges over vehicles and third party guarantees.

Management may request additional collateral in accordance with the underlying agreement and monitors the estimated fair value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During 2011, the Bank took possession of a real estate properties with an estimated value of KZT 2,704,001 thousand (2010: KZT 776,299 thousand), which the Bank is in the process of selling. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not occupy repossessed properties for business use.

Derecognition of a loan portfolio

The Group has been periodically selling part of its mortgage loan portfolio to Kazakhstan Mortgage Company ("KMC"), with full recourse to the Group for any default loan. The Group determined that as a result of these transactions not all significant risks and rewards under the portfolio were transferred to KMC. Accordingly, the Group continues to recognize these loans as assets in the consolidated statement of financial position and corresponding liability within loans from financial institutions for the same amount. As at 31 December 2011 these loans amounted to KZT 1,318,220 thousand (31 December 2010: KZT 1,756,005 thousand).

Concentration of loans to customers

As of 31 December 2011, the Bank had a concentration of loans represented by KZT 108,100,021 thousand due from the ten largest borrowers (40% of gross loan portfolio or 161% of equity) (2010: KZT 109,772,380 thousand; 42% of gross loan portfolio or 158% of equity). As of 31 December 2011, an allowance of KZT 50,222,240 thousand (as of 31 December 2010: KZT 49,931,738 thousand) was recognised against these loans.

Loans are made to individuals and commercial entities in the following industry sectors:

	<i>2011</i>	<i>%</i>	<i>2010</i>	<i>%</i>
Real estate	51,885,806	19	53,016,059	20
Rental properties	35,560,355	13	34,872,637	13
Retail loans	30,902,628	11	28,890,100	11
Oil and gas	28,077,623	10	25,887,741	10
Construction	20,667,752	8	12,767,596	5
Agriculture	17,920,486	7	14,901,141	6
Hospitality industry	17,097,989	6	16,730,700	7
Food industry	14,705,794	5	14,277,834	5
Wholesale trading	10,478,362	4	12,858,287	5
Entertainment	9,312,418	4	10,163,573	4
Mining industry	4,505,015	2	4,628,419	2
Retail trading	4,487,634	2	5,372,073	2
Medical care and pharmacy	3,752,006	1	4,162,067	2
Transport	3,277,904	1	5,659,998	2
Communications	1,762,981	1	2,214,073	1
Other	17,004,983	6	14,271,817	5
	271,399,736	100	260,674,115	100

(Thousands of Kazakh Tenge)

12. Property and equipment

The movements in property and equipment were as follows:

	<i>Land</i>	<i>Buildings</i>	<i>Vehicles</i>	<i>Computers and bank equipment</i>	<i>Leasehold improve- ments</i>	<i>Other</i>	<i>Total</i>
Revalued amount:							
At 31 December 2009	1,128,765	2,863,583	278,032	1,273,584	85,105	2,135,600	7,764,669
Effect of revaluation	(285,558)	(1,015,650)	–	–	–	–	(1,301,208)
Additions	8,391	116,239	41,340	171,486	–	110,855	448,311
Disposals	–	(95)	(32,845)	(59,238)	(18,250)	(31,203)	(141,631)
Transfers	101	(1,083)	4,742	814	(552)	(3,704)	318
At 31 December 2010	851,699	1,962,994	291,269	1,386,646	66,303	2,211,548	6,770,459
Effect of revaluation	(38,502)	21,536	–	–	–	–	(16,966)
Impairment	(6,007)	(5,717)	–	–	–	–	(11,724)
Additions	838	–	20,384	88,067	–	77,671	186,960
Disposals	–	–	(53,847)	(37,693)	(2,500)	(29,841)	(123,881)
Transfers	–	–	–	(22,712)	–	22,712	–
At 31 December 2011	808,028	1,978,813	257,806	1,414,308	63,803	2,282,090	6,804,848
	<i>Land</i>	<i>Buildings</i>	<i>Vehicles</i>	<i>Computers and bank equipment</i>	<i>Leasehold improve- ments</i>	<i>Other</i>	<i>Total</i>
Accumulated depreciation:							
At 31 December 2009	–	(76,515)	(92,028)	(835,677)	(66,523)	(715,645)	(1,786,388)
Depreciation charge	–	(78,088)	(40,350)	(182,703)	(9,398)	(181,228)	(491,767)
Disposals	–	–	24,568	58,281	18,220	26,437	127,506
Transfers	–	58	(788)	(332)	558	186	(318)
Effect of revaluation	–	154,545	–	–	–	–	154,545
At 31 December 2010	–	–	(108,598)	(960,431)	(57,143)	(870,250)	(1,996,422)
Depreciation charge	–	(53,911)	(36,405)	(138,310)	(4,524)	(279,712)	(512,862)
Disposals	–	–	31,436	35,656	2,499	16,945	86,536
Transfers	–	–	–	6,258	–	(6,258)	–
Effect of revaluation	–	53,911	–	–	–	–	53,911
At 31 December 2011	–	–	(113,567)	(1,056,827)	(59,168)	(1,139,275)	(2,368,837)
Net book value:							
At 31 December 2009	1,128,765	2,787,068	186,004	437,907	18,582	1,419,955	5,978,281
At 31 December 2010	851,699	1,962,994	182,671	426,215	9,160	1,341,298	4,774,037
At 31 December 2011	808,028	1,978,813	144,239	357,481	4,635	1,142,815	4,436,011

The Group engaged an independent appraiser to determine the fair market value of its land and buildings. Fair value is determined by reference to market-based evidence. The date of the last revaluation was 31 December 2011. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	<i>2011</i>	<i>2010</i>
Cost	2,741,656	2,740,818
Accumulated depreciation	(314,864)	(245,866)
Net carrying amount	2,426,792	2,494,952

During 2011, the Bank recognized net income from revaluation at the amount of KZT 37,211 thousand (2010: loss at the amount of KZT 158,850 thousand) in the comprehensive income, to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the same land and buildings. Such an impairment loss on revalued assets reduced the revaluation surplus for the land and buildings and the remaining amount was charged directly to 2011 consolidated income statement in the amount of KZT 11,724 thousand (2010: KZT 987,813 thousand).

In 2011 depreciation of its revaluation reserve for the Bank's property and equipment net of tax was KZT 20,302 thousand (2010: KZT 19,761 thousand). Depreciation and amortization in the consolidated income statement in 2011 include amortization of intangible assets of KZT 138,215 thousand (2010: KZT 118,570 thousand).

*(Thousands of Kazakh Tenge)***13. Taxation**

The corporate income tax expense comprises:

	<u>2011</u>	<u>2010</u>
Current tax charge	25,348	72,290
Deferred tax (benefit) / expenses – origination and reversal of temporary differences	(1,893,156)	(1,052,506)
Corporate income tax (benefit) / expense	(1,867,808)	(980,216)

Deferred tax recognized in other comprehensive income during the year is allocated as follows:

	<u>2011</u>	<u>2010</u>
Revaluation of buildings	7,442	(31,770)
Income tax expenses / (benefits) recognized within other comprehensive income	7,442	(31,770)

The tax rate for the Bank's profit and its subsidiaries other than its insurance subsidiary was 20% for 2011 and 2010. Tax rate for insurance companies is 4% and 8% for subsidiaries of commission income and written insurance premiums less ceded for insurance.

The effective income tax rate differs from the statutory tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2011</u>	<u>2010</u>
Loss before corporate income tax	(1,365,511)	(70,214,522)
Statutory tax rate	20%	20%
Theoretical corporate income tax benefit at the statutory rate	(273,102)	(14,042,904)
(Unwinding of discount)/Non-deductible discount on loans issued at below market interest rate	(48,102)	117,592
Income / (loss) recognised for tax purposes only	766,966	(155,701)
Income on state and other qualifying securities	44,528	33,706
Dividends on preferred shares	45,139	45,103
Permanent difference from change in tax rate	–	(75,026)
Adjustment in tax declarations of prior years	341,335	–
Change in unrecognized deferred corporate income tax assets	(2,897,523)	12,834,345
Other	152,951	262,669
Corporate income tax benefit	(1,867,808)	(980,216)

As at 31 December 2011, the Group's current income tax assets comprised KZT 425,162 thousand (31 December 2010: KZT 488,863 thousand).

(Thousands of Kazakh Tenge)

13. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2009	Origination and reversal of temporary differences in the consolidated income statement	Origination and reversal of temporary differences in the consolidated income statement	2010	Origination and reversal of temporary differences in the consolidated income statement	Origination and reversal of temporary differences in the consolidated income statement	2011
Deferred corporate income tax assets:							
Tax losses carry-forward	-	17,455,025	-	17,455,025	123,037	-	17,578,062
Other liabilities	10,496	128,292	-	138,788	(16,629)	-	122,159
Unamortized commission	47,872	(47,872)	-	-	-	-	-
Loans to banks	162,217	(162,217)	-	-	-	-	-
	220,585	17,373,228	-	17,593,813	106,408	-	17,700,221
Deferred tax liabilities:							
Loans to customers	779,385	(3,349,786)	-	(2,570,401)	(1,164,951)	-	(3,735,352)
Property and equipment	(194,193)	(113,022)	(18,709)	4,940	65,802	(7,442)	5,076
Allowances on contingent liabilities	-	-	-	-	(117,871)	-	(117,871)
Investments in subsidiaries	(56,495)	(25,570)	-	(82,065)	82,065	-	-
Debt securities issued	(1,721)	(5,162)	-	(6,883)	6,883	-	-
Other assets	(24,460)	7,163	-	(17,297)	17,297	-	-
	502,516	(3,486,377)	(18,709)	4,940	(1,110,775)	(7,442)	(4,110,771)
Deferred corporate income tax (liabilities) / assets	723,101	13,886,851	(18,709)	14,596,183	(1,004,367)	(7,442)	13,589,450
Allowance for unrecognized deferred corporate income tax assets	-	(12,834,345)	-	(12,834,345)	2,897,523	-	(9,936,822)
Net deferred corporate income tax assets / (liabilities)	723,101	1,052,506	(18,709)	1,761,838	1,893,156	(7,442)	3,652,628

(Thousands of Kazakh Tenge)

13. Taxation (continued)

The Bank has tax losses carried forwards which begin to expire in 2019, if not utilised. Tax loss carry-forward represents losses which arose mainly from differences in classification between FMSC and IFRS allowances on loans to customers.

The Bank did not recognize a deferred tax asset to the extent of probable future profits, which can not be reliably measured.

Kazakhstan currently has a Tax Code that relates to various taxes imposed by governmental authorities. Applicable taxes include VAT, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

14. Other assets

Other assets comprise:

	<i>2011</i>	<i>2010</i>
Inventories	3,592,779	888,778
Other receivables	1,262,426	1,748,328
Intangible assets	544,856	539,093
Accrued commission	272,645	667,921
Insurance assets	43,561	141,020
Other	149,295	226,489
Total other assets	5,865,562	4,211,629
Less: Allowance for impairment (<i>Note 15</i>)	(740,707)	(1,069,618)
Other assets	5,124,855	3,142,011

As at 31 December 2011 and 2010, inventory comprises real estate that was collected by the Bank from borrowers who failed to meet the obligations to repay a loan to the Bank. Provision for impairment on these assets as at 31 December 2011 and 2010 amounts to KZT 112,479 thousand.

15. Other impairment and provisions

The movements in allowances for impairment of other assets and guarantees and commitments are as follows:

	<i>Guarantees and commitments</i>	<i>Other assets</i>	<i>Total</i>
31 December 2009	108,086	162,342	270,428
Charge	2,079,976	1,190,823	3,270,799
Write-offs	(20,211)	(283,547)	(303,758)
31 December 2010	2,167,851	1,069,618	3,237,469
(Recovery)/charge	(1,029,381)	(261,656)	(1,291,037)
Write-offs	(9,603)	(67,255)	(76,858)
31 December 2011	1,128,867	740,707	1,869,574

Allowances for impairment of other assets are deducted from carrying amount of the related assets.

16. Amounts due to the Government of the Republic of Kazakhstan

As at 31 December 2011 funds attracted by the Bank from Entrepreneurship Development Fund DAMU JSC, 100% owned by the Government, amounted to KZT 9,792,737 thousands (31 December 2010: KZT 12,190,166 thousand). In accordance with the contractual provisions, the Group can utilize these funds only for financing small and medium business. Interest rate on these amounts are 7.5%–8% p.a., repayment is done by semi-annual payments with last payment date based on schedule in years 2015–2017.

(Thousands of Kazakh Tenge)

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>2011</i>	<i>2010</i>
Loans from credit institutions, other than banks	1,318,220	1,756,005
Deposits from Kazakh banks and non-OECD banks	719,059	1,018,308
Deposits from OECD banks	261,290	483,536
Current accounts	6,661	1,705
Amounts due to credit institutions	2,305,230	3,259,554

Loans from credit institutions, other than banks represent liabilities towards KMC on sold loans with right on full forfeiture to Group (Note 11).

18. Amounts due to customers

The amounts due to customers comprise:

	<i>2011</i>	<i>2010</i>
Current accounts:		
Legal entities	40,452,449	41,652,951
Individuals	5,264,842	4,021,164
Held as security against letters of credit	8,848	82,820
Time deposits:		
Legal entities	66,080,435	71,397,483
Individuals	49,652,389	33,430,342
Amounts due to customers	161,458,963	150,584,760

As at 31 December 2011, the Bank's ten largest customers accounted for KZT 69,943,806 thousand or approximately 43% of total amounts due to customers (31 December 2010: KZT 55,343,882 thousand or 37%).

As at 31 December 2011 included in time deposits are deposits of individuals in the amount of KZT 49,652,389 thousand (31 December 2010: KZT 33,430,342 thousand). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

An analysis of customer accounts by economic sector is as follows:

	<i>2011</i>	<i>%</i>	<i>2010</i>	<i>%</i>
Individuals	54,917,231	34	37,451,506	25
Oil and gas	27,667,732	17	15,613,629	10
Non-bank financial institutions	19,176,839	12	42,655,413	28
Wholesale trading	17,093,184	11	9,132,413	6
Metallurgy	7,113,868	4	61,266	-
Construction	6,722,503	4	6,418,008	4
Advertising	6,630,756	4	5,411,173	4
Entertainment	2,901,859	2	3,042,194	2
Catering	2,715,678	2	646,080	1
Education	2,674,047	2	998,381	1
Real estate	1,693,696	1	1,932,418	1
Communications	1,166,158	1	6,663,890	4
Sale, repair and maintenance of automobiles	1,078,283	1	3,086,934	2
Agriculture	804,079	-	1,901,303	1
Retail trading	796,074	-	653,595	1
Held as security against letters of credit	8,848	-	82,820	-
Other	8,298,128	5	14,833,737	10
Amounts due to customers	161,458,963	100	150,584,760	100

(Thousands of Kazakh Tenge)

19. Debt securities issued

Debt securities issued comprise:

	<i>2011</i>	<i>2010</i>
KZT bonds	14,970,910	14,828,091
KZT subordinated bonds	4,987,520	8,760,657
Preferred shares	2,043,164	2,043,165
USD eurobonds	–	22,045,563
	22,001,594	47,677,476
Net unamortized discount and cost of issuance	(1,356,856)	(1,740,187)
	20,644,738	45,937,289
Interest accrued	637,805	1,057,071
Debt securities issued	21,282,543	46,994,360

20. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	<i>Number of shares</i>		<i>Amount</i>		<i>Total</i>
	<i>Common</i>	<i>Preferred</i>	<i>Common</i>	<i>Preferred</i>	
31 December 2009	3,164,605	28,885	31,388,972	288,708	31,677,680
Increase in share capital	7,349,635	–	95,545,255	–	95,545,255
Purchase of treasury shares	(10,084)	–	(208,042)	–	(208,042)
Transfer	–	–	118,560	–	118,560
Sale of treasury shares	9,921	–	204,191	–	204,191
31 December 2010	10,514,077	28,885	127,048,936	288,708	127,337,644
31 December 2011	10,514,077	28,885	127,048,936	288,708	127,337,644

As at 31 December 2011 and 31 December 2010, the Bank had 13,375,557 authorised common shares and 300,000 preferred shares. Each common share is entitled to one vote and shares equally in dividends declared.

In accordance with IAS 32, if the non-redeemable preferred share establishes a contractual right to a dividend, it contains a financial liability in respect of the dividends, whereby the net present value of the right to receive dividends is shown as a liability and the balance of the issue proceeds as equity.

On 6 September 2010, shareholders of the Bank on the General shareholders meeting approved an issue of additional 7,349,635 common shares. This share issue was registered by FMSA on 18 November 2010. All these common shares were placed and the total cash consideration of KZT 95,545,255 thousand was received in December 2010.

The share capital of the Bank was contributed by the shareholders in Tenge and they are entitled to dividends and any capital distribution in Tenge. Preferred shares carry a cumulative dividend of a minimum of KZT 1,000 per annum, but not less than declared dividends on common shares and do not have any voting rights unless payment of preferred dividends has been delayed for three months or more from the date they became due. All common and preferred shares are KZT denominated.

(Thousands of Kazakh Tenge)

20. Equity (continued)**Movements in other reserves**

Movements in other reserves were as follows:

	<i>Revaluation reserve for land and buildings</i>	<i>Unrealised gains/ (losses) on investment securities available- for-sale</i>	<i>Foreign currency translation reserve</i>	<i>Insurance reserve</i>	<i>Total</i>
At 31 December 2009	1,183,561	(512,219)	(54,564)	–	616,778
Depreciation on revaluation reserve, net of tax	(19,761)	–	–	–	(19,761)
Revaluation of property and equipment	(158,850)	–	–	–	(158,850)
Tax effect on revaluation reserve of property and equipment	31,770	–	–	–	31,770
Permanent change in tax rates	(50,479)	–	–	–	(50,479)
Net unrealized losses on available-for-sale investment securities, net of tax	–	(124,723)	–	–	(124,723)
Realized gains on available-for-sale investment securities reclassified to the income statement, net of tax	–	(207,073)	–	–	(207,073)
Impairment of available-for-sale investment securities, net of tax (Note 11)	–	802,832	–	–	802,832
Currency translation differences	–	–	54,368	–	54,368
At 31 December 2010	986,241	(41,183)	(196)	–	944,862
Depreciation on revaluation reserve, net of tax	(20,302)	–	–	–	(20,302)
Revaluation of property and equipment	37,211	–	–	–	37,211
Tax effect on revaluation reserve of property and equipment	(7,442)	–	–	–	(7,442)
Net unrealized gains on available-for-sale investment securities, net of tax	–	635,015	–	–	635,015
Realized gains on available-for-sale investment securities reclassified to the income statement, net of tax	–	(598,137)	–	–	(598,137)
Impairment of available-for-sale investment securities, net of tax	–	494,839	–	–	494,839
Origination of insurance reserve	–	–	–	111,120	111,120
Currency translation differences	–	–	106	–	106
At 31 December 2011	995,708	490,534	(90)	111,120	1,597,272

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in other comprehensive income.

Unrealised gains/ (losses) on investment securities available-for-sale

This fund demonstrates changes in fair value of available-for-sale investments.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Insurance reserve

Allowance for insurance was established in accordance with regulation of NBRK No.97 dated 28 November 2008 (with the last amendments dated 30 April 2010) on the Group's forecast requirements.

*(Thousands of Kazakh Tenge)***21. Commitments and contingencies****Legal issues**

The Group is subject to various legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Group believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines following the results of past transactions may be in excess of the amount expensed to date and accrued at 31 December 2011. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

Commitments and contingencies

As of 31 December the Group's commitments and contingencies comprised the following:

	<i>2011</i>	<i>2010</i>
Credit related commitments		
Undrawn loan commitments	17,497,914	17,109,249
Guarantees	10,028,468	10,496,388
Letters of credit	277,452	375,456
	<u>27,803,834</u>	<u>27,981,093</u>
Operating lease commitments		
Not later than 1 year	135,952	336,201
More than 1 year but less than 5 years	571,044	481,365
Over 5 years	63,160	40,404
	<u>770,156</u>	<u>857,970</u>
Commitments and contingencies, gross	<u>28,573,990</u>	<u>28,839,063</u>
Less: Funds held as security against guarantees and letters of credit	(8,848)	(108,651)
Less: provisions (Note 15)	(1,128,867)	(2,167,851)
Commitments and contingencies	<u>27,436,275</u>	<u>26,562,561</u>

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

Fiduciary assets

The Group provides fiduciary services to third parties, which involve the Group making allocation, purchase and sales decisions in relation to the trust funds. Those funds that are held in a fiduciary capacity are not included in these consolidated financial statements. As at 31 December 2011, such funds amounted to KZT 83,657,993 thousand (31 December 2010: KZT 64,804,049 thousand).

*(Thousands of Kazakh Tenge)***22. Net fee and commission income**

Net fee and commission income comprise:

	<i>2011</i>	<i>2010</i>
Cash transactions	887,852	603,484
Pension asset management	803,208	864,848
Bank transfers	611,191	481,565
Guarantees and letters of credit	440,302	752,353
Bank cards	436,007	550,945
Purchase – sale of currencies	150,406	172,064
Agent's fees	61,934	70,346
Other	94,987	94,844
Fee and commission income	3,485,887	3,590,449
Bank cards	(92,096)	(84,438)
Bank transfers	(94,405)	(73,560)
Transactions with securities	(62,283)	(48,956)
Cash transactions	(38,577)	(47,726)
Agent's fees	(3,743)	(5,289)
Guarantees and letters of credit	(3,352)	(971)
Other	(24,169)	(26,476)
Fee and commission expenses	(318,625)	(287,416)
Net fee and commission income	3,167,262	3,303,033

23. Net income from insurance operations

Net income from insurance operations comprises:

	<i>2011</i>	<i>2010</i>
Premium written, gross	371,178	690,395
Ceded insurance premiums	(17,908)	(102,252)
Insurance premiums written, net of ceded insurance	353,270	588,143
Change in unearned premiums, net	108,065	564,435
Insurance premiums earned, net of ceded insurance	461,335	1,152,578
Claims incurred, reinsurance share	36,043	111,133
Commission income from insurance	1,123	1,067
Insurance underwriting income	498,501	1,264,778
Claims, gross	(330,682)	(351,787)
Commission expense from insurance	(88,428)	(337,813)
Change in loss reserve, net	204,548	16,169
Insurance underwriting expense	(214,562)	(673,431)
Net insurance underwriting income	283,939	591,347

*(Thousands of Kazakh Tenge)***24. Personnel and other operating expenses**

Personnel and other operating expenses comprise:

	<i>2011</i>	<i>2010</i>
Personnel expenses and other payments	(3,997,710)	(4,354,017)
Social security costs	(364,600)	(391,096)
Personnel expenses	(4,362,310)	(4,745,113)
Lease	(902,571)	(1,019,640)
Deposit insurance	(511,388)	(525,543)
Advertising	(296,457)	(204,279)
Information technologies	(257,824)	(183,880)
Professional services	(218,897)	(151,589)
Communications	(200,992)	(197,498)
Security	(170,535)	(194,666)
Repair and maintenance	(125,350)	(225,611)
Transport	(95,882)	(84,426)
Utilities	(87,110)	(75,266)
Business trip expenses	(82,348)	(75,116)
Entertainment	(58,903)	(38,938)
Cash collection	(43,011)	(44,244)
Postal services	(21,366)	(22,345)
Training	(10,255)	(4,016)
Other	(408,356)	(390,738)
Other operating expenses	(3,491,245)	(3,437,795)

25. (Loss) / earnings per share

Basic and diluted earnings per share is calculated by dividing the net (loss)/profit for the year attributable to common shareholders of the Bank by the weighted average number of common shares (excluding treasury shares) (participating shares) outstanding during the year.

The following table shows the profit and share data used in the basic and diluted earnings per share calculations:

	<i>2011</i>	<i>2010</i>
Net loss for the year attributable to shareholders of the Bank	468,553	(69,173,651)
Weighted average number of participating shares for basic and diluted earnings per share	10,514,077	3,305,465
Basic and diluted loss per share (in Tenge)	44.56	(20,927.06)

26. Risk management**Introduction**

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

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

Risk management structure

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

Board of Directors

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

Management Board

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

26. Risk management (continued)

Introduction (continued)

Assets and Liabilities Management Committee

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

Risk management

The Risk Controlling Department is responsible for monitoring compliance with risk principles, policies and limits, across the Group. The Risk Controlling Department comprise divisions on credit, finance (interest rate, currency and market risk) and operating risks. These divisions are also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. Risk Controlling Department also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The Risk Controlling Department presents and explains this information to the Board of Directors, Management Board and the head of each relevant business division. The reports include aggregate credit exposure, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives risk reports once a month which are designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and credit risks. The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

(Thousands of Kazakh Tenge)

26. Risk management (continued)**Credit risk**

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to risks similar to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 11.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group's internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Group's credit rating system.

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, standard – below Baa3 but above B3, sub-standard – below B3.

	Notes	2011			Total	
		High grade	Standard grade	Substandard grade		Past due or individually impaired
Cash and cash equivalents (excluding cash on hand)	7	11,851,240	5,292,005	–	–	17,143,245
Amounts due from credit institutions	9	–	1,525,817	–	–	1,525,817
Loans to customers:	11					
Individually significant corporate loans		10,564,149	39,055,970	19,160,910	151,041,378	219,822,407
Individually not significant corporate, small and medium size loans		8,123,847	2,981,660	5,495,739	6,094,506	22,695,752
Consumer loans		2,035,073	5,419,671	4,693,111	7,938,734	20,086,589
Residential mortgages		4,259,761	2,043,226	2,259,451	232,550	8,794,988
		24,982,830	49,500,527	31,609,211	165,307,168	271,399,736
Debt securities:						
Trading securities	8	2,127,671	–	–	–	2,127,671
Available-for-sale investment securities	10	21,249,513	7,273,754	471,044	–	28,994,311
		23,377,184	7,273,754	471,044	–	31,121,982
Total		49,885,831	56,774,281	32,080,255	165,307,168	304,047,535

(Thousands of Kazakh Tenge)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

		2010				
		High grade	Standard grade	Substandard grade	Past due or individually impaired	Total
Cash and cash equivalents	7	40,738,084	8,425,698	–	–	49,163,782
Amounts due from credit institutions	9	1,522,622	–	–	–	1,522,622
Loans to customers:	11					
Individually significant corporate loans		–	30,676,656	7,577,070	153,933,718	192,187,444
Individually not significant corporate, small and medium size loans		3,003,899	8,387,924	1,592,192	26,612,557	39,596,572
Consumer loans		739,626	489,785	268,188	18,535,973	20,033,572
Residential mortgages		230,326	397,683	4,542,437	3,686,081	8,856,527
		3,973,851	39,952,048	13,979,887	202,768,329	260,674,115
Debt investment securities:						
Trading securities	8	3,544,395	–	–	–	3,544,395
Available-for-sale investment securities	10	19,960,652	2,913,765	428,384	8,169	23,310,970
Held-to-maturity investment securities	10	441,016	337,258	–	–	778,274
		23,946,063	3,251,023	428,384	8,169	27,633,639
Total		70,180,620	51,628,769	14,408,271	202,776,498	338,994,158

Past due loans to customers include those that are past due by more than 1 day. An analysis of past due loans, by age, is provided below. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of pass due but not impaired per class of financial assets:

		2011			
		Less than 30 days	31 to 60 days	61 to 90 days	Total
Loans to customers:					
Individually significant corporate loans		104,744	243,175	91,075	438,994
Individually not significant corporate, small and medium size loans		64,520	295,850	64,560	424,930
Consumer loans		31,024	57,188	21,289	109,501
Residential mortgages		1,953	4,156	1,335	7,444
Total		202,241	600,369	178,259	980,869

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2011 was KZT 51,122,918 thousand (31 December 2010: KZT 23,552,751 thousand). Detailed information about the types of collateral obtained is contained in Note 11, "Collateral and other credit enhancements".

		2010			
		Less than 30 days	31 to 60 days	61 to 90 days	Total
Loans to customers:					
Individually significant corporate loans		–	1,825,939	–	1,825,939
Individually not significant corporate, small and medium size loans		768,701	421,082	99,969	1,289,752
Consumer loans		430,472	110,675	260,258	801,405
Residential mortgages		343,425	96,098	60,091	499,614
Total		1,542,598	2,453,794	420,318	4,416,710

*(Thousands of Kazakh Tenge)***26. Risk management (continued)****Credit risk (continued)***Carrying amount per class of financial assets whose terms have been renegotiated*

The table below shows the carrying amount for renegotiated financial assets, by class:

	<u>2011</u>	<u>2010</u>
Loans to customers:		
Individually significant corporate loans	106,365,282	50,559,519
Individually not significant corporate, small and medium size loans	4,291,603	10,452,432
Consumer loans	1,962,892	9,183,627
Residential mortgages	167,000	2,741,590
Total	<u>112,786,777</u>	<u>72,937,168</u>

See Note 11 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including residential mortgages, consumer lending and small and medium size lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of Kazakh Tenge)

26. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

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

	2011				2010			
	<i>Kazakhstan</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>	<i>Kazakhstan</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	20,525,201	4,071,042	22,450	24,618,693	53,670,938	2,291,851	8,386	55,971,175
Trading securities	2,050,901	–	76,770	2,127,671	3,544,395	–	–	3,544,395
Amounts due from credit institutions	1,410,947	–	114,870	1,525,817	1,522,622	–	–	1,522,622
Investment securities:								
– available-for-sale	26,857,035	1,445,437	691,839	28,994,311	22,977,077	333,893	–	23,310,970
– held-to-maturity	–	–	–	–	778,274	–	–	778,274
Loans to customers	196,717,205	–	8,389	196,725,594	190,444,143	–	–	190,444,143
Other monetary assets	262,443	4	7	262,454	1,649,941	242,032	–	1,891,973
	247,823,732	5,516,483	914,325	254,254,540	274,587,390	2,867,776	8,386	277,463,552
	2011				2010			
	<i>Kazakhstan</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>	<i>Kazakhstan</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>
Liabilities:								
Amounts due to the Government of RK	9,792,737	–	–	9,792,737	12,190,166	–	–	12,190,166
Amounts due to credit institutions	2,043,100	262,130	–	2,305,230	2,775,197	484,357	–	3,259,554
Amounts due to customers	156,907,098	4,437,373	114,492	161,458,963	150,584,760	–	–	150,584,760
Debt securities issued	21,282,543	–	–	21,282,543	24,920,075	–	22,074,285	46,994,360
Provisions	875,038	–	–	875,038	1,719,450	–	–	1,719,450
Other liabilities	1,086,885	13,163	44	1,100,092	777,031	–	–	777,031
	191,987,401	4,712,666	114,536	196,814,603	192,966,679	484,357	22,074,285	215,525,321
Net assets/ (liabilities)	55,836,331	803,817	799,789	57,439,937	81,620,711	2,383,419	(22,065,899)	61,938,231

Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Group maintains an obligatory reserve with the NBRK, the amount of which depends on the level of certain liabilities attracted.

(Thousands of Kazakh Tenge)

26. Risk management (continued)**Liquidity risk and funding management (continued)**

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the FMSA. As at 31 December 2011, these ratios were as follows:

	<u>2011</u>
Quick ratio k4-1 (average amount of highly liquid assets) / (average liabilities with remaining maturities up to 7 days) Minimum ratio: greater than 1	14.26
Quick ratio k4-2 (average assets with remaining maturities up to 1 month, including highly liquid assets) / (average liabilities with remaining maturities up to 1 month, including demand liabilities) Minimum ratio: greater than 0.9	24.13
Quick ratio k4-3 (average assets with remaining maturities up to 3 months, including highly liquid assets) / (average liabilities with remaining maturities up to 3 months, including demand liabilities) Minimum ratio: greater than 0.8	10.15
Quick currency ratio k4-4 (average amount of highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 7 days in foreign currency) Minimum ratio: greater than 1	131.57
Quick currency ratio k4-5 (average assets with remaining maturities up to 1 month, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 1 month, including demand liabilities in foreign currency) Minimum ratio: greater than 0.9	176.72
Quick currency ratio k4-6 (average assets with remaining maturities up to 3 months, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 3 months, including demand liabilities in foreign currency) Minimum ratio: greater than 0.8	33.39

As at 31 December 2010, these ratios were as follows:

	<u>2010</u>
Quick ratio k4-1 (average amount of highly liquid assets) / (average liabilities with remaining maturities up to 7 days) Minimum ratio: greater than 1	26.47
Quick ratio k4-2 (average assets with remaining maturities up to 1 month, including highly liquid assets) / (average liabilities with remaining maturities up to 1 month, including demand liabilities) Minimum ratio: greater than 0.9	11.12
Quick ratio k4-3 (average assets with remaining maturities up to 3 months, including highly liquid assets) / (average liabilities with remaining maturities up to 3 months, including demand liabilities) Minimum ratio: greater than 0.8	3.43
Quick currency ratio k4-4 (average amount of highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 7 days in foreign currency) Minimum ratio: greater than 1	34.72
Quick currency ratio k4-5 (average assets with remaining maturities up to 1 month, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 1 month, including demand liabilities in foreign currency) Minimum ratio: greater than 0.9	28.29
Quick currency ratio k4-6 (average assets with remaining maturities up to 3 months, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 3 months, including demand liabilities in foreign currency) Minimum ratio: greater than 0.8	11.92

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities At 31 December 2011	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to the Government of the Republic of Kazakhstan	1,222,646	1,656,672	8,379,146	3,824	11,262,288
Amounts due to credit institutions	813,893	2,233,045	6,438,435	8,115,582	17,600,955
Amounts due to customers	55,834,073	53,196,081	63,755,344	3,200,458	175,985,956
Debt securities issued	231,365	1,929,373	26,670,778	224,567	29,056,083
Other liabilities	616,514	14,610	-	-	631,124
Total undiscounted financial liabilities	58,718,491	59,029,781	105,243,703	11,544,431	234,536,406

(Thousands of Kazakh Tenge)

26. Risk management (continued)**Analysis of financial liabilities by remaining contractual maturities (continued)**

Financial liabilities At 31 December 2010	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to the Government of the Republic of Kazakhstan	1,260,706	1,780,909	10,605,598	656,691	14,303,904
Amounts due to credit institutions	2,271,666	613,260	421,347	–	3,306,273
Amounts due to customers	76,780,699	36,813,164	46,153,070	1,977,731	161,724,664
Debt securities issued	322,937	29,800,908	20,903,958	5,368,927	56,396,730
Other liabilities	174,958	268,542	–	–	443,500
Total undiscounted financial liabilities	80,810,966	68,724,849	78,083,973	8,003,349	235,623,137

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2011	5,147,560	2,510,226	10,167,737	10,748,467	28,573,990
2010	3,206,345	1,994,210	15,224,169	8,414,339	28,839,063

The Group's capability to meet its liabilities depends upon its ability to realise an equivalent amount of assets within the certain period of time.

The Group has a concentration of KZT 60,363,315 thousand with top ten customers as at 31 December 2011 (31 December 2010: KZT 55,343,882 thousand).

In the period within 3 to 12 months any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

Except for the loss of several large customers during the course of ownership change in the Group, historically customers' current accounts demonstrated stability such that their liquidity has taken place over a longer period than less than three months as indicated in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Kazakh legislation, the Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 18.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on sensitivities on market variables. The market risk for non-trading portfolio is managed and monitored based on sensitivity analysis.

(Thousands of Kazakh Tenge)

26. Risk management (continued)**Market risk (continued)***Market risk – non-trading**Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity of Group's consolidated income statement to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2010 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

<i>Currency</i>	<i>Increase in basis points</i>		<i>Sensitivity of net interest income</i>		<i>Sensitivity of equity</i>	
	<i>2011</i>		<i>2011</i>		<i>2011</i>	
KZT	+200		28,384		(2,197,399)	
USD	+200		(54)		(249,985)	
<i>Currency</i>	<i>Decrease in basis points</i>		<i>Sensitivity of net interest income</i>		<i>Sensitivity of equity</i>	
	<i>2011</i>		<i>2011</i>		<i>2011</i>	
KZT	-200		(28,384)		2,197,399	
USD	-200		54		249,985	
<i>Currency</i>	<i>Increase in basis points</i>		<i>Sensitivity of net interest income</i>		<i>Sensitivity of equity</i>	
	<i>2010</i>		<i>2010</i>		<i>2010</i>	
KZT	+200		172,646		78,608	
USD	+200		6,492		103	
<i>Currency</i>	<i>Decrease in basis points</i>		<i>Sensitivity of net interest income</i>		<i>Sensitivity of equity</i>	
	<i>2010</i>		<i>2010</i>		<i>2010</i>	
KZT	-200		(172,646)		(78,608)	
USD	-200		(6,492)		(103)	

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the FMSC regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive trading monetary assets). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in exchange rates in %</i>		<i>Effect on profit before tax</i>	
	<i>2011</i>		<i>2010</i>	
USD to KZT	10.72%		1,747,857	476,495
USD to KZT	-10.72%		(1,747,857)	(476,495)
EUR to KZT	16.33%		(142,166)	(230,983)
EUR to KZT	-16.33%		142,166	230,983

(Thousands of Kazakh Tenge)

26. Risk management (continued)**Market risk (continued)***Prepayment risk*

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax and equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	<i>Effect on net interest income</i>	<i>Effect on equity</i>
2011	(2,394,943)	(1,915,954)
2010	(2,741,641)	(2,193,313)

Operational risk

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

27. Fair value of financial instruments

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

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>At 31 December 2011</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Trading securities	2,127,671	19,398	–	2,147,069
Investment securities available-for-sale	28,665,141	493,599	–	29,158,740
Total	30,792,812	512,997	–	31,305,809
<i>At 31 December 2010</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Trading securities	1,926,470	1,816,322	–	3,742,792
Investment securities available-for-sale	22,994,438	483,205	–	23,477,643
Total	24,920,908	2,299,527	–	27,220,435

During 2011, there were no transfers from level 1 to level 2.

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(Thousands of Kazakh Tenge)

27. Fair value of financial instruments (continued)*Trading securities and investment securities available-for-sale*

Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying value 2011</i>	<i>Fair value 2011</i>	<i>Unrecognis ed gain / (loss) 2011</i>	<i>Carrying value 2010</i>	<i>Fair value 2010</i>	<i>Unrecognis ed gain / (loss) 2010</i>
<i>Financial assets</i>						
Cash and cash equivalents	24,618,693	24,618,693	–	55,971,175	55,971,175	–
Amounts due from credit institutions	1,525,817	1,430,209	(95,608)	1,522,622	1,522,622	–
Held-to-maturity investment securities	–	–	–	778,274	863,066	84,792
Loans to customers	196,725,594	197,667,270	941,676	190,444,143	192,143,887	1,699,744
Other assets (excluding non-monetary items)	262,574	262,574	–	1,891,973	1,891,973	–
<i>Financial liabilities</i>						
Amounts due to the Government	9,792,737	10,200,472	(407,735)	12,190,166	12,080,908	109,258
Amounts due to credit institutions	2,305,230	2,305,230	–	3,259,554	3,194,782	64,772
Amounts due to customers	161,458,963	162,978,463	(1,519,500)	150,584,760	154,006,907	(3,422,147)
Debt securities issued	21,282,543	22,680,373	(1,397,830)	46,994,360	47,500,313	(505,953)
Other liabilities	631,123	631,123	–	443,500	443,500	–
Total unrecognised change in unrealized fair value			(2,478,997)			(1,969,534)

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than a year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Thousands of Kazakh Tenge)

28. Maturity analysis of financial assets and financial liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2011			2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	24,618,693	–	24,618,693	55,971,175	–	55,971,175
Trading securities	12,795	2,134,274	2,147,069	3,742,792	–	3,742,792
Amounts due from credit institutions	805,385	720,432	1,525,817	1,249,000	273,622	1,522,622
Investment securities:						
– available-for-sale	1,580,353	27,578,387	29,158,740	3,318,808	20,158,835	23,477,643
– held-to-maturity	–	–	–	46,679	731,595	778,274
Loans to customers	57,015,334	139,710,260	196,725,594	65,815,019	124,629,124	190,444,143
Property and equipment	–	4,436,011	4,436,011	–	4,774,037	4,774,037
Current corporate income tax assets	–	425,162	425,162	2,199,479	(1,710,616)	488,863
Deferred corporate income tax assets	–	3,652,628	3,652,628	1,453,696	308,142	1,761,838
Other assets	4,614,451	510,404	5,124,855	1,329,305	1,812,706	3,142,011
Total	88,647,011	179,167,558	267,814,569	135,125,953	150,977,445	286,103,398
Financial liabilities						
Amounts due to the Government of RK	2,397,123	7,395,614	9,792,737	–	12,190,166	12,190,166
Amounts due to credit institutions	776,717	1,528,513	2,305,230	2,776,018	483,536	3,259,554
Amounts due to customers	107,740,141	53,718,822	161,458,963	110,640,981	39,943,779	150,584,760
Debt securities issued	–	21,282,543	21,282,543	28,258,397	18,735,963	46,994,360
Provisions	1,128,867	–	1,128,867	2,167,851	–	2,167,851
Other liabilities	1,100,092	–	1,100,092	1,270,301	–	1,270,301
Total	113,142,940	83,952,492	197,068,432	145,113,548	71,353,444	216,466,992
Net assets	(24,495,929)	95,242,066	70,746,137	(9,987,595)	79,624,001	69,636,406

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2010 the Group had a negative liquidity gap of KZT 24,495,929 thousand within one year. Management has an action plan in place to meet these obligations including disposal of its investment securities available-for-sale, interbank borrowings at local money markets and other measures including extending deposits of the Bank's larger and older customers and increase of the share capital.

Included in amounts due to customers are term deposits of individuals. In accordance with the Kazakh legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

(Thousands of Kazakh Tenge)

29. Related party transactions

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

In May 2010 the Bank was acquired from Mrs. Nazarbaeva (older daughter of President of Republic of Kazakhstan) and became controlled by Mrs. Sarsenova S.T. The Bank disclosed significant related party transactions and balances comprising new shareholders and entities under common control.

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

The outstanding balances of related party transactions are as follows:

	2011			2010		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Loans to customers outstanding at 1 January, gross	–	–	26,529	–	–	840,759
Loans to customers issued during the year	–	3,445,043	30,280	–	–	51,461
Loans to customers repaid during the year	–	–	(3,715)	–	–	(865,691)
Loans to customers outstanding at 31 December, gross	–	3,445,043	53,094	–	–	26,529
Less: Allowance for impairment of loans to customers	–	(178,310)	(1,051)	–	–	(1,326)
Loans to customers outstanding at 31 December, net	–	3,266,733	52,043	–	–	25,203
Amounts due to customers at 1 January	853,816	382,379	4,409	6,917,377	–	64,433
Amounts due to customers received during the year	141,112,249	43,891,203	45,334	1,687,077,537	19,516,177	991,377
Amounts due to customers repaid during the year	(116,868,178)	(38,979,742)	(46,646)	(1,693,141,098)	(19,133,798)	(1,051,401)
Amounts due to customers at 31 December	25,097,887	5,293,840	3,097	853,816	382,379	4,409
Commitments and guarantees	–	2,800,000	375	–	24	378,651

As at 31 December, interest rates and maturity dates on transactions with related parties are as follows:

	2011			2010		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Loans to customers:						
Maturity	–	2011–2018	2011–2030	–	–	2018–2027
Interest rate in KZT	–	13%	11%–13.7%	–	–	10%–15%
Amounts due to customers						
Maturity	2011–2014	2011–2014	2011–2015	2011–2014	2011–2014	2014–2015
Interest rate in KZT	5.5%–12.5%	5.5%–8%	7.5%–11.5%	8–12%	6–14%	10%
Interest rate in EUR	–	2011–2018	2011–2030	–	–	–
Interest rate in USD	6%–10.5%	13%	11%–13.7%	9%–10%	–	8%

(Thousands of Kazakh Tenge)

29. Related party transactions (continued)

The income and expense arising from related party transactions are as follows:

	<i>For the year ended 31 December</i>					
	<i>2011</i>			<i>2010</i>		
	<i>Shareholder</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Shareholder</i>	<i>Entities under common control</i>	<i>Key management personnel</i>
Interest income on loans to customers	–	77,964	5,136	–	–	56,673
Impairment of loans				–	–	
Interest expense on amounts due to customers	(442,160)	(119,861)	146	(1,831,217)	(35,060)	(6,832)
Fee and commission income	11,204	9,163	20	14,217	5,359	42
Other operating expenses			(2,359)	(8,497)	–	(3,607)

Compensation of key management personnel was comprised of the following:

	<i>2011</i>	<i>2010</i>
Salary and other short-term benefits	134,746	464,075
Termination benefits	3,094	20,260
Social security costs	892	2,557
Total key management personnel compensation	138,732	486,892

Subsidiaries

These consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i>Holding % 2011</i>	<i>Holding % 2010</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Activity</i>	<i>Date of acquisition</i>
“OOIUPA “Nur-Trust” JSC	100	100	Kazakhstan	2001	Asset management	2001
Leasing Company Nur-Leasing LLP	100	100	Kazakhstan	2001	Leasing	2001
Money Experts JSC	100	100	Kazakhstan	2002	Brokerage	2002
Insurance Company Nurpolicy JSC	100	100	Kazakhstan	1999	Insurance	2004
APF Atameken JSC	94.67	87.02	Kazakhstan	1997	Pension fund	2006
NurFinance B.V.	100	100	Netherlands	2006	SPE	2006

On 28 November 2011, the Board of Directors of the Bank decided to liquidate “OOIUPA “Nur-Trust” JSC. The liquidation process is planned to be completed in the first six months of 2012. Upon completion of liquidation, “OOIUPA “Nur-Trust” JSC assets will be transferred to the Bank. All assets and liabilities of “OOIUPA “Nur-Trust” JSC as at 31 December 2011 and 2010 are stated at their estimated net realizable value.

Pension assets that were previously managed by “OOIUPA “Nur-Trust” JSC were transferred to APF Atameken JSC independent management on 16 May 2011.

Special purpose entities

On 31 July 2006, the Bank established a wholly owned special purpose entity (“SPE”) Nurfinance B.V. The SPE was created for the purpose of issuing Eurobonds.

The Bank consolidates special purpose entities it controls. In assessing and determining if the Bank controls such special purpose entities, judgments is made about the Bank’s exposure to the risks, rewards and its ability to make operational decisions.

On 26 November 2010, the Board of Directors of the Bank took decision on liquidation of NurFinance B.V. Officially, NurFinance B.V. will be liquidated in the second quarter of 2012. In 2011, Eurobonds issued through this subsidiary were fully and timely redeemed.

*(Thousands of Kazakh Tenge)***30. Capital adequacy**

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the FMSC in supervising the Bank.

During 2011 and 2010 the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

FMSC capital adequacy ratio

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

The FMSC requires the Bank to maintain the capital adequacy ratio k 1–1 at the level of no less than 5% of the total assets in accordance with the rules of the FMSA, k 1–2 at the level of 5% and k 2 at the level of 10% of assets, contingent liabilities, possible claims and liabilities and operational risks. As at 31 December 2011 and 2010, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As at 31 December 2011 and 2010, the capital adequacy ratio of the Bank calculated in accordance with the requirements of the FMSC was as follows:

	<i>2011</i>	<i>2010</i>
Tier 1 capital	41,796,743	42,888,173
Tier 2 capital	5,917,986	6,340,397
Total statutory capital	47,714,729	49,228,570
Total assets as per the rules of the FMSC	240,350,215	261,507,583
Risk weighted assets and liabilities, possible claims and liabilities	217,383,124	213,973,637
Operational risks	5,900,205	2,695,457
Capital adequacy ratio k1–1	17.4%	16.4%
Capital adequacy ratio k1–2	19.2%	20.0%
Capital adequacy ratio k2	21.9%	23.0%