Subsidiary JSC VTB Bank (Kazakhstan)
Financial statements

Year ended 31 December 2011
Together with Independent Auditors' Report

CONTENTS

Independent auditors' report

Notes to the financial statements

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of Subsidiary JSC VTB Bank (Kazakhstan)

We have audited the accompanying financial statements of Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, the statement of changes in equity and the 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

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

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

21 February 2012

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

(Thousands of tenge)

	Notes	2011	2010
Assets			
Cash and cash equivalents	6	12,956,682	5,287,152
Amounts due from credit institutions		11,057	–
Trading securities	7	1,030,906	4,857,731
Loans to customers	8	45,669,980	10,325,701
Property and equipment	9	1,588,717	774,308
Intangible assets	10	213,403	119,165
Current corporate income tax assets	11	31,007	31,007
Deferred corporate income tax assets	11	585,302	154,825
Other assets	12	383,496	121,406
Total assets		62,470,550	21,671,295
Liabilities			
Amounts due to credit institutions	13	973,380	90,144
Amounts due to customers	14	30,047,061	9,071,036
Debt securities issued	15	13,212,821	3,986,824
Other liabilities	12	639,314	118,130
Total liabilities		44,872,576	13,266,134
Equity			
Share capital	16	20,000,000	9,000,000
Accumulated deficit		(2,402,026)	(594,839)
Total equity		17,597,974	8,405,161
Total equity and liabilities		62,470,550	21,671,295

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

Gusarov S. N. Chairman of the Board

Lavrentieva A. V. Chief Accountant

21 February 2012

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Thousands of tenge)

	Notes	*2011*	*2010*
Interest income			
Loans to customers		2,650,723	443,385
Amounts due from credit institutions		20,453	2,413
		2,671,176	445,798
Trading securities		135,004	123,264
		2,806,180	569,062
Interest expense			
Amounts due to credit institutions		(19,338)	(2,724)
Amounts due to customers		(679,590)	(32,557)
Debt securities issued		(284,104)	(5,238)
		(983,032)	(40,519)
Net interest income before impairment		1,823,148	528,543
Impairment charge	8	(422,676)	(3,973)
Net interest income		1,400,472	524,570
Net fee and commission income	18	375,870	109,636
Net (losses) /gains from trading securities		(56,562)	63,366
Net gains / (losses) from foreign currencies:			
- dealing		198,618	17,809
- translation differences		(19,714)	1,657
Other income		14,280	7,756
Non-interest income		512,492	200,224
Personnel expenses	19	(2,217,865)	(686,889)
Other operating expenses	19	(1,570,331)	(541,028)
Depreciation and amortisation	9, 10	(222,304)	(92,634)
Taxes other than corporate income tax		(126,902)	(49,714)
Other expenses		(13,226)	(5,826)
Non-interest expense		(4,150,628)	(1,376,091)
Loss before corporate income tax benefit		(2,237,664)	(651,297)
Corporate income tax benefit	11	430,477	131,445
Net loss for the year		(1,807,187)	(519,852)
Other comprehensive income for the year		–	–
Total comprehensive loss for the year		(1,807,187)	(519,852)

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Thousands of Tenge)

	Share capital	*Accumulated deficit*	*Total equity*
31 December 2009	6,040,000	(74,987)	5,965,013
Comprehensive loss for the year	–	(519,852)	(519,852)
Issue of common shares *(Note 16)*	2,960,000	–	2,960,000
31 December 2010	9,000,000	(594,839)	8,405,161
Comprehensive loss for the year	–	**(1,807,187)**	**(1,807,187)**
Issue of common shares *(Note 16)*	**11,000,000**	–	**11,000,000**
31 December 2011	**20,000,000**	**(2,402,026)**	**17,597,974**

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(Thousands of tenge)

	Notes	2011	2010
Cash flows from operating activities			
Interest received		2,452,294	433,495
Interest paid		(932,057)	(9,541)
Fees and commissions received		394,822	116,770
Fees and commissions paid		(24,994)	(16,359)
Gains less losses from trading securities		(2,264)	43,009
Realised gains less losses from dealing in foreign currencies		198,618	17,809
Personnel expenses paid		(1,714,671)	(615,728)
Other operating expenses paid		(1,682,315)	(584,396)
Cash flows used in operating activities before changes in operating assets and liabilities		(1,310,567)	(614,941)
Net increase / (decrease) in operating assets			
Amounts due from credit institutions		(11,057)	–
Trading securities		3,855,089	(1,549,878)
Loans to customers		(35,491,094)	(8,424,097)
Other assets		(108,581)	(109,796)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		876,754	(4,834,598)
Amounts due to customers		20,905,253	8,277,104
Other liabilities		(7,604)	(5,556)
Net cash flows used in operating activities before corporate income tax		(11,291,807)	(7,261,762)
Corporate income tax paid		–	(52)
Net cash used in operating activities		(11,291,807)	(7,261,814)
Cash flows from investing activities			
Purchase of property and equipment		(1,145,733)	(457,035)
Purchase of intangible assets	10	(125,491)	(53,080)
Net cash used in investing activities		(1,271,224)	(510,115)
Cash flows from financing activities			
Proceeds from debt securities issued		9,252,276	3,994,477
Increase in share capital	16	11,000,000	2,960,000
Net cash flows from financing activities		20,252,276	6,954,477
Effect of exchange rate changes on cash and cash equivalents		(19,715)	1,657
Net increase / (decrease) in cash and cash equivalents		7,669,530	(815,795)
Cash and cash equivalents, beginning	6	5,287,152	6,102,947
Cash and cash equivalents, ending	6	12,956,682	5,287,152

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

1. Principal activities

Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank") was formed on 19 September 2008 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking licence №1.1.259 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations on 22 May 2009.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The registered address of the Bank is 28, Timiryazev Str., Almaty, 050040, Kazakhstan. As at 31 December 2011 the Bank has 17 branches throughout Kazakhstan (31 December 2010: 5).

The Bank is a member of the deposit insurance system. The system operates under the laws of the Republic of Kazakhstan and is governed by the National Bank of the Republic of Kazakhstan (the "NBRK"). Insurance covers the Bank's liabilities to individual depositors for an amount up to 5 million tenge for each individual in the event of business failure and revocation of the banking licence.

As at 31 December 2011 and 2010, the sole shareholder of the Bank is OJSC Bank VTB (Russia) (the "Parent"). The ultimate controlling party of the Bank is the Government of the Russian Federation.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are prepared under the historical cost convention modified for the measurement at fair value of financial assets at classified as trading securities as required by IAS 39 "Financial Instruments: Recognition and Measurement".

These financial statements are presented in thousands of tenge ("tenge" or "KZT"), unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

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. The amendment had no impact on the Bank's 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 Bank's financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, 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. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Bank, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests 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.

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

Improvements to IFRSs (continued)

- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- 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 Bank.

The following amendments to standards and interpretations did not have any impact on the Bank'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.

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. Plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank 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 Bank 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.

'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 Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of comprehensive income. 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 statement of comprehensive income 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 trading securities if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income.

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 statement of comprehensive income when the borrowings and receivables are derecognised or impaired, as well as through the amortisation process.

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.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Determination of fair value (continued)

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 of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the 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.

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 Bank 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.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss previously recognized in the statement of comprehensive income 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, amount due from the National Bank of the Republic of Kazakhstan and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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 customers and amounts due to credit institutions, 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 statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of comprehensive income.

Leases

Operating - Bank 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.

3. Summary of significant accounting policies (continued)

Impairment of financial assets

The Bank 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.

Loans to customers

For loans to customers carried at amortised cost, the Bank 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 Bank 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 recognized in the statement of comprehensive income . 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 Bank. 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 statement of comprehensive income.

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 Bank'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 in the Bank 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.

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 Bank 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

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

- The Bank 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 Bank 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 Bank 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 Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank'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 statement of comprehensive income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the 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 statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

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

Deferred corporate income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred corporate 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 corporate 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 corporate 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 corporate income 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 rates that have been enacted or substantively enacted at the reporting date. The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included in the statement of comprehensive income as taxes other than income tax.

Property and equipment

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

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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:

	Years
Furniture and fixtures	8
Leasehold improvements	10
Computers and office equipment	4-7
Motor vehicles	7
Other	4-10

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 capitalisation.

Intangible assets

Intangible assets include computer software and licences and are stated at the historical cost, less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight – line basis over the useful economic lives of 6 to 7 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Share capital

Ordinary shares are classified as equity. Share capital is measured at fair value of consideration received. 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.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: retail banking, corporate banking, financial markets and general management.

Contingencies

Contingent liabilities are not recognised in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized when it is probable that the economic benefits will flow to the Bank and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue 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 Bank 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.

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and 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 items include commission income and fees for the 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.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as purchase or sale of currency, translation transactions or cash transactions – are recognised on completion of the underlying transaction.

Foreign currency translation

The financial statements are presented in Kazakhstani tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official rate at the date of the transaction established by the Kazakhstan Stock Exchange (the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the official currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income 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 official 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 market exchange rate on the date of the transaction are included in net gains from foreign currencies – dealing. The market exchange rates at 31 December 2011 and 2010, were KZT 148.36 and KZT 147.46 to USD 1, respectively. The currency exchange rate as at 21 February 2011 was KZT 148.11 to USD 1.

Future changes in accounting policy

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 Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

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. The Bank expects that this standard will not have any impact on its financial position or performance of the Bank.

3. Summary of significant accounting policies (continued)

Future changes in accounting policy (continued)

Standards and interpretations issued but not yet effective (continued)

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. The Bank expects that the adoption of IFRS 11 will have no impact on its financial position and performance.

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. The Bank expects that this standard will have no impact on its financial statements.

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 Bank expects that this standard will have no impact on its financial statements.

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. The Bank expects that this standard will have no impact on its financial statements.

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. The Bank expects that this standard will have no impact on its financial statements.

Amendments to IFRS 7 'Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods 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 changes requirements to disclosures only and will not have any impact on the Bank's financial position or performance.

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 Bank expects that this standard will have no impact on its financial statements.

3. Summary of significant accounting policies (continued)

Future changes in accounting policy (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 19 Employee Benefits (Amendment)

The amendment becomes effective for annual periods beginning on or after 01 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 Bank expects that this standard will have no impact on its financial statements.

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 affect presentation only and will not have any impact on the Bank's financial position or performance.

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 Bank expects that this standard will have no impact on its financial statements.

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank 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 Bank 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 Bank uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank 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 Bank's tax, currency and customs positions will be sustained.

5. Segment information

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Financial markets	Representing operations on interbank and securities market.
General management	Representing general management of the Bank's activities.

(In thousands of tenge unless otherwise indicated)

5. Segment information (continued)

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 financial statements. Income tax is managed on a group basis and os not allocated to operating segments.

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

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

2011	*Corporate Banking*	*Retail banking*	*Financial markets*	*General management*	*Total*
Interest income	2,044,158	606,565	155,457	–	2,806,180
Interest expense	(476,651)	(202,939)	(303,442)	–	(983,032)
Net interest income before impairment	1,567,507	403,626	(147,985)	–	1,823,148
Impairment charge	(322,415)	(100,261)	–	–	(422,676)
Net interest income	1,245,092	303,365	(147,985)	–	1,400,472
Fee and commission income	334,717	65,306	841	–	400,864
Fee and commission expense	–	–	(24,994)	–	(24,994)
Net losses from trading securities	–	–	(56,562)	–	(56,562)
Net gains from foreign currencies	127,362	69,337	337	(18,132)	178,904
Other income	–	–	–	14,280	14,280
Non-interest income	462,079	134,643	(80,378)	(3,852)	512,492
Net operating income	1,707,171	438,008	(228,363)	(3,852)	1,912,964
Personnel and other operating expenses	(348,268)	(372,292)	(42,733)	(3,024,903)	(3,788,196)
Depreciation and amortisation	–	–	–	(222,304)	(222,304)
Other expenses	–	–	–	(140,128)	(140,128)
Income / (loss) before corporate income tax benefit	1,358,903	65,716	(271,096)	(3,391,187)	(2,237,664)
Corporate income tax benefit	–	–	–	430,477	430,477
Income / (loss) for the year	1,358,903	65,716	(271,096)	(2,960,710)	(1,807,187)
Segment assets	40,010,274	5,659,706	13,998,993	2,801,577	62,470,550
Segment liabilities	24,944,439	5,102,622	14,186,201	639,314	44,872,576
Other segment information					
Capital expenditures	–	–	–	1,005,460	1,005,460

(In thousands of tenge unless otherwise indicated)

5. Segment information (continued)

2010	*Corporate banking*	*Retail banking*	*Financial markets*	*General management*	*Total*
Interest income	421,409	17,441	130,212	–	569,062
Interest expense	(25,740)	(2,282)	(12,497)	–	(40,519)
Net interest income before impairment	395,669	15,159	117,715	–	528,543
Impairment charge	–	(3,973)	–	–	(3,973)
Net interest income	395,669	11,186	117,715	–	524,570
Fee and commission income	112,407	7,200	713	–	120,320
Fee and commission expense	–	–	(10,684)	–	(10,684)
Net income from trading securities	–	–	63,366	–	63,366
Net gains from foreign currencies	–	4,425	13,384	1,657	19,466
Other income	4,760	934	–	2,062	7,756
Non-interest income	117,167	12,559	66,779	3,719	200,224
Net operating income	512,836	23,745	184,494	3,719	724,794
Personnel and other operating expenses	(64,470)	(14,896)	(24,339)	(1,124,212)	(1,227,917)
Depreciation and amortisation	–	–	–	(92,634)	(92,634)
Other expenses	–	–	–	(55,540)	(55,540)
Income / (loss) before corporate income tax benefit	448,366	8,849	160,155	(1,268,667)	(651,297)
Corporate income tax benefit	–	–	–	131,445	131,445
Income / (loss) for the year	448,366	8,849	160,155	(1,137,222)	(519,852)
Segment assets	9,904,372	426,025	10,145,310	1,195,588	21,671,295
Segment liabilities	8,625,833	449,327	4,082,509	108,465	13,266,134
Other segment information					
Capital expenditures	–	–	–	471,573	471,573

Geographical information

Segment information for the main geographical segments of the Bank for the years ended 31 December 2011 and 2010 is set out below:

	2011			*2010*		
	Kazakhstan	*Other countries*	*Total*	*Kazakhstan*	*Other countries*	*Total*
Revenue	**3,207,044**	**–**	**3,207,044**	689,382	–	689,382
Non-current assets	**1,802,120**	**–**	**1,802,120**	893,473	–	893,473

Non-current assets represent property and equipment and intangible assets.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	*2010*
Cash on hand	**1,292,775**	309,070
Current accounts with the NBRK	**9,241,350**	4,929,209
Current accounts with other credit institutions	**197,857**	48,873
Time deposits with credit institutions with contractual maturity of up to 90 days	**2,224,700**	–
	12,956,682	5,287,152

(In thousands of tenge unless otherwise indicated)

6. Cash and cash equivalents (continued)

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 on the current accounts with the NBRK or physical cash computed based on average balances of the aggregate of cash balances on current account with the NBRK or physical cash during the period of reserve creation.

As at 31 December 2011, obligatory reserves amounted to KZT 1,349,300 thousand (31 December 2010: KZT 233,315 thousand).

7. Trading securities

Trading securities comprise:

	2011	*2010*
Corporate bonds	711,107	–
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	319,799	1,879,631
Notes of the NBRK	–	2,978,100
	1,030,906	4,857,731

Below are interest rates and maturities of debt securities:

	2011		*2010*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	9.3	2019	–	–
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	4.3 – 5.5	2012 – 2017	4.3 – 6.8	2011 – 2017
Notes of the NBRK	–	–	0.7	2011

8. Loans to customers

Loans to customers comprise:

	2011	*2010*
Corporate lending	36,304,823	7,673,852
Small business lending	4,027,959	2,225,873
Consumer lending	5,763,940	429,949
Gross loans to customers	46,096,722	10,329,674
Less: allowance for impairment	(426,742)	(3,973)
Loans to customers	45,669,980	10,325,701

Allowance for impairment of loans to customers

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

	Corporate lending	*Small business lending*	*Consumer lending*	*Total*
1 January 2011	–	–	3,973	3,973
Charge for the year	322,286	129	100,261	422,676
Foreign exchange difference	93	–	–	93
31 декабря 2011 года	322,379	129	104,234	426,742
Individual impairment	322,379	–	–	322,379
Collective impairment	–	129	104,234	104,363
	322,379	129	104,234	426,742
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	978,488	–	–	978,488

(In thousands of tenge unless otherwise indicated)

8. Loans to customers (continued)

	Consumer lending	*Total*
1 January 2010	–	–
Charge for the year	3,973	3,973
31 December 2010	3,973	3,973
Collective impairment	3,973	3,973

Individually impaired loans

Interest income accrued on loans, individually assessed as impaired, for the year ended 31 December 2011, amounted to KZT 89,967 thousand (31 December 2010: nil).

According to the NBRK requirements, loans may only be written off with the approval of the Board of Directors, and in some cases, when a respective court decision is available.

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends 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, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

Also, the Bank obtains guarantees from parent companies for loans issued to their subsidiaries.

Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment.

Concentration of loans to customers

As at 31 December 2011, the Bank had a concentration of loans represented by KZT 18,881,778 thousand due from the ten largest third party entities (41.3% of gross loan portfolio) (31 December 2010: KZT 7,715,468 thousand or 74.7%). As at 31 December 2011 and 2010 no allowance was recognised against these loans.

Loans have been extended to the following types of customers:

	2011	*2010*
Private companies	**40,332,782**	9,899,725
Individuals	**5,763,940**	429,949
	46,096,722	10,329,674

(In thousands of tenge unless otherwise indicated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans are mainly issued to clients within Kazakhstan in the following industries:

	2011	*2010*
Wholesale trading	**10,025,610**	4,359,592
Individuals	**5,763,940**	429,949
Machinery and equipment production	**4,985,619**	2,440,415
Retail trading	**4,688,491**	600,459
Energy	**4,002,576**	–
Construction of roads and industrial buildings	**2,770,858**	1,090,552
Oil and gas	**2,190,044**	–
Real estate investments	**1,931,398**	348,839
Food industry	**1,891,498**	–
Mining industry	**1,844,085**	–
Housing construction	**1,287,570**	182,698
Construction materials	**1,052,836**	–
Transportation	**861,279**	354,449
Agriculture	**812,337**	–
Hotel business and restaurants	**427,677**	–
Light industry	**75,629**	–
Telecommunication	**–**	70,177
Other	**1,485,275**	452,544
	46,096,722	10,329,674

9. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Leasehold improvements*	*Computers and office equipment*	*Vehicles*	*Assets for installation*	*Other assets*	*Total*
Cost:							
31 December 2009	65,370	82,278	216,890	9,894	–	35,988	410,420
Additions	25,910	151,916	162,229	8,916	117,377	5,225	471,573
Transfers	(4,963)	–	52,342	–	(84,115)	36,736	–
31 December 2010	86,317	234,194	431,461	18,810	33,262	77,949	881,993
Additions	**72,909**	**320,274**	**175,710**	**11,107**	**19,453**	**406,007**	**1,005,460**
Transfers	**–**	**–**	**28,233**	**–**	**(28,233)**	**–**	**–**
31 December 2011	**159,226**	**554,468**	**635,404**	**29,917**	**24,482**	**483,956**	**1,887,453**
Accumulated depreciation:							
31 December 2009	(2,126)	(4,114)	(23,426)	–	–	(4,035)	(33,701)
Depreciation charge	(7,721)	(7,236)	(46,840)	(2,158)	–	(10,029)	(73,984)
Transfers	249	–	–	–	–	(249)	–
31 December 2010	(9,598)	(11,350)	(70,266)	(2,158)	–	(14,313)	(107,685)
Depreciation charge	**(13,620)**	**(32,345)**	**(121,474)**	**(3,745)**	**–**	**(19,867)**	**(191,051)**
31 December 2011	**(23,218)**	**(43,695)**	**(191,740)**	**(5,903)**	**–**	**(34,180)**	**(298,736)**
Net book value:							
31 December 2009	63,244	78,164	193,464	9,894	–	31,953	376,719
31 December 2010	76,719	222,844	361,195	16,652	33,262	63,636	774,308
31 December 2011	**136,008**	**510,773**	**443,664**	**24,014**	**24,482**	**449,776**	**1,588,717**

In 2010, the Bank has adjusted the useful life of leasehold improvements from 5 to 10 years.

(In thousands of tenge unless otherwise indicated)

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Software*	*Total*
Cost:			
31 December 2009	1,053	92,541	93,594
Additions	20,261	32,819	53,080
31 December 2010	21,314	125,360	146,674
Additions	**23,440**	**102,051**	**125,491**
31 December 2011	**44,754**	**227,411**	**272,165**
Accumulated amortisation:			
31 December 2009	(26)	(8,833)	(8,859)
Amortisation charge	(3,869)	(14,781)	(18,650)
31 December 2010	(3,895)	(23,614)	(27,509)
Amortisation charge	**(10,951)**	**(20,302)**	**(31,253)**
31 December 2011	**(14,846)**	**(43,916)**	**(58,762)**
Net book value:			
31 December 2009	1,027	83,708	84,735
31 December 2010	17,419	101,746	119,165
31 December 2011	**29,908**	**183,495**	**213,403**

11. Taxation

The corporate income tax benefit comprises:

	2011	*2010*
Current corporate income tax charge	–	–
Current corporate income tax charge of prior periods	–	1,696
Deferred corporate income tax benefit – origination and reversal of temporary differences	**(430,477)**	(133,141)
Corporate income tax benefit	**(430,477)**	(131,445)

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation, the applied corporate income tax rate is 20% in 2011 and 2010.

The reconciliation between the corporate income tax benefit in the accompanying financial statements and loss before corporate income tax multiplied by the statutory tax rate for the periods ended 31 December is as follows:

	2011	*2010*
Loss before taxes	**(2,237,664)**	(651,297)
Statutory tax rate	**20%**	20%
Theoretical corporate income tax benefit at the statutory rate	**(447,533)**	(130,259)
Non-deductible loss / (non-taxable income) from government securities	**10,860**	(4,072)
Non-deductible operating expenses	**2,146**	1,010
Other permanent differences	**4,050**	1,876
Corporate income tax benefit	**(430,477)**	(131,445)

As at 31 December 2011, current corporate income tax assets comprised KZT 31,007 thousand (31 December 2010: KZT 31,007 thousand).

(In thousands of tenge unless otherwise indicated)

11. Taxation (continued)

Deferred income 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 statement of comprehen-sive income*	*2010*	*Origination and reversal of temporary differences in the statement of comprehen-sive income*	*2011*
Tax effect of deductible temporary differences:					
Tax losses carried forward	29,945	158,677	188,622	**419,764**	**608,386**
Accrued unused vacation expense	3,444	2,961	6,405	**11,106**	**17,511**
Accrued bonus expenses	–	11,006	11,006	**78,994**	**90,000**
Other accrued expenses	1,266	(378)	888	**1,478**	**2,366**
Deferred income tax assets	34,655	172,266	206,921	**511,342**	**718,263**
Tax effect of taxable temporary differences:					
Allowances for loan impairment	–	–	–	**(8,807)**	**(8,807)**
Property and equipment	(12,971)	(38,017)	(50,988)	**(72,395)**	**(123,383)**
Prepaid expenses	–	(1,108)	(1,108)	**337**	**(771)**
Deferred income tax liabilities	(12,971)	(39,125)	(52,096)	**(80,865)**	**(132,961)**
Net deferred income tax asset	21,684	133,141	154,825	**430,477**	**585,302**

Tax losses are carried forward for a period up to ten years in the Republic of Kazakhstan. The Bank believes that tax losses will be utilized.

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The main taxes include value added tax, 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 Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take different positions with regard to interpretive issues.

12. Other assets and liabilities

As at 31 December other assets comprise:

	2011	*2010*
Prepayments for acquisition of property and equipment	**154,110**	13,837
Rent prepayment	**134,447**	65,493
Other prepaid expenses	**44,265**	30,353
Inventory	**21,198**	–
Commission income accrued	**10,690**	–
Other	**18,786**	11,723
	383,496	121,406

As at 31 December other liabilities comprise:

	2011	*2010*
Bonuses accrued	**450,000**	55,254
Accrual for unused vacations	**87,554**	32,027
Accounts payable for acquisition of property and equipment	**54,701**	14,538
Professional fees payable	**12,432**	3,276
Accrued commission expense	**1,048**	–
Taxes other than corporate income tax payable	**575**	11
Rent payable	**–**	2,768
Other	**33,004**	10,256
	639,314	118,130

(In thousands of tenge unless otherwise indicated)

13. Amounts due to credit institutions

As at 31 December amounts due to credit institutions comprise:

	2011	*2010*
Time deposits and loans	**646,589**	–
Current accounts	**326,791**	90,144
	973,380	90,144

14. Amounts due to customers

The amounts due to customers comprise:

	2011	*2010*
Time deposits	**21,094,114**	7,899,591
Current accounts	**8,952,947**	1,171,445
	30,047,061	9,071,036
Time deposits held as security against guarantees and letters of credit	**263,565**	–

As at 31 December 2011, the Bank's ten largest customers accounted for KZT 20,863,357 thousand or 69.4% of total amounts due to customers (31 December 2010: KZT 8,199,615 thousand or 90.4%).

Included in time deposits are deposits of individuals of KZT 4,622,285 thousand (31 December 2010: KZT 409,544 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2011	*2010*
Private enterprises	**24,784,343**	8,623,531
Individuals	**5,102,622**	447,505
Government entities	**160,096**	–
	30,047,061	9,071,036

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

	2011	*2010*
Non-credit financial institutions	**15,954,300**	7,275,446
Individuals	**5,102,622**	447,505
Construction	**2,394,543**	368,552
Wholesale trading	**2,073,175**	212,513
Oil and gas production	**1,914,500**	240,198
Retail trading	**515,906**	18,475
Transportation and communication	**465,032**	297,826
Machinery and equipment production	**325,504**	55,816
Agriculture	**294,489**	–
Real estate investments	**217,427**	–
Education	**160,397**	150,012
Food industry	**87,170**	–
Energy	**38,792**	–
Entertainment	**19,263**	–
Light industry	**9,327**	–
Other	**474,614**	4,693
	30,047,061	9,071,036

(In thousands of tenge unless otherwise indicated)

15. Debt securities issued

Debt securities issued comprise:

	2011	*2010*
Debt securities issued	12,832,233	3,786,615
Plus: unamortised premium	392,850	205,750
Less: unamortised cost of issuance	(12,262)	(5,541)
Debt securities issued	13,212,821	3,986,824

In November 2011, the Bank issued additional KZT bonds with an aggregate nominal value of KZT 9,005,000 thousand. The bonds bear interest at a nominal rate of 7% per annum and mature in December 2014.

16. Share capital

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

	Number of shares	*Placement value*
31 December 2009	604,000	6,040,000
Increase in share capital	296,000	2,960,000
31 December 2010	900,000	9,000,000
Increase in share capital	**1,100,000**	**11,000,000**
31 December 2011	2,000,000	20,000,000

In 2011, in accordance with the sole shareholder's decision dated 6 April 2011, the Bank authorized the issue of 1,100,000 common shares (2010: 296,000 common shares). All authorized shares have been issued and fully paid by the existing shareholder at the offering price of KZT 10 thousand per share. No dividends were declared or paid during 2011 and 2010.

In 2010, in accordance with the shareholder's decision dated 28 April 2010, the Bank authorized the issue of 296,000 common shares. All authorized shares have been issued and fully paid by the existing shareholder.

17. Financial commitments and contingencies

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely depend upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The world financial crisis affected the Kazakhstan economy. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects.

Legal issues

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the contingent liabilities.

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 the 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 Bank believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise 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, if any, 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 Bank's management that these amounts are either not probable, not reasonably determinable, or both.

(In thousands of tenge unless otherwise indicated)

17. Commitments and contingencies (continued)

Financial commitments and contingencies

As at 31 December, the Bank's financial commitments and contingencies comprise the following:

	2011	*2010*
Credit related commitments		
Guarantees	**5,563,316**	2,922,922
Undrawn loan commitments	**10,513,621**	2,818,867
Letters of credit	**2,358,810**	405,701
	18,435,747	6,147,490
Operating lease commitments		
Not later than 1 year	**788,818**	162,195
Later than 1 year but not later than 5 years	**1,018,110**	341,073
	1,806,928	503,268
Capital expenditure commitments	**–**	3,750
Financial commitments and contingencies (before impairment)	**20,242,675**	6,654,508
Less - Amounts held as security against guarantees and letters of credit (*Note 14*)	**(263,565)**	–
Financial commitments and contingencies	**19,979,110**	6,654,508

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

The total outstanding contractual amount of undrawn loan commitments, letters of credit, and guarantees does not necessarily represent future cash claims, since the specified liabilities could mature or be cancelled without granting funds to the borrower.

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary.

18. Fees and commissions

Net fee and commission income comprises:

	2011	*2010*
Guarantees issued	**140,074**	78,602
Transfer operations	**85,398**	17,594
Foreign currency transactions	**62,717**	12,872
Cash transactions	**58,539**	4,715
Consulting services	**19,867**	–
Letters of credit issued	**18,842**	1,908
Other	**15,427**	4,629
Fee and commission income	**400,864**	120,320
Transfer operations	**(8,809)**	(4,016)
Consulting services	**(6,695)**	–
Custody services	**(4,356)**	(1,915)
Brokerage services	**(2,385)**	(1,970)
Other	**(2,749)**	(2,783)
Fee and commission expense	**(24,994)**	(10,684)
Net fee and commission income	**375,870**	109,636

(In thousands of tenge unless otherwise indicated)

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2011	*2010*
Salaries and bonuses	**(2,008,375)**	(630,708)
Social security costs	**(209,490)**	(56,181)
Personnel expenses	**(2,217,865)**	(686,889)
Rent	**(596,770)**	(273,814)
Marketing and advertising	**(313,465)**	(101,932)
Security	**(181,563)**	(30,128)
Repair and maintenance of property and equipment	**(98,208)**	(9,971)
Business trip expenses	**(73,674)**	(26,503)
Communication	**(64,211)**	(37,216)
Transportation	**(33,907)**	(4,450)
Office supplies	**(32,904)**	(10,612)
Membership fees	**(31,125)**	–
Representative expenses	**(28,892)**	(3,921)
Legal and consultancy services	**(24,983)**	(11,650)
Payments to the deposit insurance fund	**(15,536)**	–
Translation services	**(15,400)**	(3,301)
Cash collection	**(11,536)**	–
Information services	**(7,786)**	(8,285)
Trainings	**(2,503)**	(956)
Insurance expenses	**(1,846)**	–
Plastic cards	**(1,598)**	–
Other	**(34,424)**	(18,289)
Other operating expenses	**(1,570,331)**	(541,028)

20. Risk management

Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks 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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

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 Bank.

Assets and Liabilities Management Committee

The 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.

20. Risk management (continued)

Introduction (continued)

Risk Controlling Department

The Risk Controlling Department is responsible for control over compliance with principles, policies relating to risk management and risk limits of the Bank, for independent control of risks, including control position subject to risk in comparison with established limits and estimation of risks of new products and structured transactions. This Department also performs collection of full information in risk estimation system and risk management reports. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The Department is responsible for realisation of the credit policy of the Bank and compliance with requirements of other internal documents and state regulators. It takes part in making decisions on accepting different risks. The Department develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. It develops and implements methodology and analytical instruments, which help evaluate risks, control level of risk and arrange risk mitigation procedures.

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

The Bank'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 Bank 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 Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank 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. This information is submitted to the Management Board of the Bank, Committees of the Bank and the heads of departments. The report includes aggregate credit exposure, exceptions from established risk limits, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer risks takes place. The appropriateness of the allowance for credit losses is assessed on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity price and exposures arising from forecast transactions. The Bank 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 Bank's performance to developments affecting a particular industry or geographical location.

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

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank 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.

(In thousands of tenge unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

The Bank 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. Ratings are reviewed on a regular basis. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake 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 Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents 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 presented in Note 8 Loans to customers and Note 17 Financial commitments and contingencies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank'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 Bank's credit rating system.

2011	*Notes*	*Neither past due nor impaired* Standard grade	*Neither past due nor impaired* Sub-standard grade	*Past due, but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	**11,663,907**	–	–	–	**11,663,907**
Amounts due from credit institutions		**11,057**	–	–	–	**11,057**
Loans to customers	8					
Corporate lending		**35,213,294**	–	**113,041**	**978,488**	**36,304,823**
Small business lending		**3,951,960**	**75,999**	–	–	**4,027,959**
Consumer lending		–	**5,638,380**	**125,560**	–	**5,763,940**
Total		**50,840,218**	**5,714,379**	**238,601**	**978,488**	**57,771,686**

2010	*Notes*	*Neither past due nor impaired* Standard grade	*Neither past due nor impaired* Sub-standard grade	*Total*
Cash and cash equivalents (excluding cash on hands)	6	4,978,082	–	4,978,082
Loans to customers	8			
Corporate lending		7,673,852	–	7,673,852
Small business lending		2,225,873	–	2,225,873
Consumer lending		–	429,949	429,949
Total		14,877,807	429,949	15,307,756

It is the Bank'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 Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(In thousands of tenge unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

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

	Less than 30 days 2011	*31 - 60 days 2011*	*61 - 90 days 2011*	*Over 90 days 2011*	*Total 2011*
Loans to customers					
Corporate lending	113,041	–	–	–	113,041
Consumer lending	39,940	20,237	12,519	52,864	125,560
Total	152,980	20,237	12,519	52,864	238,601

See Note 8 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 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 Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank 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 credit cards, residential mortgages and unsecured consumer 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 Bank's overall policy.

(In thousands of tenge unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

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

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

	2011			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets:				
Cash and cash equivalents	10,538,301	185,066	2,233,315	12,956,682
Amounts due from credit institutions	–	–	11,057	11,057
Trading securities	1,030,906	–	–	1,030,906
Loans to customers	45,669,980	–	–	45,669,980
Other financial assets	11,039	12,777	3,035	26,851
	57,250,226	197,843	2,247,407	59,695,476
Liabilities:				
Amounts due to credit institutions	505,550	438,640	29,190	973,380
Amounts due to customers	30,047,061	–	–	30,047,061
Debt securities issued	13,212,821	–	–	13,212,821
Other financial liabilities	581,941	–	–	581,941
	44,347,373	438,640	29,190	44,815,203
Net assets / (liabilities)	12,902,853	(240,797)	2,218,217	14,880,273

	2010			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets:				
Cash and cash equivalents	5,242,750	28,801	15,601	5,287,152
Trading securities	4,857,731	–	–	4,857,731
Loans to customers	10,325,701	–	–	10,325,701
Current income tax assets	31,007	–	–	31,007
Other financial assets	4,648	–	–	4,648
	20,461,837	28,801	15,601	20,506,239
Liabilities:				
Amounts due to credit institutions	–	90,144	–	90,144
Amounts due to customers	9,071,036	–	–	9,071,036
Debt securities issued	3,986,824	–	–	3,986,824
Other financial liabilities	28,674	–	–	28,674
	13,086,534	90,144	–	13,176,678
Net assets / (liabilities)	7,375,303	(61,343)	15,601	7,329,561

Liquidity risk and funding management

Liquidity risk is the risk that the Bank 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. 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. 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.

(In thousands of tenge unless otherwise indicated)

20. Risk management (continued)

Liquidity risk and funding management (continued)

To assess and mitigate and manage the liquidity risks, the Bank uses the following methods:

- Analysis of contractual maturities and projection of cash flows (gap analysis) as well as analysis of deposit base concentration;
- Setting of limits to variances in maturities (limits to gaps) as well as setting and regular updating of limits for the general volume of financing adjusted for current and projected levels of liquidity;
- Allocation and use of the Treasury securities portfolio to manage short-term liquidity;
- Development of emergency action plans (emergency financing plans).

The Bank is obliged to comply with liquidity requirements established by the regulators, including requirements of the National Bank of the Republic of Kazakhstan, represented by obligatory ratios.

The Bank monitors a number of internal liquidity indicators on a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

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 flows. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer deposits attracted.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank'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 Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities	*2011*				
	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*Total*
Amounts due to credit institutions	**339,782**	**551,670**	**119,409**	**–**	**1,010,861**
Amounts due to customers	**9,814,124**	**19,071,562**	**2,302,887**	**9,810**	**31,198,383**
Debt securities issued	**–**	**894,950**	**14,574,900**	**–**	**15,469,850**
Other liabilities	**24,029**	**54,701**	**–**	**–**	**78,730**
Total undiscounted financial liabilities	**10,177,935**	**20,572,883**	**16,997,196**	**9,810**	**47,757,824**

Financial liabilities	*2010*			
	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Total*
Amounts due to credit institutions	90,144	–	–	90,144
Amounts due to customers	1,603,482	7,889,719	–	9,493,201
Debt securities issued	–	264,600	4,573,800	4,838,400
Other liabilities	28,674	–	–	28,674
Total undiscounted financial liabilities	1,722,300	8,154,319	4,573,800	14,450,419

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than three months" category in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor (*Note 14*).

The table below shows the contractual expiry by maturity of the Bank'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.

(In thousands of tenge unless otherwise indicated)

20. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	2011				
	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*Total*
Financial commitments and contingencies	**13,327,251**	**2,492,360**	**4,413,254**	**9,810**	**20,242,675**

	2010				
	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*Total*
Financial commitments and contingencies	4,388,692	1,244,503	1,021,313	–	6,654,508

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

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 market risk for the trading portfolio is managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

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 demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities held at 31 December 2011 and 2010.

Currency	*Change in basis points 2011*	*Sensitivity of net interest income, 2011*	*Change in basis points 2010*	*Sensitivity of net interest income, 2010*
KZT	**+100**	**44,615**	+100	9,988
KZT	**-100**	**(44,615)**	-100	(9,988)

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2011 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 Tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. All other variables are held constant. The negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

(In thousands of tenge unless otherwise indicated)

20. Risk management (continued)

Market risk (continued)

Currency risk (continued)

	2011			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
USD	**10.72%**	**29,614**	**-10.72%**	**(29,614)**
EUR	**16.33%**	**17,961**	**-16.33%**	**(17,961)**
RUR	**16.01%**	**1,327**	**-16.01%**	**(1,327)**

	2010			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
USD	+11.56	252	-11.56	(252)
EUR	+16.65	4,012	-16.65	(4,012)
RUR	+16.05	3,990	-16.05	(3,990)

Prepayment risk

Prepayment risk is the risk that the Bank 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 Bank uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties or commissions. The model is back tested against actual outcomes.

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

The Bank believes that the prepayment risk does not have an effect on equity.

	Effect on net interest income
2011	**(49,364)**
2010	(15,576)

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 Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

21. Fair value of financial instruments

The Bank 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: 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.

(In thousands of tenge unless otherwise indicated)

21. Fair value of financial instruments (continued)

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

At 31 December 2011	*Level 1*	*Total*
Financial assets		
Trading securities	1,030,906	1,030,906
	1,030,906	1,030,906

At 31 December 2010	*Level 1*	*Total*
Financial assets		
Trading securities	4,857,731	4,857,731
	4,857,731	4,857,731

During 2011 and 2010 the Bank did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

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 Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2011			*2010*		
	Carrying value	*Fair value*	*Unrecog-nised gain / (loss)*	*Carrying value*	*Fair value*	*Unrecog-nized (loss) / gain*
Financial assets						
Cash and cash equivalents	12,956,682	12,956,682	–	5,287,152	5,287,152	–
Amounts due from credit institutions	11,057	11,057	–	–	–	–
Loans to customers	45,669,980	45,780,788	110,808	10,325,701	10,175,713	(149,988)
Other assets	26,851	26,851	–	4,648	4,648	–
Financial liabilities						
Amounts due to credit institutions	973,380	973,380	–	90,144	90,144	–
Amounts due to customers	30,047,061	30,252,300	(205,239)	9,071,036	8,848,694	222,342
Debt securities issued	13,212,821	13,212,821	–	3,992,365	3,992,365	–
Other liabilities	581,941	581,941	–	28,674	28,674	–
Total unrecognized change in unrealized fair value			(94,431)			72,354

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 these 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 three months) 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 and variable 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.

(In thousands of tenge unless otherwise indicated)

22. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 20 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2011			*2010*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	12,956,682	–	12,956,682	5,287,152	–	5,287,152
Amounts due from credit institutions	11,057	–	11,057	–	–	–
Trading securities	1,030,906	–	1,030,906	4,535,151	322,580	4,857,731
Loans to customers	22,557,458	23,112,522	45,669,980	9,411,967	913,734	10,325,701
Property and equipment	–	1,588,717	1,588,717	–	774,308	774,308
Intangible assets	–	213,403	213,403	–	119,165	119,165
Current corporate income tax assets	31,007	–	31,007	31,007	–	31,007
Deferred corporate income tax assets	–	585,302	585,302	–	154,825	154,825
Other assets	383,496	–	383,496	121,406	–	121,406
Total	36,970,606	25,499,944	62,470,550	19,386,683	2,284,612	21,671,295
	–	–	–			
Amounts due to credit institutions	862,080	111,300	973,380	90,144	–	90,144
Amounts due to customers	27,942,572	2,104,489	30,047,061	8,469,252	601,784	9,071,036
Debt securities issued	47,233	13,165,588	13,212,821	13,965	3,972,859	3,986,824
Other liabilities	639,314	–	639,314	118,130	–	118,130
Total	29,491,199	15,381,377	44,872,576	8,691,491	4,574,643	13,266,134
Net position	7,479,407	10,118,567	17,597,974	10,695,192	(2,290,031)	8,405,161

23. Related party disclosures

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.

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.

Transactions with government-related entities

The Russian Federation, acting through Federal Agency for State Property Management, controls the Bank.

The Russian Federation state directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as "government-related entities"). The Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the government. Under these circumstances, the management of the Bank disclosed only information that its current internal management system allows to present in relation to operations with government-controlled entities and where the management believes such entities could be considered as government-controlled based on its best knowledge.

During 2011 and 2010 the Bank entered into banking transactions pertaining to transactions with government related entities, solely with the Parent and its subsidiaries including cash settlement and foreign exchange transactions.

(In thousands of tenge unless otherwise indicated)

23. Related party disclosures (continued)

All transactions with Parent and its subsidiaries are entered into in the normal course of business and priced at market rates.

The volumes of related party transactions, outstanding balances at the year-end and related expense and income for the year are as follows:

	2011		
	Parent	*Entities under common control*	*Key management personnel*
Cash and cash equivalents as at 1 January	24,571	8,213	–
Receipts on current accounts during the year	17,861,180	6,917,224	–
Withdrawals from current accounts during the year	(17,715,909)	(6,916,822)	–
Cash and cash equivalents as at 31 December	169,842	8,615	–
Amounts due to credit institutions as at 1 January	90,144	–	–
Receipt of funds during the year	33,674,844	400	–
Payment of funds during the year	(33,326,380)	(368)	–
Amounts due to credit institutions as at 31 December	438,608	32	–
Amounts due to customers as at 1 January	–	–	2,670
Receipts on current accounts during the year	–	–	277,165
Withdrawals from current accounts during the year	–	–	(278,370)
Amounts due to customers as at 31 December	–	–	1,465

	2010		
	Parent	*Entities under common control*	*Key management personnel*
Cash and cash equivalents as at 1 January	1,401	34,252	–
Receipts on current accounts during the year	7,445,606	639,130	–
Withdrawals from current accounts during the year	(7,422,436)	(665,169)	–
Cash and cash equivalents as at 31 December	24,571	8,213	–
Amounts due to credit institutions as at 1 January	4,924,742	–	–
Receipts on current accounts during the year	9,695,164	–	–
Withdrawals from current accounts during the year	(14,529,762)	–	–
Amounts due to credit institutions as at 31 December	90,144	–	–
Amounts due to customers as at 1 January	–	–	916
Receipts on current accounts during the year	–	–	156,778
Withdrawals from current accounts during the year	–	–	(155,024)
Amounts due to customers as at 31 December	–	–	2,670

(In thousands of tenge unless otherwise indicated)

23. Related party disclosures (continued)

	2011	
	Parent	*Entities under common control*
Cash and cash equivalents		
Interest income	222	66
Interest rates	0.5%-1.0%	1.0%
Amounts due to credit institutions		
Interest expense	(6,336)	–
Interest rates	7.2%-7.3%	
Fee and commission income	–	19,867
Fee and commission expense	(6,695)	–

Compensation of 6 (2010: 9) members of key management personnel comprises the following:

	2011	2010
Salary and other short-term benefits	193,074	102,100
Social security costs	1,553	10,663
Total key management personnel compensation	194,627	112,763

In June 2011 the Bank acquired securities of an entity controlled by the Russian Federation in the amount of 600.000.000 bonds. As at 31 December 2011, fair value of these securities amounted to KZT 711.107 thousand.

24. 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 Committee for the Control and Supervision of Financial Market and Financial Institutions of the National Bank of the Republic of Kazakhstan ("FMSC") in supervising the activities of the Bank.

During 2011, 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.

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.

The FMSC requires banks to maintain a capital adequacy ratio (Tier 1) not less than 5% of total assets and a capital adequacy ratio (Tier 2) not less than 10% of risk-weighted assets, computed based on requirements of the FMSC. As at 31 December 2011, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's capital adequacy ratio, computed in accordance with the FMSC requirements as at 31 December, comprise:

	2011	2010
Tier 1 capital	17,576,226	8,288,773
Total assets	62,470,550	21,671,295
Tier 1 capital ratio	28%	38%

	2011	2010
Tier 2 capital	17,576,226	8,288,773
Risk weighted assets	57,086,128	15,087,727
Tier 2 capital ratio	31%	55%