



# Annual report 2011

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2011



# 1 Message from Chairman of the Board of Directors



Nurzhan Subkhanberdin

## Dear Shareholders, Partners and Clients!

The year 2011 was a jubilee year for our country and the bank — we have been celebrating the 20th anniversary of independence of the Republic of Kazakhstan and the 20th year since foundation of Kazkommertsbank. This year became a year of summarizing and appraising the results we have reached. It was a memorable period full of challenges, great changes and important developments.

We value our shareholders, clients and partners for being with us, extending their support and trust during this diverse time our country and the rest of the world are going through. We are confident that we will be able to go through that challenging periods together and justify the trust and meet expectations of our shareholders, clients and partners and continue being one of the most innovative banks and being such contribute into recovery, strengthening and further development of the economy and the banking sector of the country.

During the course of last year, despite the Eurozone crisis, we have seen an improved economic climate in our country, there were positive trends and clear signs of recovery, however in our opinion it is early to say that crisis is over .

In reply to the current environment and business climate Kazkommertsbank continued applying a conser-

vative approach in business. We keep on working with assets quality and as a result certain loans from our dominant corporate loan portfolio have been repaid and/or prepaid. We have returned to more active lending to SME and retail clients and have seen a growth in that part of the business while it was offset by efforts and results of our work-out procedures resulted into tangible proceeds coming from our corporate loan book. As a result total assets of the bank were down 4.6 per cent. with total loan portfolio on net basis shrank 4.4 per cent.

It has been a first ever crisis for our country and regulatory, legal, tax and other systems are being tested by the crisis. The work-out procedures the bank employs depend on various factors but nevertheless we see positive trends and achievements.

As at 31 December 2011 the bank remains the leading institution in terms of total assets, capital, term deposits and loan portfolio. There were three additional branches opened, number of ATMs and POS-terminals increased by 89 and 1375 units accordingly. Liquid assets are at a comfortable level and as at the end of the year immediately available funds account for US\$2.3 billion.

Aiming to reduce the cost of funding in 2011 the bank reduced interest rates on deposits twice. As a result the deposit base has decreased slightly while retail deposits have grown 25.5 per cent bringing the share of such

deposits as a percentage of total deposits from one third in 2010 to 39 per cent. as at 31 December 2011 becoming a clear evidence of increasing confidence of depositors to Kazkommertsbank. As far as the corporate deposits are concerned we reduced substantially the sector concentration having former largest oil and gas sector reduced almost two and a half times to 7.8 per cent as at the end of 2011.

There were other achievements and positive trends: in December last year Standard&Poors reviewed the bank's rating up. International investors have changed their perception of the bank and it resulted into a US\$300 million Eurobond transaction with maturity in 2018 and coupon rate of 8.5 per cent. The notable thing is that the new issue premium the bank paid was 12.5 basis points and it was two times less than the average of 25 basis points issuers paid at that time; we have signed a medium-term loan agreement with Export-Import Bank of Korea to finance import and export transactions of our clients. Those two transactions are considered as the most successful deals of the reported year but also treated as first transactions of their nature during the post-crisis period.

- In 2011 we have extended our participation in different governmental programs devoted to further development and diversification of the economy and have reached certain results on some of them:

- Throughout the year the bank continued working actively on lowering interest rates on mortgage loans within the governmental program and as a result today

more than 7 thousand borrowers of Kazkommertsbank have reduced interest rates on their loans.

- In the fourth quarter together with DAMU Entrepreneurship fund and Asian Development Bank launched a new lending program for small and medium size businesses. We hope that this opportunity will be welcomed by our clients and will enable them to realize their new projects.
- During the course of the year jointly with DAMU fund continued working under the program aimed to subsidize interest rates for industrial or manufacturing companies, clients of Kazkom. The program is targeting to develop and strengthen the sectors excluding oil and gas and commodities sectors.
- All construction works on completion of residential projects of «BI-Group» in Astana have been done according to schedule; in 2011 residential districts «Zerde», «Mereke – 2», «Solnechnyi Gorod – 2», «Dostar – 3», first queue of «Lazurniy kvartal» were completed and resulted into settling the issue for more than 70 per cent. of those people who prepaid for their apartments. In 2012 all projects of «BI-Group» with social effect and participation of people who prepaid for their houses were completed. The

projects of troubled construction developer Kuat in Almaty are being completed on schedule as well. Hence, Kazkommertsbank is actively involved in the projects aimed to settle major and complicated issues in Almaty and Astana cities for people who prepaid for their houses.

Apart from governmental programs there was one of the major events which took place in 2011. That was the memorandum signed between the bank and municipal authorities of Almaty city on partnership to solve the issues of social and economic development of Almaty. In general talking about the results of the year it is worth to mention about results reported by our pension fund. For twelve months of 2011 SPF «Grantum» pension assets were up for more than a half — from KZT 150 billion to KZT 243 billion, and total client base increased for more than one third and amounted to 360 000 people. «Grantum» has demonstrated the highest pace of growth of 62.1 per cent. in terms of assets in the country. It resulted into a highest in the sector jump in terms of market share in pension assets which exceeded 9 per cent. Over the past three years pension fund showed a high investment return of 28.97 per cent which is well above accumulated inflation of 22.96 per cent.

Kazkommertsbank remains one of the most technological and innovative banks and puts implementation of new technologies as one of the main tasks to further improve the quality of services rendered. In April 2011 Kazkommertsbank and «IBM» launched a new data center for data processing, which is unique one in its nature and one out of three centers to be combined in one catastrophe resistant decision enabling clients to use banking services on the basis of 7/24. In corporate business, in June last year National Railway Company «Kazakhstan Temir Zholy» and Kazkommertsbank launched a new innovative project to implement information systems on transportation orders. It shall help to make a logistic, form and pay for orders on transportation within Kazakhstan on a real time basis and it shall add to the efficiency and ease the process for Rail operator's clients and Kazkommerstbank.

2011 year was full of interesting events and results and above we have mentioned only few of them. It is important to mention that over 2008 through 2010 we have been tested by the crisis, made certain adjustments and have got lessons learnt. We have made a success and kept the same strong management which became even stronger, we have done a big work results of which were evident in 2010 and then in a larger extent in 2011. We follow the approved strategy to be the most efficient and technological institution in the country with high social responsibility towards the society where we live and operate. This year 2012 promises to be even more interesting and full of challenges. However, we have entered 2012 with confidence as a one strong and experienced team

with understanding of targets and plans approved. Leaving behind the first 20 years of its existence, we look into the future with hope for support from our clients, shareholders, partners and employees.

Sincerely yours,  
Nurzhan Subkhanberdin  
Chairman of the Board of Directors

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## 2 Analysis of financial statements of the bank

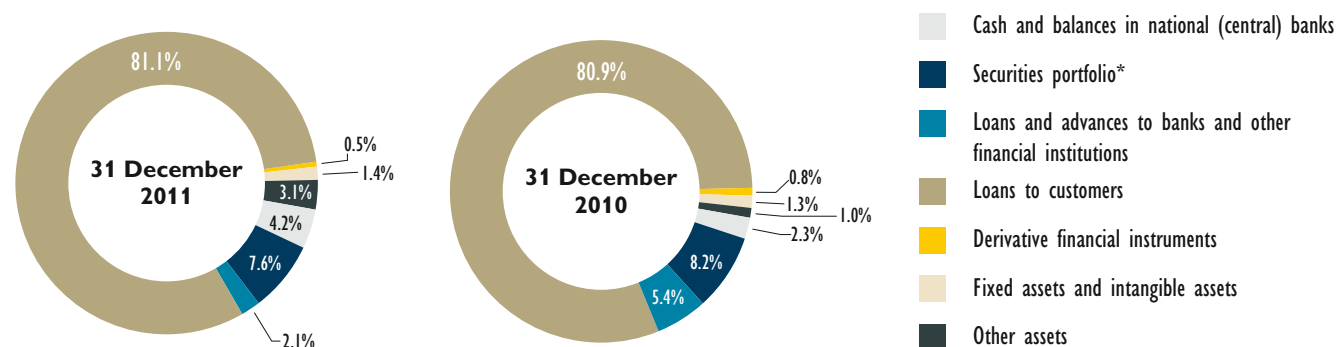
In 2011 Kazkommertsbank continued its activities towards improvement in the asset quality, actively participated in the government development and diversification programmes, and improved its positions in the global capital markets. Standard&Poor's has upgraded long-term credit rating of the Bank to B+ from B, and the short-term rating from B to C as a result of review in banking assessment criteria. The outlook on the ratings remained stable.

The Bank was the market leader in terms of total assets with a market share of 19.4 per cent. as at the end of 2011. Also the Bank was among market leaders in loans and deposits with market shares of 20.9 per cent. in total loans and 17.7 per cent. in total deposits.

### Assets

Total assets of the Bank decreased by 4.6 per cent. or KZT 122 billion (US\$ 935 million) to KZT 2,566 billion (US\$ 17.3 billion) as at the end of 2011 from KZT 2,688 billion (US\$ 18.2 billion) as at 31 December 2010. The decrease in total assets resulted primarily from decrease in loans to customers by KZT 95 billion (US\$ 730 million) and in loans and advances to banks and other financial institutions by KZT 92.4 billion (US\$ 628 million). Net loan book amounted to KZT 2,079.7 billion (US\$ 14 billion) as at 31 December 2011 compared to KZT 2,174.8 billion (US\$ 14.7 billion) as at 31 December 2010. Loans and advances to banks and other financial institutions amounted to KZT 54 billion (US\$ 364 million) as at 31 December 2011 compared to KZT 146.3 billion (US\$ 992 million) as at 31 December 2010.

### Composition of total assets of the Bank in 2011 and 2010



\*Securities portfolio includes securities classified as financial assets at fair value through profit or loss, investments available for sale and investments held to maturity.

Net loans to customers represent the largest share in the total assets of the Bank with a share of 81.1 per cent. as at 31 December 2011 compared to 80.9 per cent. as at 31 December 2010. Liquid assets (cash and balances with national banks, unpledged securities, loans and advances to banks up to one year) decreased by 24.8 per cent. or KZT 96.1 billion to KZT 290.6 billion (11.3 per cent. of total assets) as at 31 December 2011 from KZT 386.7 billion (14.4 per cent. of total assets) as at 31 December 2010. Decrease in liquid assets in 2011 compared to 2010 was mainly a result of decrease in interest-bearing liabilities. The optimization of the funding side did not affect the liquidity requirements. Some portion of the liquid assets was redistributed between cash and balances with the national (central) banks and loans and advances to banks and other financial institutions. Thus, the share of cash and balances with the national (central) banks in total assets increased to 4.2 per cent. from 2.3 per cent. in 2010. The share of loans and advances to banks and other financial institutions in total assets decreased to 2.1 per cent. from 5.4 per cent. as at 31 December 2010. The share of securities portfolio in total assets decreased from 8.2 per cent. in 2010 to 7.6 per cent. in 2011. The share of other assets increased to 3.1 per cent. in 2011 from 1 per cent. in 2010.

## Loans to customers

The Bank remains focused on maintaining its existing customer base, attracting new clients from different

industries and stirring up loan growth. The Bank continues to actively participate in the government economic and social development programmes. Thus, on 18 August 2011 Kazkommertsbank and Almaty city akimat (local municipality) signed a memorandum on partnership on social and economic development of the city in 2011-2012. Under the memorandum the Bank will finance residential and infrastructural construction, including hotels, touristic and sports objects, development of small and medium business and mortgages, which is reflected in the changes to the composition of the loan book. In 2011 the Bank increased financing to residential and commercial construction, while volumes of financing to food industry, trade, hotels and hospitality, transport and communications decreased. It is expected to recover and increase in near term. Additionally, increased financing to residential and commercial construction was a result of changes to purposes of loans in real estate sector.

Net loans to customers decreased by 4.4 per cent. or KZT 95 billion to KZT 2,080 billion (US\$ 14 billion) as at 31 December 2011 from KZT 2,175 billion (US\$ 14.7 billion) in 2010. Contingent liabilities decreased by 19.9 per cent. or KZT 17.8 billion in line with decrease general business activity at export-import market and in external trade financing. Total loans and contingent liabilities decreased by 5 per cent. or KZT 112.9 billion.

*table on page 7*

## Loan book of the Bank in 2011 and 2010

### Loans to customers

	31 December 2011		31 December 2010		Variation		
	KZT million	US\$ million	KZT million	US\$ million	KZT million	US\$ million	%
Loans to customers	2,737,769	18,449	2,746,383	18,620	(8,614)	(171)	(0.3%)
Loans under repurchase agreements	0	0	827	6	(827)	(6)	(100%)
<b>Total loans to customers (gross)</b>	<b>2,737,769</b>	<b>18,449</b>	<b>2,747,210</b>	<b>18,625</b>	<b>(9,441)</b>	<b>(176)</b>	<b>(0.3%)</b>
Less provisions for impairment losses on loans to customers	658,108	4,435	572,450	3,881	(85,658)	(554)	(15%)
<b>Total loans to customers (net)</b>	<b>2,079,661</b>	<b>14,014</b>	<b>2,174,760</b>	<b>14,744</b>	<b>(95,099)</b>	<b>(730)</b>	<b>(4.4%)</b>

### Contingent liabilities

	31 December 2011		31 December 2010		Variation		
	KZT million	US\$ million	KZT million	US\$ million	KZT million	US\$ million	%
Guarantees	68,895	464	90,557	614	(21,662)	(150)	(23.9%)
Letters of credit	5,280	36	2,783	19	(2,497)	(17)	(89.7%)
<b>Total contingent liabilities (gross)</b>	<b>74,175</b>	<b>500</b>	<b>93,340</b>	<b>633</b>	<b>(19,165)</b>	<b>(133)</b>	<b>(20.5%)</b>
Less provisions on impairment losses on contingent liabilities	2,524	17	3,903	26	(1,379)	(9)	(35.3%)
<b>Total contingent liabilities (net)</b>	<b>71,651</b>	<b>483</b>	<b>89,437</b>	<b>606</b>	<b>(17,786)</b>	<b>(123)</b>	<b>(19.9%)</b>

### Total loan book

	31 December 2011		31 December 2010		Variation		
	KZT million	US\$ million	KZT million	US\$ million	KZT million	US\$ million	%
<b>Total loan book (gross)</b>	<b>2,811,944</b>	<b>18,948</b>	<b>2,840,550</b>	<b>19,258</b>	<b>(28,606)</b>	<b>(309)</b>	<b>(1.0%)</b>
Less provisions on impairment losses on loans and contingent liabilities	660,632	4,452	576,353	3,907	(84,279)	(545)	(14.6%)
<b>Total loan book (net)</b>	<b>2,151,312</b>	<b>14,497</b>	<b>2,264,197</b>	<b>15,350</b>	<b>(112,885)</b>	<b>(853)</b>	<b>(5.0%)</b>



Decrease in documentary operations resulted mainly from expiration of guarantees issued. Guarantees issued in local currency decreased by KZT 29.7 billion, while guarantees issued in foreign currencies increased by KZT 8 billion. As a result, total guarantees issued decreased by 23.9 per cent. or KZT 21.7 billion (US\$ 150 million) in absolute terms. Letters of credit decreased by 89.7 per cent. or KZT 2.5 billion to KZT 5.3 billion as at the year-end 2011 mainly due to reduction in letters of credit in foreign currency.

The Bank continues to retain adequate provisions for impairment losses on loans to customers. The provisions on balance sheet increased by 15 per cent. or KZT 85.7 billion (US\$ 554 million) to KZT 658.1 billion (US\$ 4,435 million) as at the end of 2011 from KZT 572.5 billion (US\$ 3,881 million) as at the end of 2010. Provisioning rate increased to 24 per cent. in 2011 from 20.8 per cent. as at 31 December 2010. Provisions for impairment losses on guarantees and contingent liabilities decreased to KZT 2.5 billion from KZT 3.9 billion in 2010 due to reduction in the principal on contingent liabilities.

The Bank provides both corporate and retail loans. Historically, the corporate loans had the largest share in the loan book. The Bank works with large and medium local industrial enterprises, transnational companies, working in Kazakhstan, actively develops trade financing, project financing, short-term lending and SME lending. The Bank provides consumer and mortgage loans, credit card loans, and loans to individual entrepreneurs under SME support programmes.

In 2011 the Bank continued its active participation in drawing funds provided by Samruk-Kazyna National Wealth Fund, Distressed Assets Fund and Damu EDF. The government anti-crisis programme provides funding for refinancing of corporate borrowers, SME clients and mortgage loans.

The share of corporate loans in total loans was 89.5 per cent. in 2011 compared to 88.7 per cent. in 2010, while the share of retail loans was 10.5 per cent. and 11.3 per cent., respectively.

*table on page 9*



## Loan book by sectors in 2011 and 2010

	31 December 2011		31 December 2010		Variation		
	KZT million	US\$ million	KZT million	US\$ million	KZT million	US\$ million	%
Corporate loans	2,450,437	16,512	2,436,224	16,517	14,213	(5)	0.6%
Retail loans	287,332	1,936	310,986	2,108	(23,654)	(172)	(7.6%)
<b>Total loans (gross)</b>	<b>2,737,769</b>	<b>18,449</b>	<b>2,747,210</b>	<b>18,625</b>	<b>(9,441)</b>	<b>(176)</b>	<b>(0.3%)</b>
Less provisions for impairment losses on loans to customers	658,108	4,435	572,450	3,881	85,658	554	15%
<b>Total loans to customers (net)</b>	<b>2,079,661</b>	<b>14,014</b>	<b>2,174,760</b>	<b>14,744</b>	<b>(95,099)</b>	<b>(730)</b>	<b>(4.4%)</b>

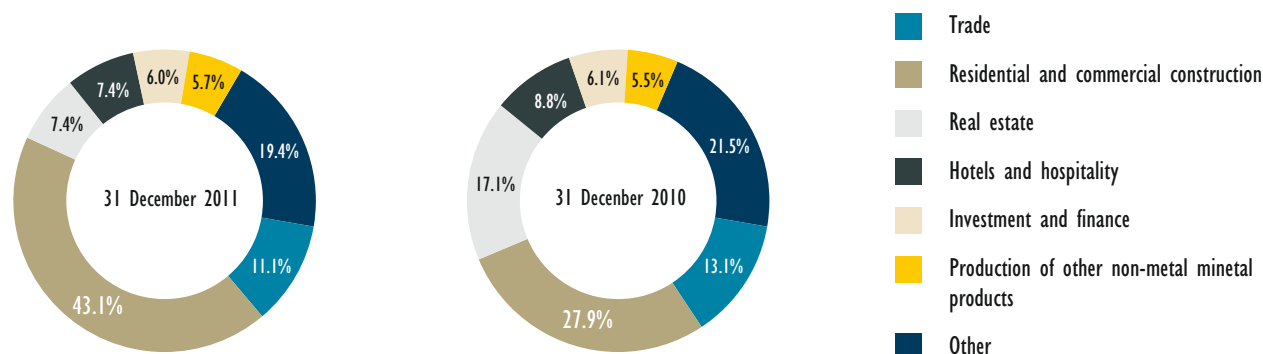
	Share, %	Share, %
Corporate loans	89.5%	88.7%
Retail loans	10.5%	11.3%
<b>Total loans (gross)</b>	<b>100%</b>	<b>100%</b>

Volatility at the financial markets in 2011 impeded economic development, which together with increased requirements on borrower's solvency by the banks, restrained lending growth both in corporate and retail segments.

Retail loans decreased by 7.6 per cent. or KZT 23.7 billion in 2011 largely due to decrease in mortgages. Mortgage and consumer loans have the largest share in retail loans. The share of mortgages was 61.1 per cent. of retail loans in 2011 compared to 62 per cent. in 2010. More conservative methods to identify the borrower's solvency as well as slow pace of recovery in residential construction resulted in decrease in mortgage loans, which decreased by KZT 16.7 billion to KZT 127.5 billion as at 31 December 2011. Consumer loans decreased by KZT 151 million since the beginning of 2011, however their share in retail loans increased to 34.9 per cent. from 31.4 per cent. in 2010. Due to continued uncertainty at financial markets and in the economy, the Bank's priorities in consumer lending remain with maintaining profitability and decreasing non-performing loans.

In 2011 corporate loans increased by KZT 14.2 billion to KZT 2.450 billion in 2011 from KZT 2.436 billion in 2010. The share of corporate loans in total loans increased to 89.5 per cent. due to reduction in retail loans.

## Corporate loan book (gross) by sectors in 2011 and 2010



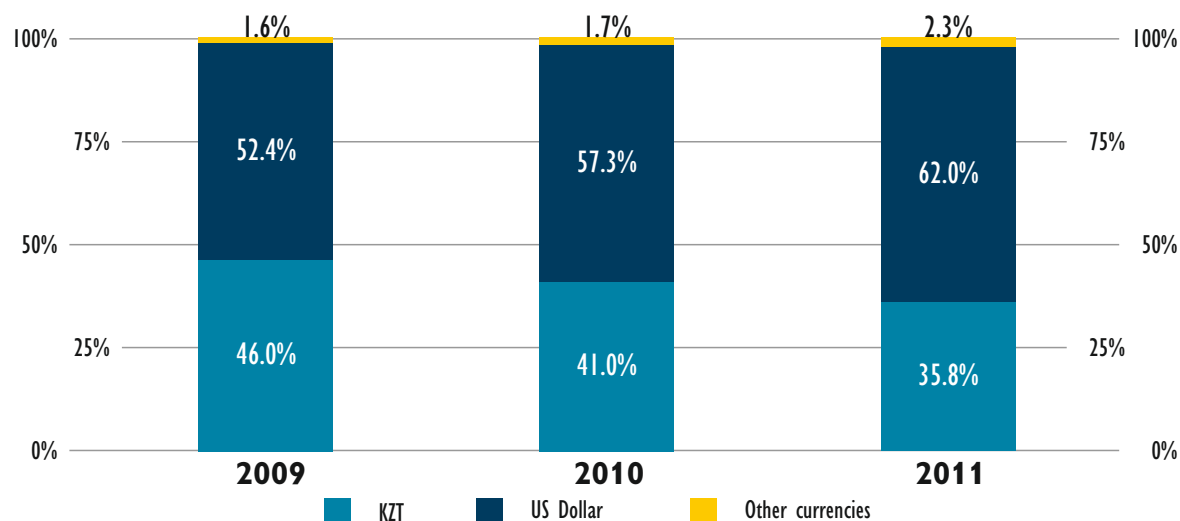
As at 31 December 2011 the largest sectors in the corporate loan book were residential and commercial construction (43.1 per cent.), trade (11.1 per cent.), real estate (7.4 per cent.) and hotels and hospitality (7.4 per cent.). Jointly these sectors accounted for 69 per cent. of the loan book. Loans to real estate sector decreased by KZT 234.7 billion to KZT 181.4 billion as at 31 December 2011, and their share in total corporate loans also decreased to 7.4 per cent. from 17.1 per cent. in 2010. There was an increase in loans to residential and commercial construction by KZT 374.6 billion (US\$ 2.5 billion), production of other non-metal mineral products by KZT 6 billion, industrial and other construction by KZT 5.8 billion, and mining industry and metals by KZT 0.6 billion.

Growth in loans to residential and commercial construction resulted from reclassification of some loans from real estate sector. Loans to other sectors decreased during the year. Diversification of the loan book allows to effectively control levels of risk, and the Bank aims to improve relationships with new clients in line with recovery at the markets and to enlarge participation in the sectors with significant growth potential.

### Loan book (gross) by currencies

	31 December 2011	31 December 2010	Variation	
	KZT million	KZT million	KZT million	%
<b>Loans to customers (gross)</b>	<b>2 737 769</b>	<b>2 747 210</b>	<b>9 441</b>	<b>0,3%</b>
KZT	1,244,459	1,147,835	96,624	8.4%
US\$	1,453,032	1,556,614	(103,581)	(6.7%)
Euro	9,811	11,781	(1,970)	(16.7%)
Russian ruble	29,926	30,570	(644)	(1.1%)
Other currencies	541	410	131	32.1%

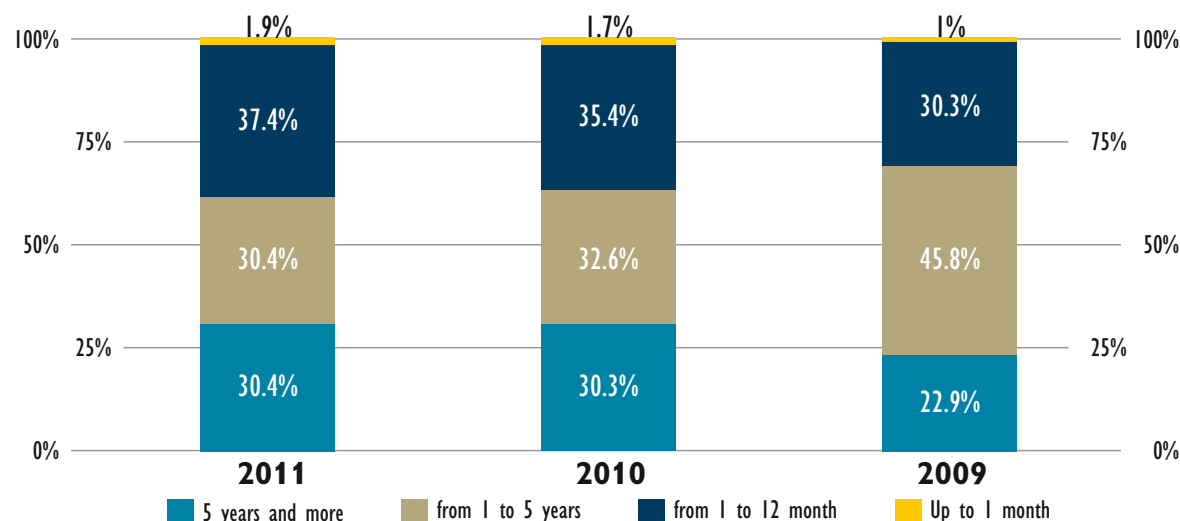
### Loans book (net) by currencies



Loans in US dollars decreased by 6.7 per cent., while loans in KZT increased by 8.4 per cent. as a result of the Bank's participation in the government programmes, where funding has been provided in national currency. Increase in loans in other currencies resulted from lending in banking subsidiaries in Kyrgyzstan and Tajikistan.

In 2011 needs of the economy in long-term funding (5 years and more) remained at the same level as in 2010, thus the share of such loans remained unchanged at 30.4 per cent. compared to 30.3 per cent. as at 31 December 2010. The Bank finances long-term loans from its own funds as well as under credit lines of EBRD, international financial institutions, and the government of Kazakhstan. There was an increase in the share of loans with maturity up to 12 months, which resulted from increased needs in short-term financing. The share of short-term loans (up to one month, from one month to one year) were 1.9 per cent. and 37.3 per cent. as at the end of 2011 compared to 1.7 per cent. and 35.4 per cent. as at the end of 2010. The share of mid-term loans (net, less accrued interest) with maturity from 1 to 5 years decreased to 30.4 per cent. in 2011 from 32.6 per cent. in 2010.

### Loan book by maturity

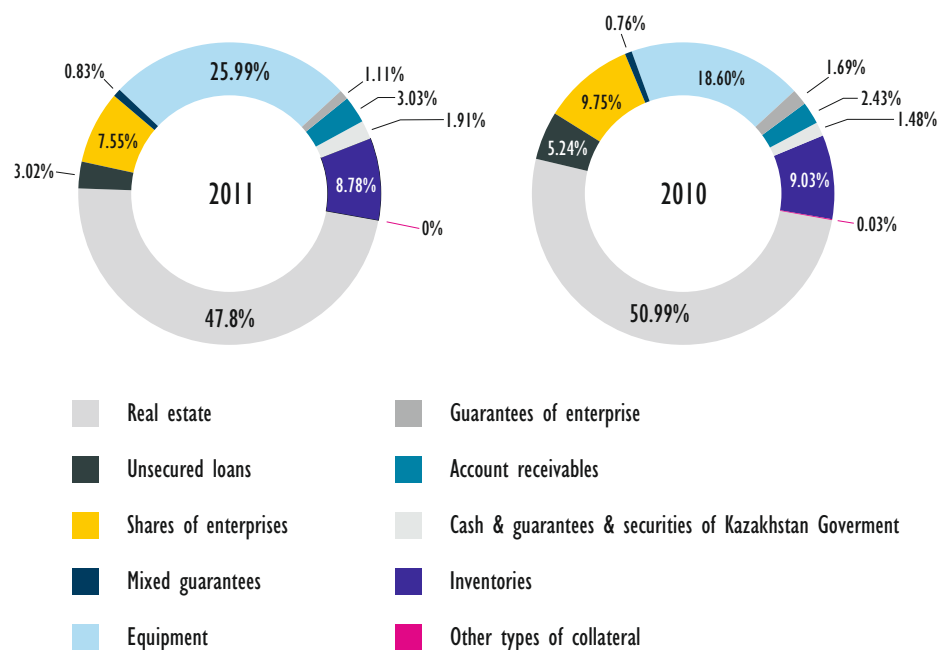


The loans are collateralized by real estate, guarantees, goods, equipment, government securities, shares and deposits. Collateral is valued very conservatively, in some cases by independent experts. As at 31 December 2011 the share of uncollateralized loans (gross) decreased to 2.8 per cent. from 3.9 per cent. in 2010. The uncollateralized loans are largely represented by short-term loans provided to reliable borrowers.

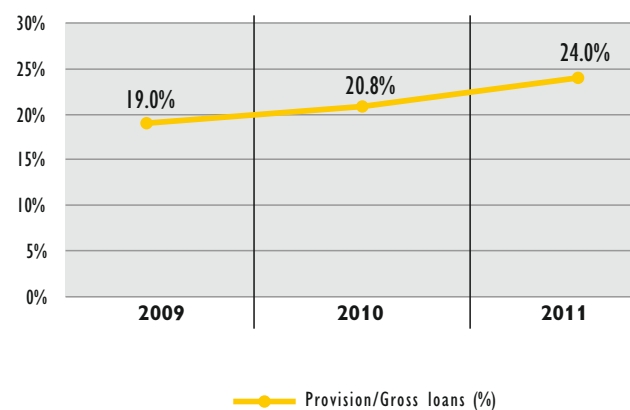
### Loan book by collateral

	31 December 2011		31 December 2010	
	KZT million	Share, %	KZT million	Share, %
Collateralized loans	2,654,991	97.0%	2,603,240	94.8%
Loans with collateral under registration process	5,037	0.2%	35,830	1.3%
Uncollateralized loans	77,741	2.8%	108,140	3.9%
<b>Loans to customers (gross)</b>	<b>2,737,769</b>	<b>100%</b>	<b>2,747,210</b>	<b>100%</b>

## Loan portfolio by type of collateral



## Provisions



The Bank continues adhering to the conservative policy in respect of the provisioning. In 2011 provisions to gross loans accounted to 24 per cent. against 20.8 per cent. and 19.0 per cent. in 2010 and 2009, accordingly. The growth was mainly attributable to unstable expectations on the economy's recovery accompanied by financial market's instability and as a result a number of banking clients facing difficulties. This resulted into the increase of overdue loans to 28.6 per cent. of the total loan book as at 31 December 2011 from 25.4 per cent. of the loan portfolio as at 31 December 2010. Growth in provisioning was 15 per cent. or KZT 85.7 billion (US\$ 554 million) and resulted into provisions reached KZT 658.1 billion (US\$4,435 million).

The world economy has been facing unstable post-crisis signs of recovery over the whole 2011 which resulted into the further deterioration of the macroeconomic conditions and continued to have a negative implication on the economy of Kazakhstan and assets of the banking system. The bank keeps working on the quality of its loan book employing different work-out procedures. Loans extended by the bank are classified by quality depending on a single borrower meeting obligation on servicing repayments in time, borrower's financial standing, credit history, collateral provided, credibility of a borrower and liquidity available. There are the following groups loans are divided for:

- Standard
- Substandard
- Watch
- Doubtful
- Loss

Standard and substandard loans as at 31 December 2011 were KZT682.4 billion (US\$4,599 million), compared to KZT800.9 billion (US\$5,429 million) as at the end of 2010. In the reporting period such loans as a percentage of total loan portfolio stood at 24.9 per cent. against 29.2 per cent. in the previous period. Problematic loans have been growing since year 2007 primarily due to the worsening financial standing of borrowers accompanied by the crisis implications having been continued for more than four years in a row. There were no changes in doubtful and loss loans which amounted to 30.7 per cent.

as at 31 December 2011

## Loans and advances to banks and other financial institutions

Loans and advances to banks and other financial institutions	KZT million		Variation	
	31 December 2011	31 December 2010	KZT million	%
Loans	919	5,978	(5,059)	(84.6%)
Deposits	25,514	114,392	(88,878)	(77.7%)
Correspondent account with other banks	26,895	17,690	9,205	52.0%
Loans under reverse repurchase agreements	800	8,407	(7,607)	(90.5%)
<b>Loans and advances to banks and other financial institutions, gross</b>	<b>54,128</b>	<b>146,467</b>	<b>(92,339)</b>	<b>(63.0%)</b>
Less allowance for impairment losses	160	136	24	17.6%
<b>Loans and accounts to banks and other financial institutions, net</b>	<b>53,968</b>	<b>146,331</b>	<b>(92,363)</b>	<b>(63.1%)</b>

In 2011 loans and advances to banks and other financial institutions decreased by 63.1 per cent or by KZT92.4 billion (or US\$628.4 million). This was attributable to a decrease in deposits which went down KZT88.9 billion and amounted to KZT25.5 billion as at 31 December 2011 against KZT114.4 billion as at 31 December 2010.

The structure of interbank deposits underwent changes: correspondent accounts with other banks were up KZT9.2 billion while loans to banks and other financial institutions and loans under reverse repurchase agreements have decreased by KZT 5 billion and KZT 7.6 billion accordingly.

Correspondent accounts with other banks as at 31 December 2011 accounted to KZT 26.9 billion (US\$181 million) vs. KZT17.7 billion (US\$120 million) as at the beginning of the reporting period. Loans to banks and other financial institutions as at 31 December 2011 stood at KZT0.9 billion (US\$6 million) compared to KZT 6 billion (US\$41 million) as at 31 December 2010. Loans under reverse repurchase agreements in 2011 amounted to KZT0.8 billion (US\$5 million), against KZT8.4 billion (US\$57 million) in 2010.

Assets purchased under reverse repurchase agreements as at 31 December 2011 consists of notes of the National Banks of Kazakhstan. Fair market value of such securities was KZT0.8 billion (US\$5.7 million).

Currency structure of loans and advances to banks and other financial institutions evidence that the bank has been accumulating free funds predominantly in foreign currency since has been placing them with leading foreign institutions. As at 31 December 2011 loans and advances to banks and financial institutions in foreign currency amounted to 94.7 per cent., while in local currency it was 5.3 per cent. As at 31 December 2010 the share of local currency was 93.3 per cent and foreign currency — 6.7 per cent.

When making interbank deposits the Group applies a conservative approach, placing temporarily free funds short term within the limits approved and against governmental securities provided as collateral.

As at 31 December 2011 65.1 per cent of funds were deposited for up to one year compared to 83.8 per cent. as at the end of 2010.



## Securities portfolio and derivative financial instruments

Financial assets at fair value through profit or loss include all types of securities (debt and equity) as well as derivative financial instruments.

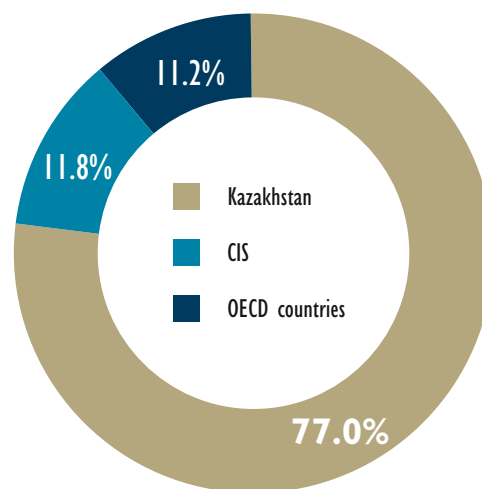
	31 December 2011		31 December 2010		Variation	
	KZT million	Share, %	KZT million	Share, %	KZT million	%
<b>Financial assets at fair value through profit or loss</b>	<b>188,313</b>	<b>90.6%</b>	<b>223,231</b>	<b>92.2%</b>	<b>(34,918)</b>	<b>(15.6%)</b>
Debt securities	165,359	79.6%	197,188	81.5%	(31,829)	(16.1%)
Equity securities	9,852	4.7%	4,519	1.9%	(5,333)	(118.0%)
Derivative financial instruments	13,102	6.3%	21,524	8.9%	(8,422)	(39.1%)
<b>Investments available for sale</b>	<b>15,419</b>	<b>7.4%</b>	<b>16,822</b>	<b>6.9%</b>	<b>(1,403)</b>	<b>(8.3%)</b>
Debt securities	11,312	5.4%	11,876	4.9%	(564)	(4.7%)
Equity securities	4,107	2.0%	4,946	2.0%	(839)	(17.0%)
<b>Investments held to maturity</b>	<b>4,026</b>	<b>1.9%</b>	<b>1,996</b>	<b>0.8%</b>	<b>2,030</b>	<b>101.7%</b>
Debt securities issued	4,026	1.9%	1,996	0.8%	2,030	101.7%
<b>Investments into associates</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total securities portfolio</b>	<b>194,656</b>	<b>93.7%</b>	<b>220,525</b>	<b>91.1%</b>	<b>(25,869)</b>	<b>(11.7%)</b>
<b>Total securities portfolio and derivative financial instruments</b>	<b>207,758</b>	<b>100.0%</b>	<b>220,525</b>	<b>100.0%</b>	<b>(34,291)</b>	<b>(14.2%)</b>

In 2011 derivative financial instruments declined by KZT8.4 billion (US\$58 million) due to cross currency swap transactions with fair market value down 35.7 per cent – from KZT20.2 billion (US\$137 million) in 2010 to KZT13.0 billion (US\$88 million) as at the end of 2011. Derivative financial instruments as a percentage of total securities portfolio including derivative instruments reduced from 8.9 per cent. as at 31 December 2010 to 6.3 per cent. as at 31 December 2011 due to decrease in volumes of such transactions.

Securities portfolio includes investments in securities both debt and equity, at fair value through profit or loss as well as investments available for sale and held to maturity. As at 31 December 2011 securities portfolio was down to KZT194.7 billion compared to KZT220.5 billion in 2010.

Funds which have been received from depositors and proceeds from repayment of the loan book partially are placed in high liquid assets by the bank. In 2011 there was a growth of investments into State Treasury Notes of the Ministry of Finance, which at the bank's opinion considered as reliable instruments for funds safe keeping. Such investments have grown by KZT 50 billion (US\$338 million) and as at the end of 2011 amounted to KZT86.5 billion (US\$583 million).

## Financial assets at fair value through profit or loss as at 31 December 2011



Financial assets at fair value through profit or loss did not change substantially compared to the previous full year numbers. The bulk continues to be attributable to liquid securities issued by Kazakhstani issuers. As at 31 December 2011 financial assets at fair value through profit or loss largely consists of state securities of the Republic of Kazakhstan and securities issued by Kazakhstani issuers with share of such securities amounted to 77 per cent.

## Cash and balance with national (central) banks and precious metals

Share of cash and balance with national (central) banks together with investments into precious metals as a percentage of total assets at the end of 2011 did not change materially and amounted to 4.2 per cent.

Cash and balance with national (central) banks as at 31 December 2011 totaled KZT105.1 billion (US\$708 million), having been increased by KZT43.9 billion (or by US\$293 million) or by 71.6 per cent. As of 31 December 2011 assets reserved to comply with minimum reserve requirements amounted to KZT57.8 billion (US\$389 million) compared to KZT38.2 billion (US\$259 million) as of the beginning of the year. Reserve assets subject to minimum reserve requirements set by regulatory authorities of the Republic of Kazakhstan amounted to 95 per cent. in 2011.

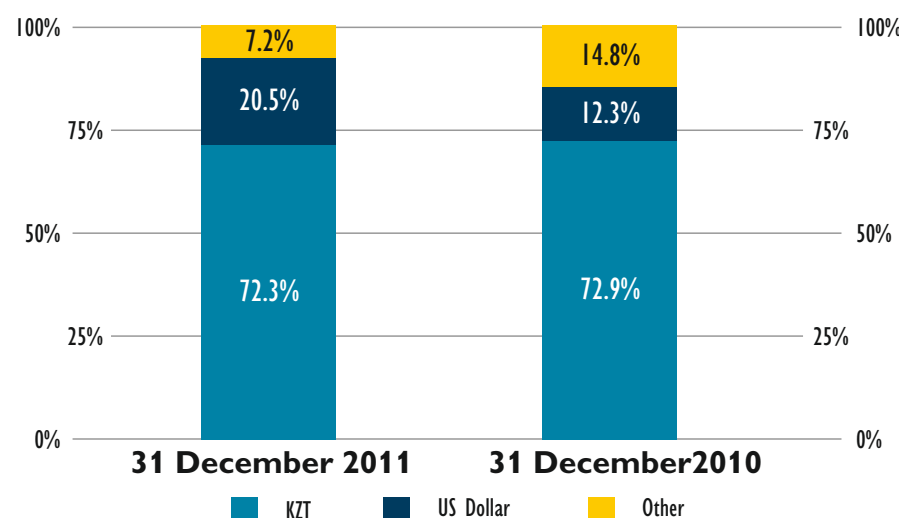
Cash in total amount of cash and balance with national (central) banks was down and amounted to 39.3 per cent. as at 31 December 2011 compared to 62.5 per cent as at 31 December 2010.

Composition of cash and balance with national (central) banks by currencies underwent no changes during the considered period.

As at the end of 2011 funds in KZT decreased to 72.3 per cent. compared to 72.9 per cent. As at the end of 2011, funds denominated in US Dollars were up to 20.5 per cent. compared to 12.3 per cent. and share of other

currencies was 7.2 per cent against 14.8 per cent as at the end of 2010.

**Cash and balances with national (central) banks by currency in 2011 and 2010**



## Fixed (property and equipment) and intangible assets

Fixed and intangible assets by residual value as at 31 December 2011 amounted to KZT33 billion (US\$223 million) against KZT31.9 billion (US\$216 million) as at the end of 2010. Residual value increase for 12 months of 2011 was KZT1.2 billion or 3.7 per cent.

Property and other immovable items of the Group are revalued on a regular basis. Residual balance value of buildings, land plots and constructions as at 31 December 2011 was KZT 23.3 billion (US\$157 million) compared to KZT22.2 billion (US\$150 million) at the end of 2010.

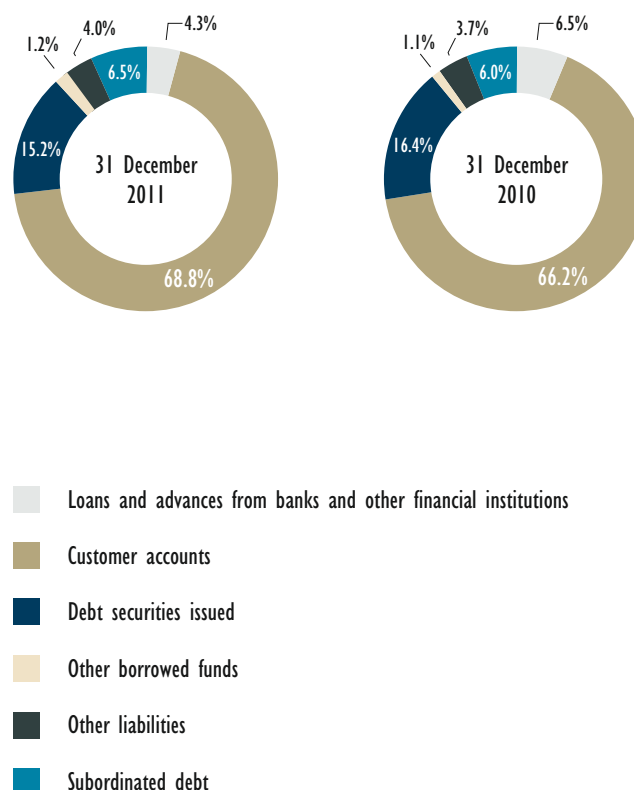
Intangible assets include program soft, patents, licenses and their residual value as at 31 December 2011 was KZT 1.5 billion compared to KZT1.6 billion as at 31 December 2010.

## Liabilities

The bank during the course of 2011 was making efforts to decrease interest expense by optimizing its interest liabilities. At the same time the bank was monitoring international market for fund raising opportunities and was able to tap the debt market and issue Eurobonds for the amount of US\$300 million being able to demonstrate the confidence and interest of foreign investors in the bank.

During the reported period the bank continued redeeming its foreign liabilities in time subject to the repayment schedule.

### Funding base



In 2011 total liabilities of the bank shrank by KZT145.3 billion (US\$1,073 million or 6.4 per cent.), and as at 31 December 2011 amounted to KZT2,129 billion (US\$14,347 million). This decrease was attributable to decrease in customer accounts by KZT43.7 billion, loans and advances from banks and other financial institutions by KZT54.9 billion and debt securities issued by KZT51.1 billion, while other items in total liabilities have slightly increased: other borrowed funds were up by KZT2.4 billion, subordinated debt has increased by KZT 0.9 billion and other liabilities were up by KZT 1.1 billion.

The bank's liabilities have changed with share of customer accounts up from 66.2 per cent as at 31 December 2010 to 68.8 per cent. as at 31 December 2011, subordinated debt has grown from 6.0 per cent. to 6.5 per cent., other borrowed funds were up from 1.1 per cent. to 1.2 per cent., and other liabilities have grown from 3.7 per cent. to 4.0 per cent. Debt securities issued were down from 16.5 per cent. to 15.2 per cent, loans and advances from banks and other financial institutions came down to 4.3 per cent. from 6.5 per cent.

## Customer accounts

The bank continued following its strategy in respect of deposits which is focused on deposit base diversification, concentration on competitive products and services with adequate risk. The bank puts as a priority a balanced economic reasonability to utilize raised funds and deposits reliability. The bank does not target increase in its deposit base by increasing deposit rates, being one of the most reliable and transparent banks in Kazakhstan.

Having analyzed the banking sector of Kazakhstan as at 31 December 2011, the bank was one of the leading institutions in the country by deposits with market share of 17.7 per cent. Despite reduction of interest rates on deposits, customer accounts have grown which evidences the confidence and trust shown to the bank.

In the reporting period customer accounts went down by KZT43.7 billion (or US\$ 357 million or 2.9 per cent.) and as at 31 December 2011 were KZT1,463.1 billion (US\$9,859 million) compared to KZT1,506.8 billion (US\$10,216 million) as at 31 December 2010. The bank targets to reduce its cost of funding has undertaken reduction of interest rates on deposits twice during the course of the year.

## Structure of the bank's deposit base

	31 December 2011		31 December 2010		Variation	
	KZT million	% of total	KZT million	% of total	KZT million	%
<b>Corporate</b>	<b>896,453</b>	<b>61.3%</b>	<b>1,055,372</b>	<b>70.0%</b>	<b>(158,919)</b>	<b>(15.1%)</b>
Demand deposits	398,057	27.2%	420,976	27.9%	(22,919)	(5.4%)
Term deposits	498,396	34.1%	634,396	42.1%	(136,000)	(21.4%)
<b>Retail</b>	<b>566,624</b>	<b>38.7%</b>	<b>451,428</b>	<b>30.0%</b>	<b>115,196</b>	<b>25.5%</b>
Demand deposits	63,751	4.3%	50,377	3.4%	13,374	26.5%
Term deposits	502,873	34.4%	401,051	26.6%	101,822	25.4%
<b>Total</b>	<b>1,463,077</b>	<b>100.0%</b>	<b>1,506,800</b>	<b>100.0%</b>	<b>(43,723)</b>	<b>(2.9%)</b>
Demand deposits	461,808	31.6%	471,353	31.3%	(9,545)	2.0%
Term deposits	1,001,269	68.4%	1,035,447	68.7%	(34,178)	3.3%

Volume of corporate deposits decreased by KZT158.9 billion (or 15.1 per cent.) to KZT896.5 billion (US\$6,041 million) as at 31 December 2011 from KZT1,055.4 billion (US\$7,155 million) as at 31 December 2010. Their share comprised 61.3 per cent. in 2011 as compared to 70.0 per cent. in 2010.

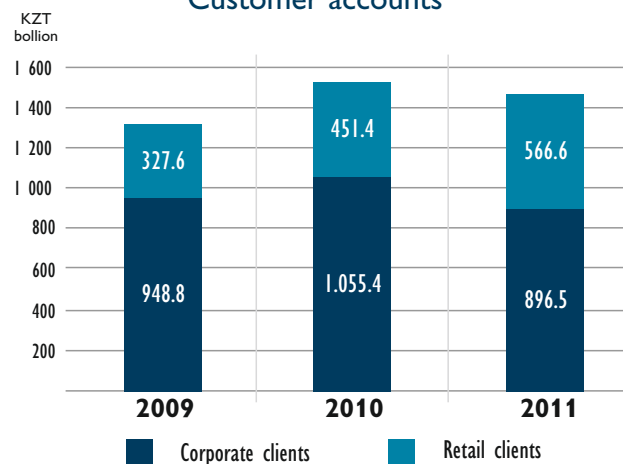
In 2011 Bank continued to participate in government economy support programs — in agriculture, SME, mortgage and construction.

As at 31 December 2011 total amount of deposited funds from JSC NWF “Samruk-Kazyna”, EDF “Damu” and JSC “Distressed Assets Fund” was KZT107.7 billion including accrued interest, compared to KZT 152.4 billion as at 31 December 2010. Their share in total deposits decreased to 12 per cent. from 14.4 per cent. in 2010.

The total amount received from JSC NWF “Samruk-Kazyna”, EDF “Damu” and JSC “Distressed Assets Fund” as at 31 December 2011 was KZT163,7 billion (US\$1,103 million), of which KZT107,7 billion was accounted for as customer deposits. Of that amount KZT20.4 billion (US\$137 million) included in item Other borrowed funds and KZT35.6 billion included in capital accounts.

Within the government stabilization program Bank participates in disbursement of funds granted by JSC NWF “Samruk-Kazyna”. As at 31 December 2011 amount of funds deposited for refinancing of the mortgage loans was KZT24 billion, funds for completion of construction projects in Almaty and Astana – KZT57.4 billion. Funds from JSC “Distressed assets fund” as at 31 December 2011 comprised KZT23.6 billion, including KZT20 billion for completion of projects of corporation “KUAT” and KZT3.6 billion for financing of manufacturing industry SMEs. In addition Bank has an agreement with Samruk-Kazyna for decrease of loan interest at the expense of matured previously refinanced loans.

### Customer accounts



As a result of growing people's trust to Bank in 2011 volume of retail sector deposits increased by KZT 115.2 billion (US\$758 million or 25.5 per cent.) to KZT566.6 billion (US\$3,818 million) from KZT451.4 billion (US\$3,061 million). Main increase was in term deposits of retail clients – by KZT101.8 billion or 25.4 per cent. Increase in demand deposits was also noticeable and comprised KZT 13.4 billion or 26.5 per cent. The share of retail sector in Bank's total deposits increased by 8.7 per cent. to 38.7 per cent.

Table on the next page represents deposit base currency distribution for the periods ended 31 December 2011 and 31 December 2010:

## Deposit base currency distribution for the periods ended 31 December 2011 and 31 December 2010

	31 December 2011		31 December 2010		Variation	
	KZT million	% of total	KZT million	% of total	KZT million	%
<b>Corporate deposits</b>	<b>896,453</b>	<b>61.3%</b>	<b>1,055,372</b>	<b>70.0%</b>	<b>(158,919)</b>	<b>(15.1%)</b>
KZT	609,275	41.7%	577,163	38.3%	32,112	5.6%
Foreign currency	287,178	19.6%	478,209	31.7%	(191,031)	(39.9%)
<b>Retail deposits</b>	<b>566,624</b>	<b>38.7%</b>	<b>451,428</b>	<b>30.0%</b>	<b>115,196</b>	<b>25.5%</b>
KZT	272,997	18.6%	207,313	13.8%	65,684	31.7%
Foreign currency	293,627	20.1%	244,115	16.2%	49,512	20.3%
<b>Total deposits</b>	<b>1,463,077</b>	<b>100.0%</b>	<b>1,506,800</b>	<b>100.0%</b>	<b>(43,723)</b>	<b>(2.9%)</b>
KZT	882,272	60.3%	784,476	52.1%	97,796	12.5%
Foreign currency	580,805	39.7%	722,324	47.9%	(141,519)	(19.6%)

Customer accounts in Kazakhstani tenge increased by 12.5 per cent. or KZT97.8 billion, their share in total currency structure comprised 60.3 per cent. as at 31 December 2011 compared to 52.1 per cent. for 2010.

Customer accounts in foreign currency decreased by 19.6 per cent. or KZT 141.5 billion, their share in currency structure of deposit's portfolio decreased to 39.7 per cent. from 47.9 per cent. as at 31 December 2010.

Customer accounts (term and demand deposits) remain the most significant part of the Bank's wholesale

funding due to decrease in share of international lending. As at 31 December 2011 share of customer accounts in total liabilities was 66.8 per cent. as compared to 66.2 per cent as at 31 December 2010.

Debt securities issued and loans and deposits from banks and other financial institutions decreased because of the redemptions and repayments made by the Bank in accordance with maturity schedule and arrangements.

Deposits are main and important source of funding and Bank plans to continue making efforts for maintaining

existing deposit base by offering competitive market terms and by coordination with government organizations. Bank is a participant of Deposit insurance fund what is helping to attract new depositors and to raise degree of trust for existing customers and to improve efficiency of their protection.



## Debt securities issued

Volume of debt securities issued decreased by KZT51.1 billion (US\$360 million) or 13.6 per cent. to KZT 324.1 billion (US\$2,184 million) as at 31 December 2011 from KZT375.2 billion (US\$2,544 million) as at 31 December 2010.

This decrease was due to scheduled repayments of debt securities from own funds and buy-backs of issued securities. On 23 March 2011 and on 30 May 2011 Bank from own funds made a repayment of eurobonds initially issued in the amount of EUR300 million in March 2006 and eurobonds initially issued in the amount of US\$230 million in May 2008. In 2011 Bank repurchased its issued debt securities with the nominal amount of KZT47.8 billion.

On the 12 May 2011 Bank issued 7 year eurobonds in the amount of US\$300 million with annual coupon rate of 8.5 per cent. and price of 99.353.

## Loans and advances from banks and other financial institutions

As at 31 December 2011 loans and advances from banks and other financial institutions decreased to KZT92.2 billion (US\$621 million) from KZT 147.1 billion (US\$998 million) as at 31 December 2010. This decrease was due to scheduled redemptions of Bank's liabilities.

	31 December 2011		31 December 2010		Variation	
	KZT million	% of total	KZT million	% of total	KZT million	%
Correspondent accounts	3,502	3.8%	2,167	1.5%	1,335	61.6%
Loans and advances from banks and other financial institutions	44,939	48.7%	121,762	82.7%	(76,823)	(63.1%)
EBRD loan	15,837	17.2%	23,184	15.8%	(7,347)	(31.7%)
Loans on repurchase agreements	27,937	30.3%	26	0.0%	27,911	107350.0%
<b>Total</b>	<b>92,215</b>	<b>100.0%</b>	<b>147,139</b>	<b>100.0%</b>	<b>(54,924)</b>	<b>(37.3%)</b>

Bank acts as clearing agent for most banks operating in Kazakhstan and keeps their liquidity on Bank's accounts. Correspondent accounts increased to KZT3.5 billion (US\$24 million) as at 31 December 2011 from KZT2.2 billion (US\$15 million) as at 31 December 2010.

Loans and advances from banks and financial institutions decreased by KZT76.8 billion (US\$523 million) to KZT44.9 billion (US\$303 million) as at 31 December 2011. Decrease was due to scheduled repayment of loans from Standard Bank London for the amount of US\$175

and Deutsche Bank London for the amount of US\$90 million. In 2011 Bank signed bilateral loan agreement with Exim Bank of Korea for the amount of US\$30 million for financing of import of goods and services produced in Korea. Overall this item represented by loans and advances from banks and financial institutions of the countries such as United Kingdom, Austria, Luxembourg, Germany, Switzerland, China and Korea, this is due to the fact that Bank participates in servicing of import-export operations and foreign trade financing. Bank offers to its clients vari-

various products of short-term, mid-term and long-term lending within the foreign credit lines, through trade finance, project finance and investment project finance.

As at 31 December 2011 amount of loans under repurchase agreements increased to KZT27,937 million from KZT26 million as at 31 December 2010. This was due to servicing of foreign currency liabilities of the Bank, as most part of liquid assets was in Kazakhstani tenge instruments Bank attracts part of the foreign currency funding via securities' pledge through short-term lending instruments. Loans of EBRD decreased by KZT7.3 billion (US\$ 50 million).

In the structure of loans and advances from banks and other financial institutions share of loans under repurchase agreements increased to 30.3 per cent., share of loans from banks and financial institutions decreased from 82.7 per cent. as at 31 December 2010 to 48.7 per cent. as at 31 december 2011. Shares of correspondent accounts and loans from EBRD increased insignificantly from 1.5 per cent. to 3.8 per cent. and from 15.8 per cent. to 17.2 per cent. accordingly.

## Other borrowed funds

Other borrowed funds increased by 10.1 per cent. or KZT2.4 billion (US\$15 million) to KZT26.4 billion (US\$178 million) as at 31 December 2011 from KZT23.9 billion (US\$162 million) as at 31 December 2010.

	31 December 2011		31 December 2010		Variation	
	KZT million	Share, %	KZT million	Share, %	KZT million	%
Loans from Damu Entrepreneurship Development Fund	20,359	77.2%	16,300	68.1%	4,059	24.9%
Long-term loans from other organizations	6,000	22.8%	7,643	31.9%	(1,643)	(21.5%)
<b>Other borrowed funds</b>	<b>26,359</b>	<b>100.0%</b>	<b>23,943</b>	<b>100.0%</b>	<b>2,416</b>	<b>10.1%</b>

The Bank continued its cooperation with the Damu Entrepreneurship Development Fund, which provides further sustainable financing of small and medium enterprises and opens new opportunities for entrepreneurs to strengthen their market positions and enlarge their businesses. As at the end of 2011 loans from the Damu EDF increased by KZT4 billion to KZT20.4 billion. On 30 September 2011 the Bank received a loan from the Damu EDF under small and medium enterprises financing investment programme.

The Bank continues other joint programmes with various international financial institutions, such as Societe Generale Financial Corp, London Forfaiting Company LTD, Deere Credit and others. Long-term loans from other organizations decreased by KZT1.6 billion (US\$11 million) to KZT6 billion (US\$40 million) as at 31 December 2011 due to scheduled and early repayments on earlier borrowed funds.

## Subordinated debt

The Bank's subordinated debt slightly increased by 0.7% or KZT0.9 billion to KZT138 billion (US\$930 million) from KZT137.1 billion (US\$930 million).

On 4 October 2011 the Bank substituted Kazkommerts Finance 2 B.V. as an issuer of perpetual notes. As a result the Bank's guarantee was terminated and the issuer's obligations were transferred to the Bank. The issuer substitution was done in line with the terms and conditions of the notes and did not change the rights of the noteholders.

## Capitalization of the bank

The capitalization of the Bank amounted to KZT1,257.5 billion as at 31 December 2011 (decrease by 3.7% compared to 2010)

	31 December 2011		31 December 2010	
	KZT million	US\$ thousand	KZT million	US\$ thousand
Long-term liabilities	686,070	4,623,113	758,134	5,139,892
Subordinated debt	135,901	915,775	134,865	914,339
<b>Total liabilities</b>	<b>821,971</b>	<b>5,538,888</b>	<b>892,999</b>	<b>6,054,231</b>
<b>Equity</b>				
Share capital	9,023	60,802	9,031	61,227
Common shares	7,784	52,453	7,786	52,786
Preference shares	1,239	8,349	1,245	8,441
Share premium	194,924	1,313,504	195,024	1,322,197
Revaluation reserve	5,488	36,979	5,508	37,342
Other reserves	226,085	1,523,488	203,109	1,377,010
<b>Total equity</b>	<b>435,520</b>	<b>2,934,773</b>	<b>412,672</b>	<b>2,797,776</b>
<b>Total capitalization</b>	<b>1,257,491</b>	<b>8,473,661</b>	<b>1,305,671</b>	<b>8,852,007</b>

Shareholders capital of the parent as at 31 December 2011 amounted to KZT 435.5 billion (US\$ 2,935 million) compared to KZT 412.7 billion (US\$ 2,798 million) as at the year-end 2010. The increase was 5.5% or KZT 22.8 billion (US\$ 137 million), due to capitalization of the profit.

As at 31 December 2011 the Bank's total capital, in accordance with Basel agreement, amounted to KZT 531.1 billion (including Tier-1 capital of KZT 442 billion) compared to KZT 517.8 billion (including Tier-1 capital of KZT 418.6 billion) as at 31 December 2010. Tier-1 capital adequacy ratio and total capital adequacy ratio amounted to 18.6% and 22.3% as at 31 December 2011, compared to 16.2% and 20.1%, respectively as at 31 December 2010.

The following table presents the calculation of capital adequacy in accordance with Basel agreement as at 31 December 2011 and 2010:

	31 December 2011	31 December 2010	Variation
	KZT million	KZT million	KZT million
Regulatory capital <sup>a</sup> :			
Tier-I capital:			
Charter capital (common shares)	7,784	7,786	(2)
Share premium reserve	194,924	195,024	(100)
Retained earnings <sup>b</sup>	202,380	180,609	21,771
Current income <sup>b</sup>	23,480	21,879	1,601
Uncontrolled share	1,112	1,074	38
Goodwill	(2,405)	(2,405)	-
Innovative instruments <sup>c</sup>	14,729	14,649	80
<b>Total Tier-1 capital</b>	<b>442,004</b>	<b>418,616</b>	<b>23,388</b>
Property and equipment revaluation reserve <sup>d</sup>	4,866	5,940	(1,074)
Property and equipment revaluation reserved	1,239	1,245	(6)
Subordinated debt <sup>e</sup>	82,947	92,030	(9,083)
<b>Total Tier-2 capital</b>	<b>89,052</b>	<b>99,215</b>	<b>(10,163)</b>
<b>Total Capital</b>	<b>531,056</b>	<b>517,831</b>	<b>13,225</b>
<b>Tier-1 capital adequacy ratio</b>	<b>18.57%</b>	<b>16.23%</b>	<b>2.34%</b>
<b>Total capital adequacy ratio</b>	<b>22.32%</b>	<b>20.08%</b>	<b>2.24%</b>

<sup>a</sup> In accordance with Basel agreement.

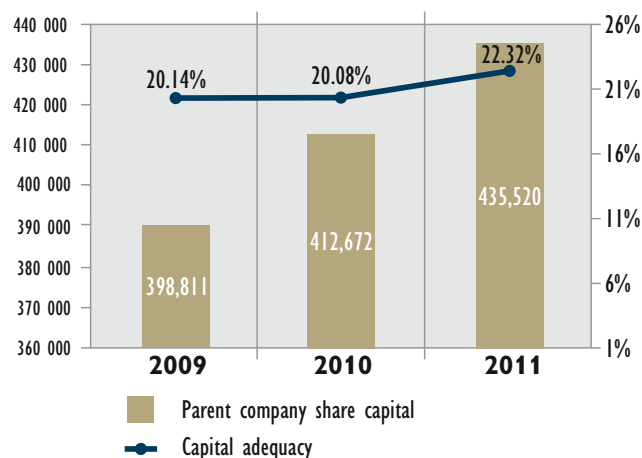
<sup>b</sup> As at 31 December 2011 retained earnings include mandatory reserve required by Regulator since 1 July 2011.

<sup>c</sup> Innovative instruments are perpetual bonds.

<sup>d</sup> Property and equipment revaluation reserve includes discounted reserve/deficit on investments available for sale (in accordance with Basel agreement).

<sup>e</sup> As at 31 December 2011, 2010 and 2009 this amount includes subordinated debt in the amount less than 50% of Tier-1 capital. In the case of bankruptcy or liquidation of the bank this debt will be repaid after repayments to all other creditors.

### Share capital and reserves



## The Bank's Income

	31 December 2011	31 December 2010	Variation	
	KZT million	KZT million	KZT million	%
Net interest income	47,227	43,869	3,358	7.7%
Net non-interest income	18,556	17,487	1,069	6.1%
Operating income	65,783	61,356	4,427	7.2%
Operating expense	(34,128)	(32,730)	(1,398)	(4.3%)
Reserves on guarantees and other off-balance sheet liabilities	1,387	3,261	(1,874)	(57.5%)
Reserves on impairments on other operations	(1,865)	(3,679)	1,814	(49.3%)
Income before tax	31,177	28,208	2,969	10.5%
Income tax	(7,657)	(7,419)	(238)	3.2%
Income/(loss) on terminated activities, after tax	0	1,199	(1,199)	(100.0%)
<b>Net Income</b>	<b>23,520</b>	<b>21,988</b>	<b>1,532</b>	<b>7.0%</b>
Attributable to:				
Shareholders of the parent	23,480	21,879	1,601	7.3%
Minority share	40	109	(69)	(63.3%)
<b>Minority share</b>				
<b>ROA</b>	0.9%	0.8%		
<b>ROE</b>	5.5%	5.5%		

Net income of the Group for the year ended 31 December 2011, amounted to KZT 23.5 billion compared to KZT 22.0 billion in 2010, an increase of 7.0 per cent. This was mainly due to increase in net interest income from KZT 43.9 billion in 2010 to KZT 47.2 billion in 2011, as a result of decrease in provisioning expense to KZT 66.1 billion (US\$ 451 million) during 2011 from KZT 95.6 billion (US\$ 649 million) during 2010. The net non-interest income increased by 6.1 per cent. The corporate tax expense amounted to KZT 7.7 billion in 2011 compared to KZT 7.4 billion in 2010.

## Interest income

	Income, KZT million		Variation		Average interest-earning assets			
					2011		2010	
	2011	2010	KZT million	%	Average volumes (KZT billion)	Average yield (%)	Average volumes (KZT billion)	Average yield (%)
Interest income on loans to customers	234,938	279,871	(44,933)	(16.1%)	1,774	13.2%	1,898	14.7%
Interest income on loans and advances to banks and other financial institutions	3,392	6,447	(3,005)	(47.4%)	82	4.1%	169	3.8%
Interest income on securities	8,523	5,197	3,326	64.0%	275	3.1%	167	3.1%
<b>Total interest income</b>	<b>246,853</b>	<b>291,515</b>	<b>(44,662)</b>	<b>(15.3%)</b>	<b>2,131</b>	<b>11.58%</b>	<b>2,234</b>	<b>13.05%</b>

Interest income decreased by 15.3 per cent. or KZT 44.7 billion during 2011 and amounted to KZT 246.9 billion compared to KZT 291.5 billion in 2010, mostly due to decline in average interest earning assets by 4.6 per cent and average yield on them from 13.0 per cent. in 2010 to 11.6 per cent. in 2011.

The major decline was seen in interest income on loans to customers (by 16.1 per cent), and loans to banks (by 47.4 per cent.), due to decline in their average volumes. During 12 months 2011 as compared to 2010 average volumes of loans to banks and financial institutions decreased by 51.4 per cent., average loans to customers by 6.5 per cent. The significant share of interest income continues to be represented by loans to customers, even despite the slight decrease to 95.2 per cent. from 96.0 per cent. in 2010. The decrease in income on loans to customers is due to decrease in their average yield from 14.7 per cent to 13.2 per cent. Decrease in loans to banks is mainly due to decrease in their average volumes from KZT 169.3 billion to KZT 82.3 billion in 2011.

## Interest expense

	Expenses, KZT million		Variation		Average interest-bearing liabilities			
					2011		2010	
	2011	2010	KZT million	%	Average volume (KZT billion)	Average yield (%)	Average volume (KZT billion)	Average yield (%)
Interest expense on issued debt securities and subordinated debt	(40,639)	(44,857)	4,218	(9.4%)	486	8.5%	537	8.5%
Interest on loans and advances from banks and REPO operations	(5,412)	(7,947)	2,535	(31.9%)	129	4.2%	182	4.4%
Interest expense on customer deposits and REPO operations	(85,490)	(96,997)	11,507	(11.9%)	1,486	5.8%	1,387	7.0%
Interest expense on other liabilities	(1,259)	(1,559)	300	(19.2%)	22	5.8%	27	3.1%
Dividends on preferred stock	(731)	(731)	0	0.0%				
<b>Total interest expense</b>	<b>(133,531)</b>	<b>(152,091)</b>	<b>18,560</b>	<b>(12.2%)</b>	<b>2,123</b>	<b>16.3%</b>	<b>2,133</b>	<b>7.1%</b>

Interest expenses decreased during 2011 compared to 2010 by 12.2 per cent. (or by KZT 18.6 billion) as a result of decrease in the yield of interest-bearing liabilities from 7.1 per cent. in 2010 to 6.3 per cent. in 2011. Cost control as one of important stabilising factors is a priority task of the Bank.

In the structure of interest expenses the major part is taken by expenses on customer deposits which represent 64.0 per cent. share in 2011 compared to 63.8 per cent. in 2010, while the share of expenses on issued debt securities and subordinated debt increased from 29.5 per cent. to 30.4 per cent. The share of expenses on loans and advances to banks in 2011 decreased to 4.1 per cent. compared to 5.2 per cent. in 2010.



The interest expense on customer deposits decreased during 12 months of 2011 by 11.9 per cent. (or KZT 11.5 billion) and amounted to KZT 85.5 billion compared to KZT 97.0 billion in 12 months of 2010. The decrease was due to decline in average yield on customer deposits from 7.0 per cent. in 2010 to 5.8 per cent. in 2011.

Interest expense on issued debt securities (including subordinated debt) in 2011 decreased by KZT 4.2 billion compared to 2010. This was mainly due to decline in their average volumes by 9.5 per cent. from KZT 537 billion in 2010 to KZT 486 billion in 2011.

In 2011 interest expense on loans and advances from banks decreased by 31.9 per cent. and amounted to KZT 5.4 billion compared to KZT 7.9 billion in 2010. This was due to decline in average volume on loans and advances from banks and financial institutions by 29.1 per cent. (or KZT 53.0 billion) compared to 2010.

The dividends on preferred stock amounted to KZT 0.7 billion in 2011.

## Net interest income

	KZT million		Variation	
	2011	2010	KZT million	%
Interest income	246,853	291,515	(44,662)	(15.3%)
Interest expense	(133,531)	(152,091)	18,560	(12.2%)
Net interest income before provisions on impairments of interest-earning assets	113,322	139,424	(26,102)	(18.7%)
Provisions on impairments of interest earning assets	(66,095)	(95,555)	29,460	(30.8%)
<b>Net interest income</b>	<b>47,227</b>	<b>43,869</b>	<b>3,358</b>	<b>7.7%</b>

Net interest income before provisions on assets impairments decreased by KZT 26.1 billion in 2011 and amounted to KZT 113.3 billion compared to KZT 139.4 billion in 2010. The decrease was a result of decrease in average yield on interest earning assets from 13.0 per cent. in 2010 to 11.6 per cent. in 2011, as well as due to a decline in yield on interest bearing liabilities from 7.1 per cent. in 2011 to 6.3 per cent. in 2010.

Net interest income significantly increased due to decline in provisions in 2011, though provisioning rate increased to 24.0 per cent. as at 31 December 2011 from 20.8 per cent. as at 31 December 2010.

As at 31 December 2011, the Group has identified certain corporate customer loans, where under the contractual terms of the loan agreements there are no cash flows to the Group in the next few years. These loans are considered impaired by management. In accordance with IAS 39, interest should continue to be accrued on impaired loans, even where there are doubts in relation to its collection. The accrued interest income on these loans for the year ended 31 December 2011 amounted to KZT42.2 million (US\$ 285 million). Management has established an allowance for loan losses against this interest. While there is currently evidence of impairment, the Group continues to progress work out strategies on these loans. The Group regularly evaluates probability of cash flows and introduces respective changes to the list of these corporate loans.

## Table presents net interest income, margin and spread

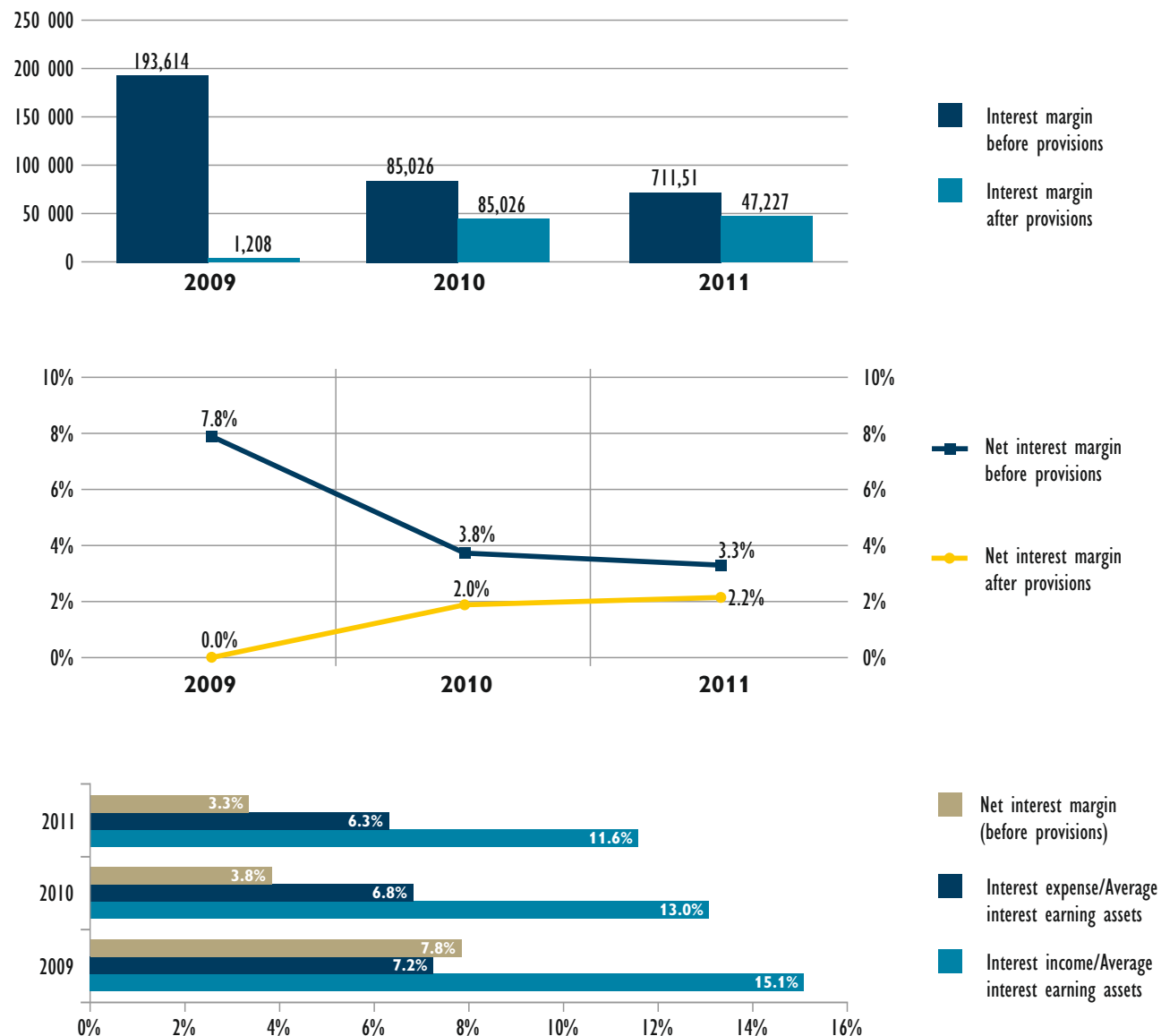
	2011		2010	
	KZT million	%	KZT million	%
Average assets	2,691,555	9.2%	2,663,516	10.9%
Average interest-earning assets	2,131,444	11.6%	2,234,313	13.0%
Average interest-bearing liabilities	2,123,286	6.3%	2,133,075	7.1%
Interest income	246,853		291,515	
Net interest income	47,227		43,869	
Net income	23,520		21,988	
Margin(%)*		3.3%		3.8%
Spread(%)**		5.3%		5.9%

\* Interest income is adjusted for the amount of 100% provisioned accrued interest

\*\*Spread — Difference between yield on interest earning assets and interest bearing liabilities

Adjusted Net interest margin before provisions on possible impairments of interest bearing assets was 3.3 per cent. in 2011 compared to 3.8 per cent. in 2010.

Net interest margin after provisions on possible impairments of interest earning assets amounted to 2.2 per cent. in 2011 compared to 2.0 per cent. in 2010.



## Provisions on impairments of interest earning assets

For the year ended 31 December

	KZT million		Variation	
	2011	2010	KZT million	%
Provisions on losses on loans to customers	65,944	95,422	(29,478)	(30.9)
Provisions on losses on loans to banks	25	115	(90)	(78.3)
Provisions on losses on investments available for sale	126	18	108	600.0
<b>Total</b>	<b>66,095</b>	<b>95,555</b>	<b>(29,460)</b>	<b>(30.8)</b>

Provisioning expense on interest bearing assets decreased by KZT 29.5 billion (or by 30.8 per cent.) in 2011 and amounted to KZT 66.1 billion compared to KZT 95.6 billion last year. At the same time, the effective provisioning rate on loans to customers increased from 20.8 per cent. as at 31 December 2010 to 24.0 per cent. as at 31 December 2011. The decrease in provisioning expense on interest bearing assets was mainly due to decline in the volumes of loans to customers and their average yield.

## Net non-interest income

For the year ended 31 December

	2011		2010		Variation	
	KZT million	Share, %	KZT million	Share, %	KZT million	%
Net income (loss) on financial assets at fair value through profit or loss	(5,232)	(28.2%)	(5,947)	(34.0%)	715	(12.0%)
Net income (loss) on operations with foreign currency, securities and precious metals	986	5.3%	2,562	14.7%	(1,576)	(61.5%)
Net fees and commissions	13,598	73.3%	14,092	80.6%	(494)	(3.5%)
Net realized income /(loss) on investments available for sale	102	0.5%	69	0.4%	33	47.8 %
Dividends received	210	1.1%	181	1.0%	29	16/0 %
Other income	8,892	47.9%	6,530	37.3%	2,362	36.2 %
<b>Net non-interest income</b>	<b>18,556</b>	<b>100.0%</b>	<b>17,487</b>	<b>100.0%</b>	<b>1,069</b>	<b>6.1 %</b>

Net non-interest income in 2011 amounted to KZT 18.6 billion, compared to KZT 17.5 billion in 2010. The increase was due to increase in fees and commissions by KZT 23.9 billion, and also due to increase in other income, mainly insurance premiums in the amount of KZT 7.3 billion.

Net income on operations with foreign currency, securities and precious metals amounted to KZT 1.0 billion in 2011 compared to KZT 2.6 billion in 2010.

Net fees and commissions in 2011 amounted to KZT 13.6 billion, a decrease of 3.5 per cent. compared to 2010. The structure of fees and commissions income changed.

Fees and commissions income on documentary operations decreased by 27.4 per cent. or by KZT 0.8 billion. This caused a decrease of the share of documentary operations from 13.7 per cent to 8.7 per cent. Fees and commissions on cash operations increased by 15.3 per cent. or by KZT 0.7 billion, on card operations by 26.0 per cent. or by KZT 1.4 billion, on settlements by 14.2 per cent. or by KZT 0.5 billion, investment income on pension assets under management increased by 35.7 per cent. or by KZT 0.8 billion, income on operations with foreign exchange and securities increased by 18.0 per cent. or KZT 0.3 billion, and encashment operations by 15.7 per cent. The major increase

in the share in the fees and commissions income is seen in card operations from 25.7 per cent. to 28.4 per cent. The structure of fees and commissions expense changed as well. Card services fees and commissions increased by 22.6 per cent., insurance fees by 2.7 times, correspondent bank services — by 16.6 per cent., fees and commissions expense on operations with foreign currency and securities by 2.1 per cent., the National Bank computation center services by 6.2 per cent., documentary operations — by 97.9 per cent., payments to the Individuals Deposit Insurance Fund by 29.5 per cent. The major increase in fees and commissions expense was due to insurance activity from 16.8 per cent. in 2010 to 30.0 per cent. in 2011.

## Operating expenses

Expense	KZT million		Variation %	Share, %	
	2011	2010		2011	2010
<b>Total operating expense</b>	<b>34 128</b>	<b>32 730</b>	<b>4,3%</b>	<b>100%</b>	<b>100%</b>
Staff costs	18,036	17,709	1.8%	52.8%	54.1%
Property and equipment maintenance	8,735	8,580	1.8%	25.6%	26.2%
Taxes, fees and insurance payments	1,610	1,319	22.0%	4.7%	4.0%
Advertising costs	1,661	1,183	40.3%	4.9%	3.6%
Communications	718	753	(4.7%)	2.1%	2.3%
Banking cards services	824	725	13.7%	2.4%	2.2%
Consulting and audit	402	396	1.5%	30.8	30.8
Other	2,143	2,065	3.8%	6.3%	6.3%

Operating expenses increased by 4.3 per cent. in 2011 compared to 2010.

The major part of the bank's operating expenses is represented by staff costs — 52.8 per cent. The staff costs were almost flat in 2011 (+1.8 per cent.).

Other operating expenses increased in 2011 compared to 2010. Tax expense increased by 22 per cent., due to the increase in taxes on the foreclosed assets. Advertising costs increased as a result of retail business's advertising campaign. Banking card services expense increased due to growth in the banking card business.

## Income tax

The tax expense in 2011 amounted to KZT 7.7 billion, compared to KZT 7.4 billion in 2010. Effective tax rate amounted to 24.6 per cent. in 2011.

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## 3 Corporate governance

### Overview of the corporate governance system

The corporate governance system in Kazkommertsbank is founded on the principle of full and unconditional compliance with the regulatory requirements of the Republic of Kazakhstan and the requirements of the National Bank, and our commitment to full compliance with international best practice. The corporate governance system is based on the Corporate Governance Code ("the Code") which was approved by the Bank's General Shareholders Meeting in 2006. The Bank complies with the Code in its everyday operations in order to facilitate efficient, effective and entrepreneurial management that can deliver shareholder value over the longer term. Good corporate governance contributes to improving the performance of the Bank by helping the Board carry out its duties in the best interests of all of its shareholders.

The Code meets the requirements of the Joint-Stock Companies Law of Republic of Kazakhstan, which provides the legal framework for corporate governance standards in the country. The code also fulfills the regulatory requirements of other Republic of Kazakhstan legislation, key provisions of the Combined Code of the UK Financial Reporting Council (The Combined Code), as well as the Articles of Association of the Bank and Model Corporate Governance Code, approved by the Issuers Council.

The following founding principles form the basis of the corporate governance system at Kazkommertsbank:

1. The principle of safeguarding and appreciation of the rights and legitimate interests of the Bank's shareholders;
2. The principle of good management of the Bank;
3. The principle of transparency and objectivity in the disclosure of information about the Bank's performance;
4. The principle of respect for law and ethical standards;
5. The principle of a fair dividend policy;
6. The principle of fairness in personnel and recruitment policies;
7. The commitment to protect the environment;
8. The commitment to a fair resolution of corporate conflicts.

Kazkommertsbank is owned by its shareholders, and it guarantees the equal treatment of all shareholders by providing them with the opportunity to participate in governing the Bank via the General Shareholder Meeting as well as exercising their right to receive dividends and

information about the Bank's operations and performance.



## Corporate governance structure

The General Shareholders Meeting is the Bank's supreme governing body. The Board of Directors of Kazkommertsbank is elected by shareholders and is accountable to them. The Board provides strategic management and oversight of the executive body which is made up of the Management Board, the Board committees, Internal Audit Service and the Corporate Secretary.

The Board of Directors is the main supervisory body of the Bank. It carries out strategic management of the Bank, provides control over financial activities and risk management, and implements decisions and policies, which have been approved by the General Shareholders Meeting. In compliance with the Code, the roles of Chairman of the Board of Directors and Chairman of the Management Board are separated, with the Chairman of the Board of Directors being responsible for leading the Board of Directors and the Chairman of the Management Board being responsible for providing executive management of the day-to-day business of the Bank. Meetings of the Board of Directors should be held when necessary but at least once a month.

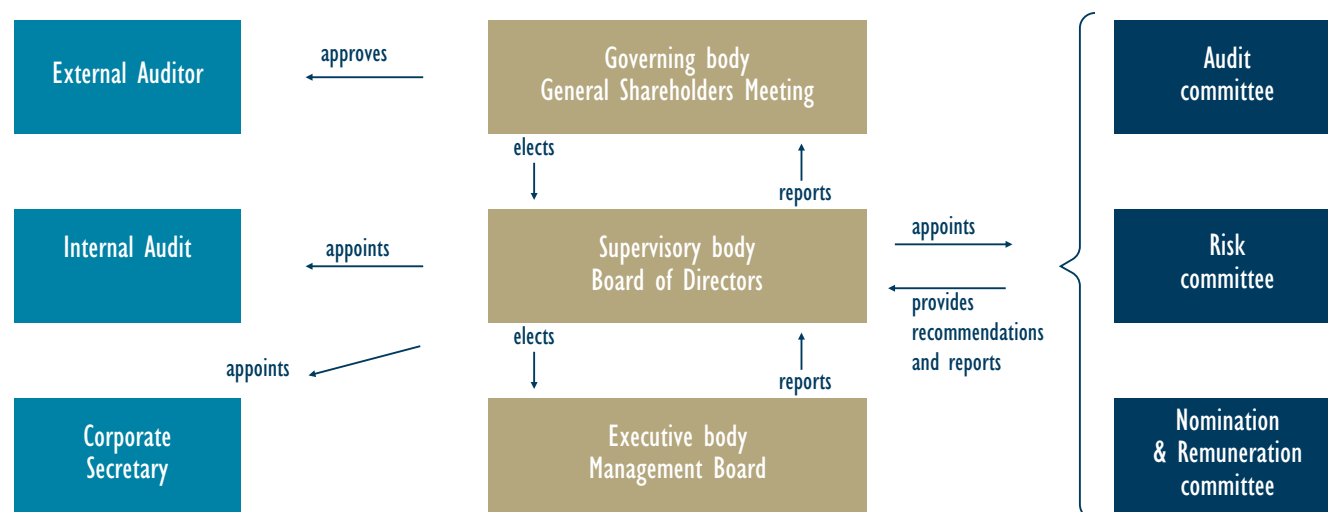
## Board of Directors

Members of the Board of Directors are appointed based on decisions made at the General Shareholders Meeting. The appointments are subject to mandatory approval by the Committee for regulation and supervision of financial markets and financial organisations of the National Bank of Kazakhstan (CFN). Overall, the Board should be composed of at least five but not more than seven members. Independent Directors should account for at least a third of the Board.

The Board of Directors of the Bank is made of 7 Directors, 3 of them are independent Directors. Although all Directors are equally accountable under the Kazakh Law for the proper stewardship of the company's affairs, the independent Directors fulfill a vital role in corporate accountability. They are responsible for examining the strategies proposed by the Executive Directors, as well as evaluating the performance of the Bank's management in meeting agreed targets and objectives. They also play a leading role in the oversight and effective functioning of the Board committees.

There were some changes to the composition of the Board of Directors of the Bank in 2011. Mr. D. Sembayev has retired from the Bank effective from 1 August 2011. In September 2011 to fill vacant position of the member of the Board of Directors — representative of the shareholder — the shareholders decided to early terminate the authorities of Mr. M. Yerzhanov as an independent director (since 2008) and to elect him as a representative of

## Kazkommertsbank JSC corporate governance structure



the Central-Asian Investment Company, the shareholder of the Bank. To fill in vacant position of the independent director, the shareholders have elected Mr. S. Akhanov as a member of the Board of Directors. On 20 September 2011 Mr. Akhanov was elected as Deputy Chairman of the Board of Directors.

## Members of the Board of Directors



**Nurzhan S. Subkhanberdin (1965)**  
Chairman

*Appointment:* 2002.

*Biography:* Prior to becoming Chairman of the Board Mr. Subkhanberdin was Chairman of the Management Board of the Bank, having been appointed to that position in 1993. From 1991 to 1993, he was the First Deputy Chairman of the Bank. Mr. Subkhanberdin graduated from Moscow State University and has a degree in economics from Kazakhstan State University ("KSU").



**Serik A. Akhanov (1951)**  
Deputy Chairman

*Appointment:* 2011

*Committee membership:* Chairman of Remunerations and Appointments Committee, member of Audit Committee.

*Biography:* Mr. Akhanov is doctor of economics and professor. He has an extensive experience working in various positions in public and private sector. He worked at the Council of Ministers of Kazakh SSR (1990–1991) and President's Office (1991–1993). He held positions of the Minister of Economy (1993–1994 and 1999–2001), the First Deputy Chairman of Eximbank Kazakhstan (1994–1997 and 2001), Deputy Governor of the National Bank of Kazakhstan (1997–1999), and the Vice Minister of Finance (1999). In 2002–2003 Mr. Akhanov acted as a member of the Board of Directors of Kazkommertsbank. In 2001–2002 and 2003–2004 he was an advisor to the CEO of Kazkommertsbank. Mr. Akhanov is Chairman of the Council of the Financiers' Association of Kazakhstan. He was awarded by Parasat order.



**Nina A. Zhussupova (1962)**  
Chairman of the Management Board

*Appointment:* 2002.

*Biography:* Since joining the Bank in August 1995, Ms. Zhussupova has served as First Deputy Chairman of the Management Board, Manager of the Accounts Office and Chief Accountant of the Bank. She holds a degree in economics from the Almaty Institute for National Economy ("AINE"). Ms. Zhussupova was awarded by "10-years of independence of the Republic of Kazakhstan" medal and by Kurmet order.



**Gail Buyske (1654)**

Non-executive Independent Director

*Appointment:* 2003

*Committee membership:* Member of the Audit Committee, Risk Committee and Nomination and Remuneration Committee

*Biography:* Prior to joining the Board, Ms. Buyske was a senior banker with the EBRD and Chase Manhattan Bank. She holds a doctorate in political science from Columbia



**Mukhtar S. Yerzhanov (1950)**

Non-Executive Director, Representative of Central-Asian Investment Company

*Appointment:* 2008

*Committee membership:* Member of the Audit Committee and Nomination and Remuneration Committee

*Biography:* Mr. Yerzhanov is a Partner at an audit company, a Professor at the Kazakh Economics University and Turan University, as well as Chairman of the Committee on Development of Audit Theory and Practice under the Chamber of Auditors of Kazakhstan. He is also the President of the Guild of Internal Auditors and Accountants of Kazakhstan.



**Archag Patrick Vosgimorukian (1973)**

Non-executive Director, Representative of Alnair Capital Holding

*Appointment:* 2009

*Committee membership:* Member of Risk Committee.

*Biography:* Mr. Vosgimorukian is General Director of AMUN Capital Advisors KZ, an affiliate of Alnair. From 2007 to 2008 he was Managing Director at Renaissance Capital Central Asia, where he was responsible for investment banking and finance in Central Asia and the Caucasus. Previously, from 2000 to 2007 he was Head of Mergers & Acquisitions in CEE and CIS, ABN AMRO Corporate Finance London Ltd. Prior to that, from 1998 to 2000 he worked as an EMEA TNT (Technology, Media, Telecommunications) Equity Research Analyst for the Middle East and Africa at Societe Generale Securities. In 1994 he graduated with a bachelor degree in International Relations from the American University in Paris (AUP, Paris, France); and in 1998 he completed Customer Function-CF30 (Investment Advisor Function-CF21) with the Financial Services Authority (FSA, London, UK).



**Sergei Shibaev (1959)**

Non-executive Independent Director

**Appointment:** 2009

**Committee membership:** Chairman of the Audit Committee and member of the Risk Committee

**Biography:** Mr. Shibaev has worked as an advisor to several multinational companies, including BP, Mars, Unilever, Hewlett-Packard, Johnson & Johnson and Heinz. Currently he acts as Chairman of the Audit Committee at RESO-Garantia (Russia's largest insurance provider); Chairman of the Strategy Committee and Member of the Audit Committee at Sotsgorbank (Moscow, Russia); and Chairman of the Audit Committee and Member of the Risks Committee at AK BARS Bank (Kazan, Russia). During the period 2004-2007, Mr. Shibaev worked as Partner/Deputy Head at the Moscow/CIS Office of Roland Berger Strategy Consultants GmbH. From 1999 to 2000 he was Vice-President and Director at Deloitte & Touche Corporate Finance Inc

(Toronto, Canada), and from 1998 to 1999 he acted as a Head of Corporate Finance/First Deputy CEO at ING Barings (Moscow). In 1990-1997 Mr. Shibaev worked as Managing Partner and Partner at Coopers & Lybrand in USSR and Russia. He has an MBA from The Henley Management College, UK, a PhD in Economics from MGIMO, Russia, and is a Fellow of the Association of Chartered Certified Accountants (ACCA, UK, 1995).

## The Board of Directors committees

Kazkommertsbank has developed an effective system of corporate governance and control over its financial and economic affairs as a means of safeguarding the rights and legitimate interests of its shareholders. Under The Board of Directors, there are functioning three committees: Risk Committee, Audit Committee, Nomination and Remuneration Committee.

### Audit Committee:

The Board of Directors appoints and oversees the Audit Committee, which has the following responsibilities:

- monitoring the integrity of the financial disclosure of the Bank and any formal announcements relating to the company's financial performance
- reviewing the company's internal financial controls;
- monitoring and reviewing the effectiveness of the company's internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the

external auditor and to approve the remuneration and terms of engagement of the external auditor;

- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process.

### Committee members:

Sergei Shibaev — Chairman, Independent director

Gail Buyske — Independent director

Mukhtar Yerzhanov — Independent Director

Serik Ahanovd — Deputy Chairman of the Board

Alua Nurkeev — General Manager of the Alnair Capital, Director of Financial institutions sector of Amun Capital Advisors KZ

### The Risk Committee:

Have the following key responsibilities:

- reviewing the Bank's internal control and risk management systems;
- developing and updating risk management policy which is aligned with the Bank's strategy;
- monitoring asset quality of the loan portfolio of the Bank;
- developing recommendations for internal documentation of the Bank, including risk management policy;
- considering development plans, updating and implementation of the risk assessment models;
- critically analysing the Bank and its subsidiaries for the Board of Directors; discussing the risk management

strategy with the Management Board.

#### Members of the Risk Committee:

Gail Buyske — Chairperson, Independent Director

Archag Patrick Vosgimorukian — Non-executive Director

Sergei Shibaev — Independent Director

Rustam Nabirov — Member of the Management Board with responsibilities for corporate, retail and market risks

#### The Nomination and Remuneration Committee:

Provides recommendations on key appointments, the performance of senior managers including their assignments and transfers as well as the work appraisal and motivation system. It also advises the Board on general issues of corporate governance, corporate culture and business ethics.

#### Members of the Nomination and Remuneration Committee:

Serik Akhanov — Chairman, Deputy Chairman of the Board

Mukhtar Yerzhanov — Non-executive Director

Gail Buyske — Independent Director

Alen Shayakhmetov — Head of Compliance

Galina Shin — Secretary Director for Personnel

In line with amendments to the Law on joint-stock companies introduced in 2012 the Risk Committee was reorganized to Committee on strategic planning and risks. Two new committees were established instead of Nominations and Remuneration Committee: Staff and Remuneration Committee and Social Committee.

## The Management Board

The Management Board is the collective executive body of Kazkommertsbank that oversees the Bank's day-to-day operations. The Management Members appointed with necessary concurrence with Committee for regulation and supervision of financial markets and financial organizations (CFN).

There were changes to the composition of the Management Board in 2011. Mr. Amar Hanibal, Managing director covering corporate, retail and market risks, and Mr. Yermek Shamuratov, Managing Director covering information technologies in the Bank, have voluntarily left the Bank. In December 2011 a new member of the Management Board – Managing Director Rustam Nabirov – was elected to cover risk management in the Bank. In March 2012 Mr. Yerik Bala-panov, Managing director, supervising one of credit departments in the Bank, has left the Bank.

## Members of the Management Board



**Nina Zhussupova**

is the Chairperson of the Management Board. She is responsible for overall management of the Bank and is accountable to the Board of directors.



**Beibit Apsenbetov**

has been a Managing Director since 2002. Previously he was a Partner at Deloitte & Touche, where he was in charge of management consulting and led the firm's operations in Kazakhstan. He has completed courses on mergers and acquisitions at Wharton Business School, the Pennsylvania University. At the Bank he supervises the credit department and relations with CIS and Baltics banks. He is a Chairman of the Board of Directors in Moskommertsbank.



**Magzhan Auezov**

has been a Managing Director since 2002. Prior to joining the Bank he held a number of senior positions at ABN AMRO Bank in Kazakhstan, including Country Head of Loan Products and Head of Trade and Commodities. He holds degrees with distinction from Columbia University, Georgetown University and Al Farabi Kazakh State National University. In addition to his other responsibilities Mr. Auezov chairs charity foundation “Kus Zholy”.



**Alexander Barsukov**

has been a Managing Director of the Bank since 2005, and his responsibilities include the supervision of the Bank's Legal Department and workout processes. Mr Barsukov was a Managing Partner at McGuire Woods (Kazakhstan). He holds a degree in Law from the Kazakh State National University.





**Adil Batyrbekov**

was appointed a Managing Director in February 2007. He supervises SME business and the collateral servicing of the Bank. Mr. Batyrbekov holds an MBA degree from Nottingham University (UK) and a degree in International Economics from Kazakh State Academy of Management. Prior to joining KKB he spent over six years as the Head of credit division at ABN AMRO Kazakhstan.



**Kulyash Yerezhepova**

was appointed a Managing Director in January 2008, having joined the Bank in 1994. She supervises logistics, procurement and facility management, including construction and maintenance of the branches. Ms. Yerezhepova holds a degree in Accounting from Almaty National Institute of Economics.



**Baurzhan K. Zhumagulov**

has been a Managing Director of the Bank since 2005. He supervises the Bank's credit department. Previously Mr Zhumagulov was the Finance Director of TOO "Caspian Industrial Financial Group"; in 2001-2002 he was a managing director in the State Development Bank of Kazakhstan, and in 2001 he acted as a Finance Director in KEGOC. He holds a degree in economics from the Kazakh Economic University. He attained MBA from Saitam University (Japan).



**Sergey Mokroussov**

was appointed as a Managing Director in December 2009. He joined Kazkommertsbank in 2003 and since then he has held a number of senior positions in corporate banking including product development and project finance. Since July 2008 he has been supervising relations with international financial institutions. Mr. Mokroussov graduated from Pavlodar State University with a degree in economics and management. He received his MBA from Dartmouth College (USA). In Kazkommertsbank is responsible for international relations, human resources and supervises non-banking subsidiaries.



**Askarbek Nabyev**

was appointed a Managing Director in February 2007 having joined the Bank of JSC “Kazkommertsbank” in February 2007. He supervises financial analysis, budgeting and control, and management reporting. Mr. Nabyev holds a graduate degree in economics from Kazakh State Academy of Management.



**Rustam Nabyrov**

was appointed a Managing Director in December 2011 to supervise risk-management in the Bank. He graduated from Kazakh State University n.a. Al-Farabi with a degree in international economic relations. He received his MBA from Emory University in USA. In 2001-2004 Mr. Nabyrov worked as credit analyst in ABN Amro Kazakhstan. He joined Kazkommertsbank in 2004, since then he held various senior positions in corporate banking. In 2010 Mr. Nabyrov was appointed as a Director of Risk Management Department. Mr. Nabyrov was awarded “20-years of independence of the Republic of Kazakhstan” medal.





**Andrey Timchenko**

has been a Managing Director since 2003. He joined the Bank in 1998 and has since held a number of positions. Previously Mr. Timchenko was a Tax Advisor at Ernst & Young Almaty. On the Management Board he supervises the retail business and marketing activities of the Bank. He has a graduate degree in Law from the Kazakh State University of Law.



**Dennis Y. Fedossenko**

has been a Managing Director since 2003. He joined the Bank in 1996 and has held a number of positions in Treasury Department of the Bank. He graduated from the Kazakh State Academy of Management. He supervises Treasury department.



**Alexander V. Yakushev**

Yakushev has been a Managing Director since 1999. He also heads the Regional Directorate and the Akmola branch of Kazkommertsbank. Mr. Yakushev has been in the banking sector since 1990 and joined Kazkommertsbank in 1996 having left the position of Chairman of the Board of KRAMDS bank. He graduated from Gorky Pedagogical Institute of Foreign languages.

## Key Developments in Corporate Governance in 2011

General Shareholder Meetings — in 2011 there were two General Shareholder Meetings of Kazkommertsbank.

The Annual General Meeting of the shareholders took place on 4 May 2011. The shareholders have approved the audited consolidated annual financial statements of the Bank for the year of 2010 and the Management report on the bank's activities in 2010. The net income of the Bank for 2010 was capitalized as retained earnings. It was decided that dividends would not be paid on common shares in 2010. 12 December 2011 was set as the start date for the payment of dividends on preference shares. The completion date for the list of shareholders eligible for the payment of dividends on preference shares is 12 November 2011. The dividends on preference shares of the Bank are fixed at 0.04 USD per one preference share as described in the Share Emission Prospectus of the Bank. The reserve capital of the Bank was increased by KZT 10.5 million from retained earnings. Increase in the reserve capital of the Bank did not affect the Bank's equity, as retained earnings from previous years and reserve capital from net profit are included in the equity of the Bank. Shareholders have approved the Deloitte as the external auditor of the Bank, and have set remuneration levels for the members of the Board of Directors for 2011. The shareholders have also consid-

ered shareholders' appeals to the Bank and its authorities' actions and the results of this consideration. The Bank's shareholders were also informed about the composition and size of remuneration of the members of the Board of Directors and the Management Board in 2010.

On 12 September 2011 the Bank held an Extraordinary General Meeting of the shareholders. To fill the vacant position of a member of the Board of Directors representing interests of the JSC Central Asian Investment Company, one of the shareholders of the Bank, the shareholders approved the change of the status of Mr. Mukhtar S. Yerzhanov, who has joined the Board of Directors of the Bank as an independent director in 2008. The shareholders decided to terminate the authorities of Mr. Yerzhanov as an independent director and to elect him as a representative of the JSC Central Asian Investment Company, one of the shareholders of the Bank. The shareholders elected Mr. Serik A. Akhanov, as an independent member of the Board of Directors. The reserve capital of the Bank was increased by KZT 6,239,677 thousand from retained earnings to KZT 56,257,125 thousand. Increase in the reserve capital of the Bank has not affected the Bank's equity, as retained earnings of previous years and reserve capital are included in the equity of the Bank. The shareholders also approved the amendments and additions #1 to the "Methodology of shares' valuation for the purposes of buy-back by JSC Kazkommertsbank" and remuneration of some members of the Board of Directors of the Bank.

## Attendance of the meetings of the Board of directors in 2011\*

From 21 January to 28 July 2011

Date of meeting	Members of the Board of Directors				Members of the Board — Independent directors		
	N. Subkhanberdin	N. Zhussupova	D. Sembayev	A. P. Vosgimorukian	G. Buyske	M. Yerzhanov	S. Shibaev
21.01.11	+	+	+	+	+	+	+
28.01.11	+	+	+	+	+	+	+
14.02.11	+	+	+	+	+	+	+
21.02.11	+	+	+	+	+	+	+
23.02.11	+	+	+	+	+	+	+
18.03.11	+	+	+	+	+	+	+
29.03.11	+	+	+	+	+	+	+
31.03.11	+	+	+	+	+	+	+
18.04.11	+	+	+	+	+	+	+
28.04.11	+	+	+	+	+	+	+
20.05.11	+	+	+	+	+	+	+
27.05.11	+	+	+	+	+	+	+
01.06.11	+	+	+	+	+	+	+
24.06.11	+	+	+	+	+	+	+
30.06.11	+	+	+	+	+	+	+
25.07.11	+	+	+	+	+	+	+
28.07.11	+	+	+	+	+	+	+

From 2 August to 9 September 2011

Date of meeting	Members of the Board of Directors				Members of the Board — Independent directors		
	N. Subkhanberdin	N. Zhussupova	N. D. Sembayev	A. P. Vosgimorukian	G. Buyske	M. Yerzhanov	S. Shibaev
02.08.11	+	+	Left the Board from 01.08.2011	+	+	+	+
09.08.11	+	+		+	+	+	+
19.08.11	+	+		+	+	+	+
25.08.11	+	+		+	+	+	+
09.09.11	+	+		+	+	+	+

From 19 September to 23 December 2011

Date of meeting	Members of the Board of Directors				Members of the Board — Independent directors		
	N. Subkhanberdin	N. Zhussupova	M. Yerzhanov	A. P. Vosgimorukian	G. Buyske	S. Akhanov	S. Shibaev
19.09.11	+	+	+	+	+	+	+
29.09.11	+	+	+	+	+	+	+
24.10.11	+	+	+	+	+	+	+
31.10.11	+	+	+	+	+	+	+
24.11.11	+	+	+	+	+	+	+
08.12.11	+	+	+	+	+	+	+
14.12.11	+	+	+	+	+	+	+
23.12.11	+	+	+	+	+	+	+

\*including participation through the conference call facility

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## 4 Social responsibility

Kazkommertsbank was one of the first Kazakh businesses to join the UN Global Compact in 2005. The Bank sees its major objective in terms of corporate social responsibility of business in providing high quality financial services to its customers, enlarging opportunities for the staff members, partners as well as in implementing socially important charitable and sponsorship projects at the local and national levels.

In light with the corporate social responsibility principles in 2011 Kazkommertsbank spent more than KZT101 million for medical insurance of its employees. The Bank has spent c. KZT13 million for human resources development via training and retraining programmes. At the same time Kazkommertsbank is specially focused on corporate culture and involvement of employees and their family members into corporate and social events.

Being a socially responsible business the Bank participates in the government economic development and diversification programmes. As a result, in 2011 more than 7,700 borrowers of the Bank reduced interest rates on their loans and around 2,000 people who prepaid for their residential housing received their apartments in the construction projects completed by the Bank.

The Bank's charitable activities are conducted via Kus Zholy corporate foundation. In 2011 the charitable activities amounted to c. KZT70 million. Sponsorship activities

amounted to KZT24 million in 2011, and the funds were provided to the largest national cultural brands: the State Academic Opera and Ballet Theater n.a. Abay, the Kazakh State Conservatory n.a. Kurmangazy, the State Arts Museum n.a. Kasteyev.

### II International Opera and Ballet Festival n.a. Abay

In June 2011 Almaty city welcomed the II International Opera and Ballet Festival supported by Kazkommertsbank. During five days the city residents and the guests enjoyed performances by soloists of the Italian opera as well as famous ballet dancers and opera singers from Russian Bolshoi and Mariinsky Theaters along with Kazakh artists.

The festival programme included the most popular operas from the theater's repertoire: "Aida" by Verdi and "The Love Drink" by Donicetti. The ballet masterpieces included "The Swan Lake" by Chaikovsky and "Romeo and Juliet" by Prokofiyev.

### Charitable concerts and performances

In October 2011 Kazkommertsbank together with Kus Zholy foundation organized series of performances.

Russian actor and director Oleg Menshikov with his troupe presented two performances in Almaty city, namely, "The Players" based on the novel by Gogol and "1900th" based on the novel of Barikko. In November 2011 Kazkommertsbank and Kus Zholy organized a show of the world jazz stars Terri Lyne Carrington (USA) and Mosaic Project group.

Besides their cultural and aesthetic sense, these events were charitable. The total funds gathered from the ticket sales in amount of KZT19 million were directed to Kus Zholy foundation to be used for "The Doctor Santa" project.

### "Three artists" exhibition

During December 2011 the Bank supported trade exhibition of three famous Kazakh artists: Andrey Noda, Eduard Kazaryan and Marat Bekeyev. The artists presented more than 100 artworks and sculptures made using different techniques and in various themes. The artists have directed around 30% of the funds from sale of artworks to the Kus Zholy charitable foundation. Also, they've conducted master classes on painting and sculpture for children with cerebral palsy and special educational needs.

## Guardian Angel project

According to the Ministry of health care of Kazakhstan the maternal and infant mortality rates in Kazakhstan are still high compared to the developed countries. Thus, in 2011 infant mortality in Kazakhstan was 14.9 per 1,000 births, while maternal mortality was 17.1 per 1,000 births.

To provide for survival and healthy life start in rural areas, the Kus Zholy foundation successfully implements a project aimed at equipping delivery rooms with modern medical equipment. Thus, the project of Kazkommertsbank contributes towards reaching the levels of developed countries on maternal and infant mortality.

The funds under the project are gathered via issuance of charity banking cards “Guardian Angel” in cooperation with VISA. Service fee for the first year of using the card is charged to the Kus Zholy foundation, not to the Bank's income. In 2011 the project's funds helped to equip delivery rooms in the Balkhash city central hospital for total of KZT15.6 million. Since installation of the equipment maternal mortality in the hospital decreased by 23%, while infant survival rate increased by 90%.

## Doctor Santa

“Doctor Santa” is an annual initiative for children who have to spent majority of their childhood in medical institutions, and is conducted by the Kus Zholy charitable foundation together with branches of Kazkommertsbank. Under

this initiative the medical institutions are provided with medical equipment which helps children to recover much faster. In 2011 20 rehabilitation centers in Kazakhstan for children with cerebral palsy received training equipment. The training equipment is envisaged to develop and strengthen hand and leg muscles of the child to support muscle strength, flexibility, tone, endurance and general physical shape of children and teenagers. One of important features of the training equipment is that it can be used with bed patients. The total budget of the project amounted to KZT16.5 million.

## 20 good initiatives of Kazkom

To implement its strategy of corporate social responsibility of business for local communities, in 2011 the Bank completed a project called “20 good initiatives”. The bank in cooperation with Kus Zholy charitable foundation and local authorities made meaningful presents to the residents of 16 cities of Kazakhstan. During the year memorable architectural and landscape sights were places in these cities, and they became true masterpieces and were included into official registers of the state city architectural offices. KZT15 million was spent for the project.

## Give life to children!

Since 2007 Kazkommertsbank was a partner of the “Give life to children!” charitable initiative organized by the

Miloserdiye voluntary society chaired by Aruzhan Sain. This initiative is aimed at gathering funds for extraordinary medical assistance to children with different illnesses, which can-not be treated in Kazakhstan. The medical histories of the children can be found at [www.detdom.kz](http://www.detdom.kz). Each of these stories is a cry for help, appeal for mercy and compassion.

Kazkommertsbank organized collection of funds via Homebank financial portal. Moreover, the Bank opened special account free of all banking fees. In 2011 total funds gathered under this initiative amounted to KZT10.65 million. The Bank and the Foundation serve as guarantors of targeted use funds.

## Look at the stars

For more than seven years the Kus Zholy conducts regional charitable project “Look at the stars...” aimed at providing support to the people with disabilities striving for full-fledged life. The project helps disabled people to earn money using their talents for the benefit of the whole society.

The most important thing is that there are a lot of talented creative people among disabled. They did not give up, but misfortune made them stronger. These people are not a burden for their families or the state; they are eager to develop their skills and become necessary for the society. The project is advocated by the regional mass media, and its successful implementation attracts attention of the regional mass media, and its successful implementation

attracts attention of the society towards disabled people, showing examples of vital power and active civic position. Total disbursed grants amounted to KZT890 thousand.

## Damu-Komek

In 2011 Kazkommertsbank supported the initiative of “Damu” foundation in the framework of “Damu-Komek” programme, and conducted one-off event to distribute sewing machines to disabled entrepreneurs in 16 regions of Kazakhstan. Kazkommertsbank acquired 33 sewing machines for KZT1,073,000.

## Victory Day

Celebration of victory of Soviet Union over the Nazi Germany in the Great Patriotic War and honoring war veterans has been always an important part of the society's life in Kazakhstan. Veterans continue playing an important role in upbringing the growing generation. To celebration of Victory Day «Kus Zholy» Foundation holds annual large-scale action called «Thank you for the right to live in peace!» which includes among other things a financial aid to war veterans and support of events devoted to honoring veterans in 22 cities of Kazakhstan. In addition to that Kazkommertsbank within the last 15 years makes accrual of financial premiums to deposits placed by veterans. Total project budget amounts for KZT 6.6 million.

## Social Initiative

On the night from 12th to 13th of April 2011 due to a sharp rise in the water level in Ural River there was a water flood occurred in the Western Kazakhstan. Thousands of houses were destroyed, a livestock was lost, schools, utility lines and systems, hospitals and social facilities were damaged. Thousands of people were left homeless. Kazkommertsbank via Kus Zholy Foundation rendered an immediate support in KZT 10 million to arrange for a hot catering at Center 1 of temporary people accommodation suffered from the water flood. It helped to ensure daily catering within a month for about 700 people.

## Altyn Kalam

In order to seek for a most talented and perspective Kazakhstani authors Kazkommertsbank supported an “Altyn Kalam-2011” prize in literature.

Works selected by jury and written in Kazakh and Russian language were published in a separate collection. This non-commercial project has been supported by Kazkommertsbank and GSM Kazakhstan/Kcell mobile provider.

This contest has been launched in April 2011. Literature works registration has been made on [www.arzu.kz](http://www.arzu.kz) portal within three months and registration was closed on September 5. There were about 200 works registered and winners were determined by jury while opinion of the internet auditorium was taken into account.

## «Return to A»

In 2011 a first release of the “Return to A” film created by Egor Konchalovsky, a Russian producer took place in Almaty. The film was devoted to the war in Afghanistan in 1979–1989. Within the frame of the premier Kazkommertsbank arranged for a social demonstration of the participants of that war. There were more than 200 veterans and invalids to come to see the film including the mass media representatives.

## Universal Children's Day

During the first summer days of 2011 Kus Zholy Foundation arranged for a contest of paintings and essays «My father/mother/grandmother/grandfather works at Kazkom» among small children and grandchildren of Kazkom's employees (from 5 to 12 years). Children were drawing and writing stories on what at their opinion is the bank, what is the job their parents do, and how family is important for parents and children. As a result branches of the bank submitted 128 drawings and 31 essays. And on 1st of June the Head Office of the Bank was full of laugh and rush of children. Children could see the offices where their mothers and fathers work and spend a lot of time.

## Sports contest

During the course of 2011 in order to support a healthy life style among its employees both in the headquarters and in branches Kazkommertsbank arranged for a First Sport Contest in four sports: mini-football, volleyball, table tennis and bowling. Following the regional games each directorate and the headquarter set up their teams. As a result of final games held in Almaty friendship and corporate spirit have won!

## Two Stars

Devoted to 20th anniversary of Kazkommertsbank Public relations unit of the Bank arranged for a “Two Stars” song contest. For the first time any employee of the Bank being awarded a winner's status could sing in public in duet with famous Kazakhstani performers. Kazkommertsbank employees actively took up the initiative and produced a video with live performance. Professional jury selected top twenty performers followed by voting held on internal bank web site. As a result of voting there were 10 employees selected as the most talented. The winners appeared at the Gala concert devoted to the 20th Anniversary of Kazkommertsbank. Despite the fact that contest participants were having no musical education and experience in appearing on stage they were singing with ardor and demonstrated their talents and their actor bents.

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## 5 Consolidated Financial Statements

For the years ended 31 December 2011, 2010 and 2009

Joint stock company Kazkommertsbank

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## Joint stock company Kazkommertsbank

# Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the years ended 31 december 2011, 2010 and 2009

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Kazkommertsbank (the "Bank") and its subsidiaries (the "Group") as at 31 December 2011, 2010 and 2009 the consolidated results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;

- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2011, 2010 and 2009 were authorized for issue on 2 April 2012 by the Management Board of JSC Kazkommertsbank.

On behalf of the Management Board of the Bank:

Zhussupova N.A.  
Chairman of the Board

2 April 2012  
Almaty



Shoinbekova G.K.  
Chief Accountant

2 April 2012  
Almaty

## Independent auditors' report

To the Shareholders and the Board of Directors of JSC Kazkommertsbank:

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazkommertsbank ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2011, 2010 and 2009, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform


the audits to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.



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

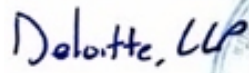
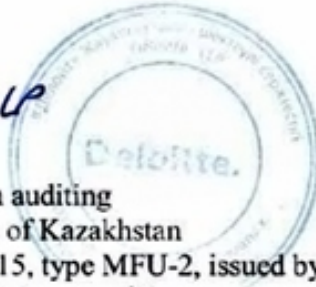
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Joint Stock Company Kazkommertsbank and its subsidiaries as at 31 December 2011, 2010 and 2009, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

  
Mark Smith  
Engagement partner  
Chartered Accountant  
Institute of Chartered  
Accountants of Scotland  
License #M21857  
Glasgow, Scotland

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

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

## Joint stock company Kazkommertsbank

## Consolidated income statements for the years ended 31 December 2011, 2010 and 2009

	Notes	Year ended 31 December		
		2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Interest income	5,33	246,853	291,515	372,460
Interest expense	5,33	(133,531)	(152,091)	(178,846)
<b>Net interest income before provision for impairment losses on interest bearing assets</b>		<b>113,322</b>	<b>139,424</b>	<b>193,614</b>
Provision for impairment losses on interest bearing assets	6,33	(66,095)	(95,555)	(192,406)
<b>Net interest income</b>		<b>47,227</b>	<b>43,869</b>	<b>1,208</b>
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	7	(5,232)	(5,947)	24,524
Net gain/(loss) on foreign exchange and precious metals operations	8	986	2,562	(14,965)
Fee and commission income	9	23,946	20,974	20,731
Fee and commission expense	9	(10,348)	(6,882)	(5,700)
Net realized gain/(loss) on investments available-for-sale	10	102	69	(1,026)
Dividends received		210	181	186
Other income	11	8,892	69	(1,026)
<b>Net non-interest income</b>		<b>18,556</b>	<b>17,487</b>	<b>58,177</b>
<b>Operating income</b>		<b>65,783</b>	<b>61,356</b>	<b>59,385</b>
<b>Operating expenses</b>	<b>12,33</b>	<b>(34,128)</b>	<b>(32,730)</b>	<b>(27,988)</b>
<b>Profit before other operating provisions and results of associates</b>		<b>31,655</b>	<b>28,626</b>	<b>31,397</b>
Provision for impairment losses on other transactions	6,33	(1,865)	(3,679)	(2,511)
Recovery of provision for guarantees and other contingencies	6,33	1,387	3,261	600
Gain from sale of associates and share of results of associates	33	—	—	4,372


## Joint stock company Kazkommertsbank

## Consolidated income statements for the years ended 31 December 2011, 2010 and 2009

(Continued)


За год, закончившийся 31 декабря				
	Примечания	2011 г. (млн. тенге)	2010 г. (млн. тенге)	2009 г. (млн. тенге)
<b>Operating profit before income tax</b>		31,177	28,208	33,858
Income tax expense	13	(7,657)	(7,419)	(13,101)
<b>Net profit from continuing operations</b>		<b>23,520</b>	<b>20,789</b>	<b>20,757</b>
Profit/(loss) from discontinued operations, net of tax		—	1,199	(1,734)
<b>Net profit</b>		<b>23,520</b>	<b>21,988</b>	<b>19,023</b>
Attributable to:				
Ordinary shareholders of the Parent		20,877	19,494	17,152
Preference shareholders of the Parent		2,603	2,385	2,271
Non-controlling interest		40	109	(400)
<b>Earnings per share</b>		<b>23,520</b>	<b>21,988</b>	<b>19,023</b>
Basic and diluted (KZT)	14	26.82	25.04	24.27

On behalf of the Management Board of the Bank:



Zhussupova N.A.  
Chairman of the Board

2 April 2012  
Almaty



Shoinbekova G.K.  
Chief Accountant

2 April 2012  
Almaty

The notes on pages 68–201 form an integral part of these consolidated financial statements.

## Joint stock company Kazkommertsbank

## Consolidated statements of comprehensive income for the years ended 31 December 2011, 2010 and 2009

	Year ended 31 December		
	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Net profit</b>	<b>23,520</b>	<b>21,988</b>	<b>19,023</b>
Property and equipment:			
Revaluation of property and equipment	70	771	(1,896)
	70	771	(1,896)
Investments available-for-sale:			
Unrealized (loss)/gain on revaluation of investments available-for-sale	(1,459)	609	1,627
Gain transferred to income statement on sale of investments available-for-sale	(102)	(69)	(34)
Loss transferred to income statement on impairment of investments available-for-sale	—	—	1,060
Share of Parent bank from revaluation of reserves of associated companies	—	—	(130)
	(1,561)	540	2,523
Cash flow hedges:			
Loss on cash flow hedges	—	—	(1,992)
Plus: net gain on hedging reserve transferred to earnings	731	941	14,219
	731	941	12,227
Exchange differences on translation of foreign operations	224	158	2,443
Deferred income tax:			
Deferred income tax recognized on revaluation of property and equipment	3	(125)	379
Deferred income tax recognized on property and equipment due to tax rate changes	—	—	(401)
Deferred income tax recognized on gain/(loss) on investments available-for-sale	154	55	(490)
Deferred income tax recognized on gain/(loss) on cash flow hedges	(147)	(188)	(2,445)
	10	(258)	(2,957)

## Joint stock company Kazkommertsbank

### Consolidated statements of comprehensive income for the years ended 31 December 2011, 2010 and 2009 (Continued)

	Year ended 31 December		
	2011 (KZT million)	2010 (KZT million)	2009 KZT million
<b>Total comprehensive income</b>	<b>22,994</b>	<b>24,140</b>	<b>31,363</b>
Attributable to:			
Ordinary shareholders of the Parent	19,795	19,694	27,731
Preference shareholders of the Parent	3,161	3,149	4,133
Non-controlling interest	38	1,297	(501)
<b>Total comprehensive income</b>	<b>22,994</b>	<b>24,140</b>	<b>31,363</b>

On behalf of the Management Board of the Bank:

Zhussupova N.A.  
Chairman of the Board

2 April 2012  
Almaty



Shoinbekova G.K.  
Chief Accountant

2 April 2012  
Almaty

*(Handwritten signature)*

The notes on pages 68-201 form an integral part of these consolidated financial statements.

**Joint stock company Kazkommertsbank**  
**Consolidated statements of financial position**  
**as at 31 December 2011, 2010 and 2009**

as at 31 December 2011, 2010 and 2009

		Year ended 31 December		
Assets:	Notes	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Cash and balances with national (central) banks	15	105,067	61,216	90,533
Precious metals		3,280	1,345	1,209
Financial assets at fair value through profit or loss	16	188,313	223,231	114,203
Loans and advances to banks and other financial institutions	17	53,968	146,331	148,375
Loans to customers	18,33	2,079,661	2,174,760	2,160,767
Investments available-for-sale	19	15,419	16,822	16,696
Investments held to maturity	20	4,026	1,996	943
Goodwill	21	2,405	2,405	2,405
Property, equipment and intangible assets	22	33,028	31,857	33,971
Other assets	23	80,522	28,145	18,771
Total assets		2,565,689	2,688,108	2,587,873

**Liabilities and equity**

**Liabilities:**

Loans and advances from banks and other financial institutions	24	92,215	147,139	209,122
Customer accounts	25,33	1,463,077	1,506,800	1,276,464
Financial liabilities at fair value through profit or loss	16	37,771	36,047	35,991
Debt securities issued	26	324,087	375,199	463,656
Other borrowed funds	27	26,359	23,943	31,172
Provisions	6	10,724	10,190	11,945
Deferred income tax liabilities	13	29,131	30,035	24,519

## Joint stock company Kazkommertsbank

## Consolidated statements of financial position

as at 31 December 2011, 2010 and 2009 (continued)

	Notes	Year ended 31 December		
		2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Dividends payable		6	4	15
Other liabilities	28	7,647	7,868	8,990
		1,991,017	2,137,225	2,061,874
Subordinated debt	29	138,040	137,137	136,411
Total liabilities		2,129,057	2,274,362	2,198,285

## Equity:


Equity attributable to equity holders of the Parent:				
Issued and outstanding share capital	30	9,023	9,031	9,031
Share premium reserve		194,924	195,024	195,006
Property and equipment revaluation reserve		5,488	5,508	4,935
Other reserves		226,085	023,109	180,839
Total equity attributable to equity holders of the Parent		435,520	412,672	389,811
Non-controlling interest		1,112	1,074	(223)
Total equity		436,632	413,746	389,588
<b>Total liabilities and equity</b>		<b>2,565,689</b>	<b>2,688,108</b>	<b>2,587,873</b>

On behalf of the Management Board of the Bank:



Zhussupova A.A.  
Chairman of the Board

2 April 2012  
Almaty



Shoinbekova G.K.  
Chief Accountant

2 April 2012  
Almaty

The notes on pages 68–201 form an integral part of these consolidated financial statements.



## Joint stock company Kazkommertsbank

## Consolidated statements of changes in equity for the years ended 31 December 2011, 2010 and

	Share capital	Treasury shares	Share premium reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value reserve/(deficit) <sup>1</sup>	Cumulative translation reserve <sup>1</sup>	Hedging reserve <sup>1</sup>	Retained earnings <sup>1</sup>	Total equity attributable to equity holders of the Parent	Non-controlling interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>31 December 2008</b>	7,0	(10)	152,684	6,918	(1,842)	(3,016)	(10,717)	162,567	313,584	278	313,862
Net profit	—	—	—	—	—	—	—	19,423	19,423	(400)	19,023
Loss on revaluation of property and equipment	—	—	—	(1,896)	—	—	—	—	(1,896)	—	(1,896)
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	—	—	—	(80)	—	—	—	80	—	—	—
Investments available-for-sale	—	—	—	—	2,523	—	—	—	2,523	—	2,523
Cash flow hedges	—	—	—	—	—	—	12,227	—	12,227	—	12,227
Exchange differences on translation of foreign operations	—	—	—	—	—	2,544	—	—	2,544	(101)	2,443
Deferred income tax (Note 13)	—	—	—	(7)	(490)	—	(2,445)	(15)	(2,957)	—	(2,957)
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,983)</b>	<b>2,033</b>	<b>2,544</b>	<b>9,782</b>	<b>19,488</b>	<b>31,864</b>	<b>(501)</b>	<b>31,363</b>
Increase of share capital											
— ordinary shares	2,044	—	42,428	—	—	—	—	—	44,472	—	44,472
Purchase of treasury shares	—	(13)	(266)	—	—	—	—	—	(279)	—	(279)
Sale of treasury shares	—	10	160	—	—	—	—	—	170	—	170
<b>31 December 2009</b>	<b>9,044</b>	<b>(13)</b>	<b>195,006</b>	<b>4,935</b>	<b>191</b>	<b>(472)</b>	<b>(935)</b>	<b>182,055</b>	<b>389,811</b>	<b>(223)</b>	<b>389,588</b>

## Joint stock company Kazkommertsbank

## Consolidated statements of changes in equity for the years ended 31 December 2011, 2010 and (Continued)

	Share capital	Treasury shares	Share premium reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value reserve/(deficit) <sup>1</sup>	Cumulative translation reserve <sup>1</sup>	Hedging reserve <sup>1</sup>	Retained earnings <sup>1</sup>	Total equity attributable to equity holders of the Parent	Non-controlling interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>31 December 2009</b>	<b>9,044</b>	<b>(13)</b>	<b>195,006</b>	<b>4,935</b>	<b>191</b>	<b>(472)</b>	<b>(935)</b>	<b>182,055</b>	<b>389,811</b>	<b>(223)</b>	<b>389,588</b>
Net profit	—	—	—	—	—	—	—	21,879	21,879	109	21,988
Gain on revaluation of property and equipment	—	—	—	771	—	—	—	—	771	—	771
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	—	—	—	(80)	—	—	—	80	—	—	—
Investments available-for-sale	—	—	—	—	540	—	—	—	540	—	540
Cash flow hedges	—	—	—	—	—	—	941	—	941	—	941
Exchange differences on translation of foreign operations	—	—	—	—	—	(1,030)	—	—	(1,030)	1,188	158
Deferred income tax (Note 13)	—	—	—	(118)	55	—	(188)	(7)	(258)	—	(258)
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>18</b>	<b>573</b>	<b>595</b>	<b>(1,030)</b>	<b>753</b>	<b>21,952</b>	<b>22,843</b>	<b>1,297</b>	<b>24,140</b>
Sale of treasury shares	—	—	18	—	—	—	—	—	18	—	18
<b>31 December 2010</b>	<b>9,044</b>	<b>(13)</b>	<b>195,024</b>	<b>5,508</b>	<b>786</b>	<b>(1,502)</b>	<b>(182)</b>	<b>204,007</b>	<b>412,672</b>	<b>1,074</b>	<b>413,746</b>

## Joint stock company Kazkommertsbank

## Consolidated statements of changes in equity for the years ended 31 December 2011, 2010 and (Continued)

	Share capital	Treasury shares	Share premium reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value reserve/(deficit) <sup>1</sup>	Cumulative translation reserve <sup>1</sup>	Hedging reserve <sup>1</sup>	Hedging reserve <sup>1</sup>	Statutory reserves	Total equity attributable to equity holders of the Parent	Non-controlling interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>31 December 2010</b>	<b>9,044</b>	<b>(13)</b>	<b>195,024</b>	<b>5,508</b>	<b>786</b>	<b>(1,502)</b>	<b>(182)</b>	<b>—</b>	<b>204,007</b>	<b>412,672</b>	<b>1,074</b>	<b>413,746</b>
Net profit	—	—	—	—	—	—	—	—	23,480	23,480	40	23,520
Gain on revaluation of property and equipment	—	—	—	70	—	—	—	—	—	70	—	70
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	—	—	—	(88)	—	—	—	—	88	—	—	—
Investments available-for-sale	—	—	—	—	(1,561)	—	—	—	—	(1,561)	—	(1,561)
Cash flow hedges	—	—	—	—	—	—	731	941	—	731	—	731
Exchange differences on translation of foreign operations	—	—	—	(3)	—	229	—	—	—	226	(2)	224
Deferred income tax (Note 13)	—	—	—	1	154	—	(147)	—	2	10	—	10
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(20)</b>	<b>(1,407)</b>	<b>229</b>	<b>584</b>	<b>—</b>	<b>23,570</b>	<b>22,956</b>	<b>38</b>	<b>22,994</b>
Transfer to statutory reserve	—	—	—	—	—	—	—	172,009	(172,009)	—	—	—
Repurchase of treasury shares	—	(8)	(100)	—	—	—	—	—	—	(108)	—	(108)
<b>31 December 2011</b>	<b>9,044</b>	<b>(21)</b>	<b>194,924</b>	<b>5,488</b>	<b>(621)</b>	<b>(1,273)</b>	<b>402</b>	<b>172,009</b>	<b>55,568</b>	<b>435,520</b>	<b>1,112</b>	<b>436,632</b>

<sup>1</sup>The amounts included within the Investments available-for-sale fair value reserve/(deficit), Cumulative translation reserve, Hedging reserve, Statutory reserves and Retained earnings, in the above table, are included within “Other reserves” in the consolidated statement of financial position.

On behalf of the Management Board of the Bank:



Zhussupova A.  
Chairman of the Board

2 April 2012  
Almaty



Shoinbekova G.K.  
Chief Accountant

2 April 2012  
Almaty

The notes on pages 68–201 form an integral part of these consolidated financial statements.

## Joint stock company Kazkommertsbank

## Consolidated statements of cash flows for the years ended 31 December 2011, 2010 and 2009

		Year ended 31 December		
	Notes	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Cash flows from operating activities:				
Interest received from financial assets at fair value through profit or loss		5,264	1,773	2,802
Interest received on loans and advances to banks and other financial institutions		3,428	5,501	7,957
Interest received from loans to customers		181,506	204,235	234,827
Interest received from investments available-for-sale		698	788	1,653
Interest received from investments held to maturity		20	46	41
Interest paid on loans and advances from banks and other financial institutions		(5,668)	(8,514)	(16,301)
Interest paid on customer accounts		(90,020)	(99,173)	(80,995)
Interest paid on debt securities issued		(32,508)	(39,464)	(72,695)
Interest paid on other borrowed funds		(1,205)	(1,646)	(4,663)
Interest paid on subordinated debt		(10,348)	(7,841)	(5,824)
Fee and commission received		24,087	20,798	20,957
Fee and commission paid		(10,359)	(6,871)	(5,704)
Other income received		8,591	6,807	3,795
Operating expenses paid		(30,614)	(30,576)	(22,296)
Cash inflow from operating activities before changes in operating assets and liabilities		42,872	45,863	63,554

## Joint stock company Kazkommertsbank

## Consolidated statements of cash flows for the years ended 31 December 2011, 2010 and 2009

## (Continued)

	Notes	Year ended 31 December		
		2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets:				
Funds deposited with National Bank of the Republic of Kazakhstan		(18,960)	(153)	14,228
Funds deposited with Central Bank of Russian Federation		(538)	(1,429)	(771)
Funds deposited with National Bank of the Kyrgyz Republic		(16)	94	(49)
Funds deposited with National Bank of Tajikistan		(40)	(19)	29
Precious metals		(1,935)	(137)	(892)
Financial assets at fair value through profit or loss		32,144	(110,380)	(49,372)
Loans and advances to banks and other financial institutions		27,524	10,664	79,632
Loans to customers		35,716	(56,016)	245,123
Other assets		(3,528)	(11,508)	11,083
Increase/(decrease) in operating liabilities:				
Loans and advances from banks and other financial institutions		(54,827)	(59,560)	(121,917)
Customer accounts		(38,683)	145,223	145,223
Other liabilities		(6,953)	(2,647)	(10,760)
Cash inflow from operating activities before taxation		12,776	56,896	375,111
Income tax paid		(2,104)	(102)	(3,851)
Net cash inflow from operating activities		10,672	56,794	371,260

## Joint stock company Kazkommertsbank

## Consolidated statements of cash flows for the years ended 31 December 2011, 2010 and 2009

## (Continued)

		Year ended 31 December		
	Notes	2011 r. (KZT million)	2010 r. (KZT million)	2009 r. (KZT million)
<b>Cash flows from investing activities:</b>				
Purchase of property, equipment and intangible assets		(4,786)	(4,883)	(4,383)
Proceeds on sale of property and equipment		49	5,015	1,609
Dividends received		210	181	186
Proceeds on sale of investments available-for-sale		2,975	3,510	2,764
Purchase of investments available-for-sale		(2,576)	(4,489)	(5,328)
Proceeds on maturity of investments held to maturity		—	13	173
Purchase of investments held to maturity		(1,323)	(1,093)	(525)
Proceeds on disposal of investments in associates		—	—	6,147
Proceeds on disposal of subsidiary		—	1,149	—
Net cash (outflow)/inflow from investing activities		(5,451)	(597)	643
<b>Cash flows from financing activities:</b>				
Issue of ordinary shares		—	—	44,472
Purchase of treasury shares		(108)	—	(279)
Proceeds on sale of treasury shares		—	18	170
Proceeds from debt securities issued		44,533	2,095	37,570
Repurchase and repayment of debt securities issued		(91,648)	(71,144)	(404,941)
Proceeds from subordinated debt		—	1,000	2,530
Repayment of subordinated debt		—	—	(3,391)
Proceeds from other borrowed funds		7,400	—	—
Repayment of other borrowed funds		(5,053)	(7,054)	(140,265)


## Joint stock company Kazkommertsbank

## Consolidated statements of cash flows for the years ended 31 December 2011, 2010 and 2009

(Continued)


	Notes	Year ended 31 December		
		2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Dividends paid on preference shares		(729)	(741)	(738)
Net cash outflow from financing activities		(45,605)	(75,826)	(464,872)
Effect of changes in foreign exchange rate on cash and cash equivalents		225	(944)	5,653
<b>Net decrease in cash and cash equivalents</b>		<b>(40,159)</b>	<b>(20,573)</b>	<b>(87,316)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>15</b>	<b>118,223</b>	<b>138,796</b>	<b>226,112</b>
<b>Cash and cash equivalents, end of period</b>	<b>15</b>	<b>78,064</b>	<b>118,223</b>	<b>138,796</b>

On behalf of the Management Board of the Bank:



Zhussupova N.A.  
Chairman of the Board

2 April 2012  
Almaty



Shoinbekova G.K.  
Chief Accountant

2 April 2012  
Almaty

The notes on pages 65–201 form an integral part of these consolidated financial statements.

## Joint stock company Kazkommertsbank

### Notes to the consolidated financial statements for the years ended 31 December 2011, 2010 and 2009

## 1. Organisation

Joint Stock Company (“JSC”) Kazkommertsbank (“the Bank”, or “Kazkommertsbank”) is a Joint Stock Company and has operated in the Republic of Kazakhstan since 1990. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan (“the NBRK”) and by the Committee for control and supervision of financial market and financial organizations of the NBRK (“the FMSC”) in accordance with the license № 48 dated 27 December 2007. The Bank's primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 135Zh, Gagarin str., Almaty 050060, Republic of Kazakhstan.

As at 31 December 2011, 2010 and 2009, the Bank has 23 branches in the Republic of Kazakhstan, and a representative office in London.

Kazkommertsbank is a parent company of the banking group (“the Group”) which consists of the following enterprises consolidated in the financial statements:

Наименование	Country of operation	Proportion or ownership interest/voting rights			Type of operation
		2011	2010	2009	
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	100%	Securities market transactions
LLP Processing Company	Republic of Kazakhstan	100%	100%	100%	Payment card processing and other related services
Kazkommerts International B.V.	Kingdom of Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of Netherlands	100%	100%	100%	
Kazkommerts Capital II B.V.	Kingdom of Netherlands	100%	100%	100%	
JSC OCOPAIM Grantum Asset Management	Republic of Kazakhstan	100%	100%	100%	Investment management of pension assets
JSC Life Insurance Company Kazkommerts Life	Republic of Kazakhstan	100%	100%	100%	Life insurance
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	100%	100%	Commercial bank
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	100%	100%	100%	Insurance
OJSC Commercial Bank Moskommertsbank	Russian Federation	100%	100%	100%	Commercial bank
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	95.75%	95.75%	94.64%	Commercial bank
JSC Grantum APF	Republic of Kazakhstan	82.52%	82.52%	80.01%	Pension fund
LLP Investment Group East Kommerts	Republic of Kazakhstan	—	—	50%	Securities market transactions



JSC Kazkommerts Securities is a Joint Stock Company and has operated under the laws of the Republic of Kazakhstan since 1997. The company's primary business consists of trading with securities, including broker and dealing operations, consulting in investments and corporate finances, organization of security issuances, allocation and underwriting of securities, and purchase and sale of securities in the capacity of the agent. In connection with the renaming from OJSC to JSC company received license on broker and dealing operations № 0401201207 dated 17 May 2006 and license for investment portfolio management № 0403200439 dated 17 May 2006 issued by the FMSC.

LLP Processing Company is a limited liability partnership and has operated under the laws of the Republic of Kazakhstan since 9 July 2004. The company is registered with the Ministry of Justice of the Republic of Kazakhstan under № 64313-1910-TOO. The Company's primary business is to provide payment and other types of card processing.

Kazkommerts International B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company was registered with the Chamber of Commerce of the Netherlands under the license № 24278506 dated 1 October 1997 for raising funds, including the issuance of bonds and other securities and entering into agreements regarding those activities.

Kazkommerts Finance II B.V. is a limited liability partnership (B.V.) and has operated under the laws of the

Kingdom of the Netherlands. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company was registered with the Chamber of Commerce of the Netherlands under the license № 24317181 dated 13 February 2001 for conducting operations.

Kazkommerts Capital II B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands since 11 April 2000. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company has license № 24305284 dated 11 April 2000 issued by the Chamber of Commerce of the Netherlands for conducting operations.

JSC OCOPAIM Grantum Asset Management ("Grantum PAMC") is a joint stock company and has operated under the laws of the Republic of Kazakhstan since 1998. The company's primary business is investment management of pension funds. The company has license № 0411200249 dated 26 June 2006 on investment management of pension funds issued by the FMSC, license № 0403200454 dated 26 June 2006 on management of investment portfolio issued by the FMSC, license № 0402200299 dated 26 June 2006 on broker and dealer activity without right to custody activities issued by the FMSC.

JSC Life Insurance Company Kazkommerts Life is a joint stock company and has operated under the laws of the Republic of Kazakhstan. The company's primary business consists of life insurance. The company has a license on life insurance (reinsurance) services № 2.2.42 dated

6 January 2011 issued by the FMSC.

On 29 May 2007, the Board of Directors of the Bank decided to establish a subsidiary bank, CJSC Kazkommertsbank Tajikistan. The Bank received an approval from the FMSC № 93 on 6 September 2007 for the creation of a subsidiary bank in Tajikistan. On 24 January 2008, CJSC Kazkommertsbank Tajikistan received an operating license from the National Bank of Tajikistan for banking operations in both national currency and foreign currencies № 33/1. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees.

JSC Kazkommertsbank Kyrgyzstan is a joint stock company and has operated under the laws of the Kyrgyz Republic since 1991. The Bank's operations are regulated by the National Bank of the Kyrgyz Republic ("the NBKR") according to license № 010 dated 15 April 2005 for banking operations in national currency and license № 010/1 dated 15 April 2005 for banking operations in foreign currency. The Bank's primary business consists of commercial banking activities, acceptance of deposits from individuals, transfer of payments, operations with foreign exchange and derivative instruments, originating loans and guarantees.

JSC Grantum APF is a joint stock company and has operated since 1998 under the laws of the Republic of Kazakhstan. The company's primary business consists of the receipt of pension contributions of depositors and making pension payments to recipients under the laws of the Republic of Kazakhstan. The company operates based on a state license on the receipt of pension contributions

and making pension payments, also on operating on securities market № 3.2.19/38/41 dated 7 May 2010 issued by the FMSC.

JSC Insurance Company Kazkommerts-Policy is a joint stock company and operates under laws of the Republic of Kazakhstan since 1996. The company's primary business consists of insurance of property, cargoes, auto insurance, civil liability insurance of vehicle owners, insurance of other civil liabilities and reinsurance. The company has license on insurance and reinsurance services № 2.1.13 dated 1 June 2011 issued by the FMSC.

OJSC Commercial Bank Moskommertsbank ("MKB") is a joint stock company and operates under the laws of the Russian Federation ("RF") since 2001. MKB's operations are regulated by the Central Bank of the Russian Federation ("the CBR") in accordance with the license on the banking operations with private sector № 3365 dated 08 December 2010. License of the Federal securities commission on broker operations № 177-11190-100000 dated 18 April 2008, license on the depository activity № 177-11200-000100 dated 18 April 2008, license on dealer operations № 177-11192-010000 dated 18 April 2008.

MKB provides a wide spectrum of banking products and services for individuals, corporate clients and financial institutions. The Bank's primary business consists of retail banking, crediting of small and medium business and the corporate sector. At the date of acquisition the estimated fair value of the net assets of MKB approximated their carrying value.

#### *Acquisitions and sales*

On 10 March 2009, the Bank sold its stake in associates, JSC APF Ular Umit and JSC OCOPAIM Zhetysu, for KZT 5,817 million and KZT 200 million, respectively. The gain on sale of these companies amounted to KZT 4,027 million.

On 25 March 2009, the Bank purchased 900 thousand shares of the new issue of JSC Kazkommerts Securities, within the additional issue on the right of preferential purchase, at the price of placement of KZT 1,000 per share. As a result, the share capital of JSC Kazkommerts Securities increased by KZT 900 million and amounted to KZT 1,475 million. The share of the Bank did not change and amounted to 100%.

On 24 March 2009, the Bank purchased 292 thousand shares of the new issue of JSC Life Insurance Company Kazkommerts Life at the placement price of KZT 1,000 per share. As a result, the share capital of the insurer increased by KZT 292 million and amounted to KZT 1,382 million. The share of the Bank did not change and amounted to 100%.

On 29 September 2009, the Board of Directors of JSC Kazkommertsbank decided to participate in the acquisition of shares of the new 7th issue of OJSC Kazkommertsbank Kyrgyzstan ("subsidiary bank") of 66,036 shares with placement price of Kyrgyz soms 500 per share. As a result of the placement, share capital of the subsidiary bank increased by Kyrgyz soms 33,018 thousand. The Bank has used its pre-emptive right and acquired 62,500 shares for Kyrgyz soms 31,250 thousand. On 12 March 2010, the Bank made payment for the placement of shares from dividends rece-

ived from the subsidiary bank. The ownership share of the Bank did not change and amounted to 94.64%.

On 24 December 2009, the Bank purchased 69,000 shares of the new issue of JSC Life Insurance Company Kazkommerts Life ("insurer") at the placement price of KZT 1,000 per share. As a result, the share capital of the insurer increased by KZT 69 million and amounted to KZT 1,451 million. The ownership share of the Bank did not change and amounted to 100%.

On 11 February 2010, at the Extraordinary General Shareholders Meeting of JSC Grantum APF, a decision was taken to increase the charter capital of JSC Grantum APF by issuing 2,200,000 additional common shares. On 2 March 2010, the Board of Directors of JSC Grantum APF approved the price at KZT 1,000 per share. On 6 April 2010, Kazkommertsbank exercised its pre-emptive right and purchased 1,760,260 shares of JSC Grantum APF for KZT 1,760 million. After the completion of the placement, the Board of Directors of JSC Grantum APF made a decision to place the remaining 80,370 common shares at KZT 1,000 per share among unrestricted investors. On 5 May 2010, Kazkommertsbank purchased in full the above-mentioned shares. As a result, Kazkommertsbank increased its stake in JSC Grantum APF from 80.01% to 82.52%.

On 14 May 2010, Kazkommertsbank has acquired ordinary shares of the 7th issue of OJSC Kazkommertsbank Kyrgyzstan, increasing its stake from 94.64% to 95.75% at a price of Kyrgyz soms 1,689,500 (equivalent to KZT 5 million).

On 8 December 2010, the Bank sold its stake in LLP

Investment Group East Kommerts for KZT 295 million.

The gain on sale amounted to KZT 1,199 million.

On 9 September 2011, the Board of Directors of the Bank decided to liquidate the subsidiary of special-purpose – Kazkommerts Capital II B.V. which performed its financial activity in the Netherlands.

During 2011, the Bank increased the share capital of JSC “Life Insurance Company “Kazkommerts Life” by purchasing 414,000 ordinary newly issued shares of its own subsidiary. As a result, the share capital of the company increased totaled KZT 1,865 million. The percentage of share capital held by the Bank remained at 100% after the issuance of the new capital.

The investments of the Bank into the share capital of subsidiaries were made with the purpose of increasing their financial stability and compliance with the prudential and capital adequacy requirements.

## Shareholders

As at 31 December 2011, 2010 and 2009, the following shareholders owned the issued ordinary shares of the Bank:

	31 December 2011		31 December 2010		31 December 2009	
	Number of shares	Direct ownership,* %	Number of shares	Direct ownership,* %	Number of shares	Direct ownership,* %
JSC Alnair Capital Holding ("Alnair")	223,922,790	28,77	223,922,790	28,76	222,408,342	28,57
JSC Central-Asian Investment Company ("CAIC")**	185,561,734	23,84	184,679,013	23,73	184,679,013	23,73
JSC National Welfare Fund Samruk-Kazyna***	165,517,241	21,26	165,517,241	21,26	165,517,241	21,26
European Bank for Reconstruction and Development	76,095,329	9,78	76,095,329	9,77	76,095,329	9,77
Subkhanberdin N. S.	72,570,672	9,32	72,570,672	9,32	72,570,672	9,32
Other shareholders	54,694,822	7,03	55,800,316	7,16	57,330,567	173
<b>Total****</b>	<b>778,362,588</b>	<b>100,00</b>	<b>778,585,361</b>	<b>100,00</b>	<b>(525)</b>	<b>100,00</b>

### Notes:

\*These percentage holdings were calculated based on the direct holding of each shareholder in the total number of ordinary shares outstanding less treasury shares purchased by the Bank and its subsidiaries. JSC "Kazkommerts Securities", subsidiary of the Bank, acts as a market-maker of Bank's shares on local stock exchange.

\*\*For the years 2010 and 2009, the total number of shares under CAIC's control is 241,885,810 common shares (ownership – 31.07%), including 56,324,076 shares received in trust management from JSC National Welfare Fund Samruk-Kazyna and 882,721 shares owned indirectly through JSC Ak-Zhalyn, subsidiary of CAIC.

On 31 January 2011, CAIC with ownership of 23.73% from the total number of ordinary shares outstanding and JSC Ak-Zhalyn, which main shareholder is CAIC, with ownership of 0.11% from the total number of ordinary shares outstanding conducted reorganization by means of joining JSC Ak-Zhalyn to CAIC.

Due to reorganization ownership of CAIC in equity of the bank has been changed insignificantly:

- direct ownership increased and amounted to 23.84% from the total number of common shares outstanding;
- indirect ownership decreased and amounted to 7.23% from the total number of common shares outstanding (shares were passed under trust management to CAIC

from JSC National Welfare Fund Samruk-Kazyna).

Total share (direct and indirect) of CAIC in the Bank's equity did not change and amounted to 31.07% out of total number of issued shares.

Merger of JSC Ak-Zhalyn to CAIC did not influence on any changes in control over the Bank and did not influence on ownerships of other main shareholders – Mr. Subkhanberdin N.S., JSC Alnair Capital Holding, National Welfare Fund Samruk-Kazyna, the European Bank of Reconstruction and Development.

\*\*\*As at 31 December 2011, out of the total number of common shares disclosed, in the table above, 56,324,076 common shares were passed under trust management to

under trust management to CAIC. As at 31 December 2010, out of the total number of common shares disclosed, in the table above, 56,324,076 common shares were passed under trust management with voting right to CAIC and 50,208,649 shares to JSC Alnair. However, on 28 December 2009, JSC Alnair and JSC National Welfare Fund Samruk-Kazyna cancelled the agreement on trust management of the Bank's shares with actual cancellation became effective in January 2010.

\*\*\*\*This number is calculated at each reporting date as the total number of the common shares outstanding minus treasury shares purchased by the Bank's market-maker based on the requirements of the JSC Kazakhstan Stock Exchange.

During the first half of 2009, 325,000,000 ordinary shares, in the total amount of KZT 3,250 million, were authorized for issue by the shareholders.

On 14 May 2009, the Bank completed the placement of 204,338,177 ordinary shares. As a result of the placement of shares, the Bank's share capital increased by KZT 44.47 billion (149.82/\$1). The new shares were priced at US\$ 1.45 per ordinary share and US\$ 2.90 per GDR (representing two ordinary shares). Samruk-Kazyna purchased 165,517,241 ordinary shares. Meanwhile, the main shareholders of the Bank, CAIC, Alnair and Mr. Subkhanberdin N. S., opted not to exercise their pre-emptive purchase rights or participate in the increase. The European Bank of Reconstruction and Development ("EBRD"), used its pre-emptive rights and purchased 27,497,588 ordinary shares. The holders of GDRs purchased 9,704,658 ordinary shares via the

Bank of New York Mellon in the framework of pre-emptive purchase rights. Non-controlling shareholders purchased 1,618,690 ordinary shares in accordance with their pre-emptive rights.

In January 2010, JSC Alnair Capital Holding acquired additional shares of JSC Kazkommertsbank. As a result of the transaction, Alnair has increased its holding of JSC Kazkommertsbank's common shares to 28.77% and now owns 223,922,790 common shares of the Bank (mainly in the form of GDRs). The earlier agreement between Alnair and JSC National Welfare Fund Samruk-Kazyna, in relation to the placement of 6.448% of the Bank's common shares under the trust management of Alnair, has been terminated based on the mutual agreement of both parties. This purchase has not resulted in any changes to the shareholdings structure of other major shareholders – Mr. Subkhanberdin, CAIC, EBRD and Samruk-Kazyna.

## Information on major shareholders

JSC Central-Asian Investment Company ("CAIC") is one of the entities through which the Directors and Management Board members own shares of the Bank. As at 31 December 2011, CAIC held 185,561,734 shares of the Bank (2010: 184,679,013 shares, 2009: 184,679,013 shares). As at 31 December 2011, the sole shareholders of CAIC were Subkhanberdin N.S., Chairman of the Board of Directors of the Bank, who owns 87.21% (2010: 87.21%, 2009: 87.21%) and Zhussupova N.A., Chairman of the Management Board of the Bank, who owns 12.79% (2010: 12.79%, 2009: 12.79%).

CAIC and Subkhanberdin N.S. act as bank holding company and major shareholder, respectively, on the basis of approval of the FMSC. As at 31 December 2011, Subkhanberdin N.S. owns 36.43% (2010: 36.41%, 2009: 30.01%) of the ordinary share capital of the Bank through direct and indirect ownership as a result of his holdings in CAIC, Zhussupova N.A. owns 3.97% (2010: 3.97%, 2009: 3.97%) through indirect ownership.

JSC Alnair Capital Holding ("Alnair") is a company operating under the laws of the Republic of Kazakhstan and is owned by a private investment fund, established by Sheikh Takhnun bin Zaid Al-Nahayan. Alnair has been a shareholder of the Bank since 2008 and together with "Alnair Capital" LLP has the official status of bank holding. Alnair owns shares in the form of GDRs, which are included in the total amount of shares under the nominal holding with the Central Depository.

JSC – Samruk-Kazyna National Welfare Fund ("Samruk-Kazyna") belongs to the government of the republic of Kazakhstan. Samruk-Kazyna took its position in the Bank in 2009 following the government's decision to protect the rights of the Bank's creditors and support the sustainability of the kazakh banking system. Samruk-Kazyna is a shareholder of the Bank for a limited period based on the terms of the agreements signed between Samruk-Kazyna, the bank and its major shareholders. according to these agreements, samruk-kazyna will not participate in the day-to-day management of the Bank. The major shareholders of the bank have maintained control over the bank, as Samruk-Kazyna has Transferred a portion of its common shares to the trust management of major shareholders caic and alnair.

As a result of this agreement, CAIC, EBRD and Mr. Subkhanberdin together have voting rights of 50% plus one common share of the Bank. Due to the refusal of the pre-emptive right for acquisition of shares of the Bank major shareholders were granted an option to repurchase shares of the Bank owned by the Samruk-Kazyna.

EBRD is an international financial institution established in 1991 to support market economies in the countries of Central Europe and Central Asia. It has been a shareholder of the Bank since 2003. EBRD is a large investor in the region, and in addition to allocating its own funds, it attracts significant direct foreign investments. Its shareholders are 61 countries and two intergovernmental organizations.

These consolidated financial statements were authorized for issue by the Management Board of the Bank on 2 April 2012.

## 2. Basis of presentation

### Accounting basis

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

These consolidated financial statements are presented in millions of Kazakhstani tenge (“KZT”), unless otherwise indicated.

These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of property and equipment at revalued amounts according to International Accounting Standard (“IAS”) 39 “Financial Instruments: Recognition and Measurement” and IAS 16 “Property, Plant and Equipment”, respectively.

Kazkommertsbank and its subsidiaries (except for subsidiaries in Russia, Tajikistan and Kyrgyzstan) maintain their accounting records in accordance with IFRS. Subsidiaries in Russia, Tajikistan and Kyrgyzstan maintain their accounting records in accordance with local GAAP and their financial statements are prepared from the local statutory accounting records and adjusted to conform with IFRS.

These consolidated financial statements have been

prepared based on the accounting records of the Bank and its subsidiaries. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

### Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the “functional currency”). The reporting currency of the Group is the Kazakhstani tenge.

## 3. Significant accounting policies

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries).



The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Bank.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” (“IAS 21”), and in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates on the date of the transactions;
- Equity items of the foreign entity are translated at exchange rates on the date of the transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of an investment in a foreign entity, related exchange differences are recognized in the consolidated income statement.

## Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i. e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The non-controlling interest is initially measured at the minority's proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity attributable to equity holders of the parent and net income attributable to non-controlling shareholders' interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition

are recorded directly in equity attributable to the owners of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The difference, between the carrying amount of non-controlling interest and the amount received on its purchase is recognized in equity attributable to the owners of the parent.

## Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items

are disclosed in the respective accounting policies set out below.

## 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 derecognized where:

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has

retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

### *Financial liabilities*

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

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

## Cash and balances with national (central) banks

Cash and balances with national (central) banks include cash on hand and unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, the Central Bank of the Russian Federation, the National Bank of Kyrgyz Republic and the National Bank of Tajikistan with original maturities within 90 days.

## Cash and cash equivalents

For the purposes of determining cash flows, cash and cash equivalents includes advances to banks with original maturities within 90 days, cash and balances with national (central) banks less the minimum reserve deposits required by the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan, the National Bank of the Kyrgyz Republic and the National Bank of Tajikistan.



## Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates using the KZT/USD exchange rate effective on the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange and precious metals operations.

## Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking or (3) which are designated by the Group at fair value through profit or loss upon initial recognition.

A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment

strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period.

The Group enters into derivative financial instruments to manage interest rate, currency and liquidity risks and for trading purposes. These instruments include forwards and futures on foreign currency, interest rate swaps, cross currency swaps and precious metals and securities.

## Reclassification of financial assets

On 13 October 2008, IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassification of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements as the Group has reclassified financial assets

in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and, due to rare market circumstances as in accordance with the amendments, the Group applied the revised IAS 39 retrospectively from 1 July 2008. Transfers must be made at fair value and this fair value becomes the instruments' new cost or amortized cost. Reclassifications made before 1 November 2008 were backdated to 1 July 2008; subsequent classifications were effective from the date the reclassification was made. The Group has reclassified certain debt and equity securities out of trading instruments category into the available-for-sale category. The carrying values of these assets, the effect of the reclassification on the income statement and the impairment losses relating to these assets are shown in Note 19.

## Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, futures, swaps and options on foreign currency, precious metals and securities to manage currency, interest rate and liquidity risks and for trading purposes. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is

positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

## Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest rate method, and are carried net of an allowance for impairment.

## Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business the Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”) in the normal course of business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets transferred under repos are retained in the consolidated financial statements and the consideration received under these agreements is recorded as a collateralized deposit received within loans and advances from banks and other financial institutions and customer accounts.

Assets received under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within loans and advances to banks and other financial institutions and loans to customers.

In the event that assets received under reverse repos are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between pur-

chase and sale of the underlying assets is recognized as interest income or expense in the consolidated income statement.

The Group enters into repos and reverse repos agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

As at 31 December 2011, the fair value of securities transferred as collateral under loans under repurchase agreements amounted to KZT 29,404 million (2010: KZT 37 million, 2009: KZT Nil).

As at 31 December 2011, the fair value of securities received as collateral under reverse repurchase agreements amounted to KZT 842 million (2010: KZT 9,589 million, 2009: KZT 12,238 million).

## Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that

directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

## Write off of loans and advances

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

## Impairment losses

### *Assets carried at amortized cost*

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment

losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

### *Investments available-for-sale*

If an available-for-sale asset is impaired, the cumulative loss comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognized in the consolidated income statement.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current

market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included in the consolidated income statement using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks

at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater than recorded impairment.

## Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. A lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net

investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

## Investments available-for-sale

Investments available-for-sale represents debt and equity investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently are measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled through the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Dividends received on equity investments are included in dividend received in the consolidated income statement.

Non-marketable debt/equity securities are stated at amortized cost/cost less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. These financial assets are recognized net of impairment loss.

## Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has a positive intent and the ability to hold them to maturity. Such securities are carried at amortized cost, using the effective interest rate method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

## Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment loss.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

- (a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities of acquired company and the measurement of the cost of the combination; and
- (b) Recognizes immediately in the consolidated income statement any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

## Property, equipment and intangible assets

Property and equipment, except for buildings and other real estate and construction, and intangible assets are carried at historical cost less accumulated depreciation and amortization. Buildings and other real estate and construction are carried at market value. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization of property, equipment and intangible assets are charged on the carrying value of property and equipment and are designed to write off assets over their useful economic lives. Depreciation and amorti-

zation are calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	1-10%
Furniture and equipment	4-50%
Intangible assets	15-50%

Leasehold improvements are amortized over 5 years. Expenses related to repairs and renewals are charged when incurred and included in operating expenses of consolidated income statement, unless they qualify for capitalization.

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

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by an appraisal undertaken by professional independent appraisers, less any

subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

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

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

Market value of property is assessed using one of three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property based on available public information;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;



- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

## Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

## Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs net profit as reported

in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted as of the reporting date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit or taxable temporary difference from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recog-

nized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes other than income tax, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

## Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt are initially recognized at fair value less transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

## Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

## Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a

loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

## Contingencies

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

## Share capital and share premium reserve

Share capital is recognized at historical cost. Share premium reserve represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium reserve.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

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

## Preference shares

Preference shares having a prescribed dividend amount are considered to be compound financial instruments in accordance with the substance of the contractual arrangement and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. On initial recognition the equity component is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. The fair value of the liability component on initial recognition is estimated by discounting expected future cash flows at a market interest rate for a comparable debt instrument. Subsequently, the liability component is measured according to the same principles used for subordinated debt, and the equity component is measured according to the same principles used for share capital.

## Retirement and other benefit obligations

In accordance with the requirements of the legislation of the countries in which the Group operates certain percentages of pension payments are withheld from total disbursements

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

## Recognition of income and expense

### *Recognition of interest income and expense*

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount

the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated income statement when the related transactions are completed. Interest income, received on assets assessed at fair value, is classified as interest income.

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

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

## Underwriting income and expenses

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

## Underwriting income and expenses

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

Losses and loss adjustments are charged to the consolidated income statement as incurred.

Commissions earned on ceded reinsurance contracts are recorded to the consolidated income statement at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable.



If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

## Reserve for insurance losses and loss adjustment expenses

Provision for losses is a summary of estimates of ultimate losses, and includes both claims reported but not settled (“RBNS”) and claims incurred but not reported (“IBNR”).

RBNS is created for significant reported claims not settled at the reporting date. Estimates are made on the basis of information received by the Group during its investigation of insured events. IBNR is estimated by the Group based on its previous history of claims/indemnification of claims using actuarial methods of calculation, which include loss triangulation for insurance classes for which there is statistical data. For lines of insurance that do not have statistical data, IBNR is calculated according to the FMSC requirements as 5% of the written premiums, net of commissions.

The reinsurers' share in the provision for losses is calculated in accordance with the reinsurers' share under the reinsurance contracts.

## Reinsurance

In the ordinary course of business, the Group cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control

exposure to potential losses arising from legal risks and provide additional capacity for growth.

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

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

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

## Rates of exchange

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

	31 December 2011	31 December 2010	31 December 2009
KZT/1 US Dollar	148.40	147.50	148.46
KZT/1 Euro	191.72	196.88	213.95
KZT/1 Kyrgyz Som	3.21	3.13	3.37
KZT/1 Russian Rouble	4.61	4.83	4.90
тенге/1 таджикский сомони	31.18	33.50	33.96

## Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

## Fiduciary activities

The Group provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

## Segment reporting

The segments are identified on the basis used by the Group's chief operating decision maker (Management Board) to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and loans and advances to banks and other financial institutions and operating expenses other than salaries and other employee benefits. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported based on the domicile of the company within the Group.

## Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on histo-

rical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition:

*Allowance for impairment losses of loans and receivables*

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

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of

borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgment to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The most significant judgment is applied in assessing impairment levels in real estate loans and construction financing. Current economic and market conditions make historical statistical loss levels less relevant in determining the inherent loss levels in the loan portfolio. Instead, management is required to use recent empirical evidence of impairment or employ analytical tools to estimate future economic value of collateral secured under loans or the expected cash generating ability of borrowers' business. This area of judgment bears significant sensitivity to various risk factors, such as general economic growth, central government involvement, support of local authorities, trends in the housing and commercial real estate markets, and changes in the regulatory environment. The assumptions underlying this judgment are highly subjective.

The level of loan loss provisions at the reporting date is supported by following factors:

- The economic value assessment of collateral under real estate loans. In some cases management used certain assumptions to determine the inherent value of collateral, such as land, based on highest and best

use, current observable lease rates and sale prices for commercial and residential real estate. Moreover, the assessment sometimes depends on expectations that local municipal government will continue funding capital expenditure costs for infrastructure development in and around any given real estate project. In certain cases, additional financing as well as investment is factored into determining the value.

- The Bank has formulated a work-out strategy for construction loans, which is currently being implemented, most significantly in Almaty and Astana. In many cases the approach taken by the Bank necessitates close partnership with local municipal authorities, construction subcontractors, suppliers of construction materials, and the availability of construction materials, specialized equipment and labor.
- Incomplete construction projects are more likely to result in past due construction loans. Therefore, the Bank encourages additional investments in incomplete construction projects, which in turn increase an opportunity to generate more cash flows for existing borrowers of the Bank that are involved in ancillary services to the construction sector, such as equipment leasing, construction materials, site management, labor outsourcing, transportation, security, and other services

Fair value changes in the above factors and assumptions may result in significant adjustment to loan loss provisions and the carrying value of loans to customer. Management seeks to regularly update assumptions and the approach it has taken toward individual borrowers.

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

The impairment of a loan is identified within credit monitoring, which includes monitoring of payments of the customer and preparation of regular monitoring reports on the customer and his loans every 6 or 12 months, depending on the solvency of the customer. In addition, on a regular basis the credit managers monitor the quality of the loan, financial position and business of the customer, and observe the terms of the loan agreements. For the purpose of provisioning, an assessment of impairment losses for corporate loans is performed on an individual basis.

Consumer loans are classified as non-performing or impaired if there is a default on payments of the principal or accrued interest for 60 days or more. For the purpose of provisioning, assessment of impairment losses is made on a collective or portfolio basis.

According to the Group's credit portfolio management policy, if at least one loan of a customer is recognized as impaired based on the above mentioned criteria, the total debt of such a customer is considered impaired, i.e. other performing loans of such customer are also recognized as impaired.

For certain performing loans which are not overdue, the Group classifies them as homogenous and individually

assessed watch assets. Homogenous assets are not individually impaired, because there is not enough objective evidence to recognize them as impaired. At the same time, the Group assesses these assets for credit risk and impairment on a collective basis taking into account the general macroeconomic environment as well as industry specific developments. The individually assessed watch assets consist of loans not past due, but there is a possibility that the credit losses may arise in the future due to a possible negative trend in the borrower's financial position or evidence of some unsatisfactory financial results which affect the ability of a borrower to repay. The financial standing of such clients is evidenced and monitored, based on business results, repayment discipline and cash flows.

The Group creates an allowance for impairment losses in order to cover credit losses, including losses where the asset is not specifically identified. At least monthly, the provision for impairment losses on interest bearing assets is reviewed by the Chairman of the Board, the Head of Risk Management Department #1, the Chief Financial Officer, and the Chief Accountant. At least quarterly, the provision for impairment losses and overall credit quality is reviewed by the Board of Directors. The amount of provision is reviewed relative to the credit portfolio and current economic conditions. The amount of provision is determined by individual and portfolio-based approaches. As at 31 December 2011, 2010 and 2009, Management deemed the provision for impairment losses to be appropriate and sufficient to absorb losses that are inherent to the portfolio.

The carrying amount of the allowance for impairment

of loans to customers as at 31 December 2011 is KZT 658,108 million (2010: KZT 572,450 million, 2009: KZT 505,548 million).

#### *Valuation of financial instruments*

Financial instruments that are classified at fair value through profit or loss or available-for-sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price at the close of business on the balance sheet date. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data and the use of discounted cash flow pricing models. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Any difference between the transaction price and the value based on a valuation

technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The Group classifies its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

**Level 1** — quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

**Level 3** — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group uses quoted market prices from indepen-

dent information sources, for all its financial assets and liabilities recorded at fair value, with the exception of certain debt securities, which are valued using internal models, and derivative financial instruments, which are valued using generally recognized valuation models based on market data.

The Group also considers both the credit risk of its counterparties, as well as its own creditworthiness when estimating the fair value of financial instruments, including derivatives. The Group attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resultant value is incorporated into the fair value of the respective instruments. The Group generally calculates the credit risk adjustment for derivatives on observable credit data.

Credit risk is measured using dynamic models that calculate the probability and potential future exposure given default. The main inputs used in these models are generally data relating to individual issuers in the portfolio and correlations thereto. The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads and the correlation between individual issuers' quoted credit derivatives.

The Group also considers its own creditworthiness when determining the fair value of an instrument, including OTC derivative instruments and financial liabilities held at fair value through profit or loss if the Group believes market participants would take that into account when

transacting the respective instrument. The approach to measuring the impact of the Group's credit risk on an instrument is done in the same manner as for third party credit risk. The impact of the Group's credit risk is considered when calculating the fair value of an instrument, even when credit risk is not readily observable such as in OTC derivatives contracts. As at 31 December 2011, 2010 and 2009, the impact of credit valuation adjustments in the derivatives portfolio was not material to the Group.

Had Management used different assumptions regarding the interest rates, volatility, exchange rates, the credit ratings of the counterparties, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available could have had a material impact on the Group's reported net income.

The table below summarizes the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2011, 2010 and 2009, respectively:

Category as per the consolidated statement of financial position		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Internal models (unobservable inputs) (Level 3)	31 December 2011  Total
Assets:					
Trading assets	Debt securities	165,277	—	82	165,359
	Equity investments	9,852	—	—	9,852
Derivative financial instruments	Foreign exchange and interest rate contracts	—	13,102	—	13,102
Investments available-for-sale	Debt securities	11,312	—	—	11,312
	Debt securities	4,107	—	—	4,107
<b>Total</b>		<b>190,548</b>	<b>13,102</b>	<b>82</b>	<b>203,732</b>
Liabilities:					
Derivative financial instruments	Foreign exchange and interest rate contracts	—	37,771	—	37,771
<b>Total</b>		<b>—</b>	<b>37,771</b>	<b>—</b>	<b>37,771</b>

Category as per the consolidated statement of financial position		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Internal models (unobservable inputs) (Level 3)	31 December 2011  Total
Assets:					
Trading assets	Debt securities	197,068	—	120	197,188
	Equity investments	4,519	—	—	4,519
Derivative financial instruments	Foreign exchange and interest rate contracts	—	21,524	—	21,524
Investments available-for-sale	Debt securities	11,876	—	—	11,876
	Debt securities	4,946	—	—	4,946
<b>Total</b>		<b>218,409</b>	<b>21,524</b>	<b>120</b>	<b>240,053</b>
Liabilities:					
Derivative financial instruments	Foreign exchange and interest rate contracts	—	36,047	—	36,047
<b>Total</b>		<b>—</b>	<b>36,047</b>	<b>—</b>	<b>36,047</b>

Category as per the consolidated statement of financial position		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Internal models (unobservable inputs) (Level 3)	31 December 2011  Total
Assets:					
Trading assets	Debt securities	73,526	—	599	74,125
	Equity investments	2,638	—	—	2,638
Derivative financial instruments	Foreign exchange and interest rate contracts	—	37,440	—	37,440
Investments available-for-sale	Debt securities	11,444	—	—	11,444
	Debt securities	—	5,252	—	5,252
<b>Total</b>		<b>87,642</b>	<b>42,692</b>	<b>599</b>	<b>130,933</b>
Liabilities:					
Derivative financial instruments	Foreign exchange and interest rate contracts	—	35,991	—	35,991
<b>Total</b>		<b>—</b>	<b>35,991</b>	<b>—</b>	<b>35,991</b>



Reconciliation from the beginning balances to the ending balances in Level 3 of fair value hierarchy for the years ended 31 December 2011, 2010 and 2009 was presented as follows:

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Beginning of the year</b>	<b>120</b>	<b>599</b>	<b>—</b>
Transfer from Level I category	—	—	2,372
Total losses recognized in the consolidated income statement	(38)	(479)	(1,773)
<b>End of the year</b>	<b>82</b>	<b>120</b>	<b>599</b>

Internal models used in estimation of fair value of certain debt instruments are based on discounted future cash flows with/without consideration of restructuring plan depending on type of debt security. Discount factors are estimated using yield curve which in turn is formed by constructing risk-free curve for a given currency of debt instrument adding a risk premium. The risk premium value is measured in basis points and reflects an issuer's credit risk determined using a robust scoring model. This internal model does not take directly into consideration available market information related to prices. However, on a regular basis its outcomes are compared with prices of similar instruments or quoted prices of certain debt instruments, which the Management does not consider reliable due to low trading volumes, thus, a minimal number of those values are used to determine fair value of the debt instrument. Reasonable possible changes in the key assumptions were used. Based on changing the key assumptions, Management determined that changing these assumptions did not cause the fair value of those debt instruments to change significantly.

#### Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgment; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. A difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually, or more frequently, for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

The carrying amount of goodwill as at 31 December 2011 is KZT 2,405 million (2010: KZT 2,405 million, 2009: KZT 2,405 million).

#### Statutory reserve

The Statutory reserve which reflects the difference between provisions for impairment losses accrued under IFRS and provisions for impairment losses reported to the regulator in accordance with statutory requirements amounted to KZT 172,009 million as at 31 December 2011. The differ-



ence results mostly from methodological deviations in the calculation of the provision on loans to customers in accordance with statutory requirements and under IFRS. One of the differences is attributable to the impact that collateral has on the level of provisions. This reserve is required by legislation of the Republic of Kazakhstan and is created through an appropriation of retained earnings.

## Standards and Interpretations affecting amounts reported in the current period

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

- IFRS 3 (2008) “Business Combinations” / IAS 27 “Consolidated and Separate Financial Statements” — amendments resulting from May 2010 Annual Improvements to IFRSs: 1) transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; 2) clarification on measurement of non-controlling interests;
- IFRS 7 “Financial Instruments: Disclosures” — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;

- IAS 24 “Related Party Disclosures” — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

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

### Amendments to IAS 24

The revised Standard modifies the definition of a related party and simplifies disclosures for Government-related entities. Since the Government of Kazakhstan has significant influence over the Group, the disclosure exemptions introduced in IAS 24 are applicable for the Group consolidated financial statements commencing from the year ended 31 December 2011.

## New and revised standards and interpretations issued and not yet adopted

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

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

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

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

<sup>3</sup> Each of the five standards becomes effective for annual periods beginning on or after 1 January 2013, with earlier

application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).

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

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

<sup>6</sup> Amendments to IAS 32 effective for annual periods beginning on or after 1 January 2014. Respective amendments to IFRS 7 regarding disclosure requirements — for annual periods beginning on or after 1 January 2013.

### Amendments to IFRS 7

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

### IFRS 9

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

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

value through profit or loss was recognised in profit or loss.

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

### IFRS 10 Consolidated Financial Statements

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

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

### IFRS 11 Joint Arrangements

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

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

### IFRS 12 Disclosure of Interests in Other Entities

Requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has invol-

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

### IAS 27 (2011) Separate Financial Statements

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

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

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

### IFRS 13 Fair Value Measurement

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

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

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

The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

### Amendments to IAS 1 Presentation of Financial Statements

Revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' — rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;

- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax)

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

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

Provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. Retro-spective application is required in accordance with IAS 8. The Group is considering the impact of the amendment on the consolidated financial statements and the timing of its application.

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

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

- the meaning of “currently has a legally enforceable right of set-off”;
- the application of simultaneous realisation and settle-ment;
- the offsetting of collateral amounts;
- the unit of account for applying the offsetting require-ments.

The respective amendments to the disclosure require-ments in IFRS 7 “Financial Instruments: Disclosure” require

information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable mas-ter netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Group's financial posi-tion.

The Group does not expect this amendment to have a material effect on its financial position or results of oper-ations.

## 4. Reclassifications

As at 31 December 2010 and 2009 some accounts of consolidated financial statements were reclassified for consistency with current period information. The Management of the Group reclassified expenses on deposits insurance from operating expenses to commission expenses, as believes that such classification better reflects nature of these expenses.

<b>As per Consolidated Income Statement</b>	<b>Amount (KZT million)</b>	<b>As per previous report 31 December 2010 (KZT million)</b>	<b>As per reclassified report 31 December 2010 (KZT million)</b>
Fee and commission expense	(3,103)	(3,779)	(6,882)
Operating expenses	3,103	(35,833)	(32,730)
<b>As per Consolidated Statement of Cash flows</b>			
Fee and commission paid	(3,103)	(3,768)	(6,871)
Operating expenses paid	3,103	(33,679)	(30,576)

<b>As per Consolidated Income Statement</b>	<b>Amount (KZT million)</b>	<b>As per previous report 31 December 2009 (KZT million)</b>	<b>As per reclassified report 31 December 2009 (KZT million)</b>
Fee and commission expense	(2,160)	(3,540)	(5,700)
Operating expenses	2,160	(30,148)	(27,988)
<b>As per Consolidated Statement of Cash flows</b>			
Fee and commission paid			
Operating expenses paid	(2,160)	(3,544)	(5,704)
	2,160	(24,456)	(22,296)

## 5. Net interest income

### Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Interest income comprises:</b>			
Interest income on financial assets recorded at amortized cost:			
— interest income on homogenous and individually assessed watch assets	156,790	197,504	249,535
— interest income on individually impaired financial assets	65,641	64,532	69,784
— interest income on unimpaired financial assets	15,968	24,338	48,661
Interest income on financial assets at fair value through profit or loss	7,680	4,407	3,211
Interest income on investments available-for-sale	774	734	1,269
<b>Total interest income</b>	<b>246,853</b>	<b>291,515</b>	<b>372,460</b>
Interest income on financial assets recorded at amortized cost comprises:			
Interest on loans to customers	234,938	279,871	360,675
Interest on loans and advances to banks and other financial institutions	3,392	6,447	7,236
Interest on investments held to maturity	69	56	69
Total interest income on financial assets recorded at amortized cost	238,399	286,374	367,980
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held-for-trading	7,680	4,407	3,211
Total interest income on financial assets at fair value through profit or loss	7,680	4,407	3,211
Interest income on investments available-for-sale	774	734	1,269

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## Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Total interest income</b>	<b>246,853</b>	<b>291,515</b>	<b>372,460</b>
<b>Interest expense comprises:</b>			
Interest on financial liabilities recorded at amortized cost	133,531	152,091	178,846
<b>Total interest expense</b>	<b>133,531</b>	<b>152,091</b>	<b>178,846</b>
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest on customer accounts	85,490	96,997	84,436
Interest on debt securities issued	28,701	31,313	60,162
Interest on loans and advances from banks and other financial institutions	5,412	7,947	15,123
Interest expense on subordinated debt	11,938	13,544	13,874
Interest expense on securitization program	—	—	2,792
Preference share dividends	731	731	747
Other interest expense	1,259	1,559	1,712
Total interest expense on financial liabilities recorded at amortized cost	133,531	152,091	178,846
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<b>113,322</b>	<b>139,424</b>	<b>193,614</b>

## 6. Allowance for impairment losses and other provisions

Individually assessed watch assets represent loans with some minor indicators of deterioration in credit quality not yet resulting in the impairment of the loan. Such indicators may include minor breaches of loan covenants, and/or some factors leading to the deterioration of the financial position of the borrower, which are not yet affecting the ability of the borrower to repay the amounts in due course. Watch list loans are subject to stricter monitoring of financial position, collateral and other enhanced credit risk management tools in comparison with unimpaired assets.

The Group classifies corporate loans as non-performing and accordingly impaired if there is a default on payment of the principal or accrued interest for 30 days or more.

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



	Loans and advances to banks and other financial institutions	Loans to customers	Investments available-for-sale	Total
	(KZT million) (Note 17)	(KZT million) (Note 18)	(KZT million)	(KZT million)
<b>31 December 2008</b>	<b>299</b>	<b>289,328</b>	<b>—</b>	<b>289,627</b>
Additional provision recognized on discontinued operations	—	707	—	707
(Recovery of provision)/additional provision recognized	(350)	192,756	—	192,406
Write-off of assets	—	(171)	—	(171)
Foreign exchange differences	73	22,928	—	23,001
<b>31 December 2009</b>	<b>22</b>	<b>505,548</b>	<b>—</b>	<b>4,946</b>
Discontinued operations	—	(3,050)	—	(3,050)
Additional provision recognized	115	95,422	18	95,555
Write-off of assets	—	(23,123)	—	(23,123)
Foreign exchange differences	(1)	(2,347)	—	(2,348)
<b>31 December 2010</b>	<b>136</b>	<b>572,450</b>	<b>18</b>	<b>572,604</b>
Additional provision recognized	25	65,944	126	66,095
Write-off of assets	—	(10,279)	—	(10,279)
Recovery of previously written-off loans	—	29,879	42	29,921
Foreign exchange differences	(1)	114	—	113
<b>31 December 2011</b>	<b>160</b>	<b>658,108</b>	<b>186</b>	<b>658,454</b>

As at 31 December 2011, the Group has identified certain corporate customer loans, where under the contractual terms of the loan agreements there are no cash flows to the Group in the next few years. These loans are considered impaired by management. In accordance with IAS 39, interest should continue to be accrued on impaired loans, even where there are doubts in relation to its collection. The accrued interest income on these loans for the year ended 31 December 2011 amounted to KZT 42,172 million (2010: KZT 54,398 million). Management has established an allowance for loan losses against this interest. While there is currently evidence of impairment, the Group continues to progress work out strategies on these loans. The Group regularly evaluates probability of cash flows and introduces respective changes to the list of these corporate loans.

Total provisions for impairment losses on insurance provision and guarantees and other off-balance sheet contingencies comprise:

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Insurance provisions	8,200	6,287	4,728
Provisions on guarantees and other contingencies	2,524	3,903	7,217
	10,724	10,190	11,945

The movements in insurance provisions, allowances for impairment losses on other transactions were as follows:

	Insurance provisions (KZT million)	Other assets (KZT million) (Note 23)	Total (KZT million)
31 December 2008	4,005	2,303	6,308
Recovery of provision on discontinued operations	—	(1,039)	(1,039)
Additional provision recognized	723	1,788	2,511
Write-off of assets	—	(673)	(673)
Exchange difference	—	377	377
31 December 2009	10,724	2,756	7,484
Discontinued operations	—	(841)	(841)
Additional provision recognized	10,724	2,120	3,679
Write-off of assets	—	(12)	(12)
Exchange difference	—	10	10
31 December 2010	6,287	4,033	10,320
Additional provision recognized/(recovery)	1,913	(48)	1,865
Write-off of assets	—	(219)	(219)
Exchange difference	—	7	7
31 December 2011	8,200	3,773	11,973

Insurance provisions comprised:

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Annuity insurance	3,798	2,738	1,520
Civil liability for damage	1,493	164	929
Civil liability for owners of vehicles	813	567	115
Property	648	1,095	664
Accidents	556	908	297
Vehicles	294	290	330
Financial loss insurance	221	3	11
Life insurance	133	90	54
Freight	127	94	110
Railway transport	42	16	10
Insurance of environmental risk	32	82	40
Other	43	240	648
	8,200	6,287	4,728

Other insurance provisions include provisions for insurance of private lawyers, auditors and audit organizations, medical, air and marine transport and others.

The movements in provision for guarantees and other contingencies were as follows:

	Guarantees and other off-balance sheet contingencies (KZT million) (Note 31)
31 December 2008	6,271
Recovery of provision	(600)
Exchange difference	1,546
31 December 2009	7,217
Recovery of provision	(3,261)
Exchange difference	(53)
31 December 2010	3,903
Recovery of provision	(1,387)
Exchange difference	8
31 December 2011	2,524

## 7. Net (loss)/gain on financial assets and liabilities at fair value through profit or loss

	Year ended 31 December		
	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Net (loss)/gain on financial assets and liabilities held-for-trading	(5,232)	(5,947)	24,524
<b>Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss</b>	<b>(5,232)</b>	<b>(5,947)</b>	<b>24,524</b>
Net (loss)/gain on operations with financial assets and liabilities held-for-trading comprise:			
Realized gain on trading operations	1,090	1,793	1,661
Unrealized gain/(loss) on fair value adjustment of financial assets held for trading	144	484	(4,064)
Hedge ineffectiveness	—	—	730
Net (loss)/gain on operations with derivative financial instruments	(6,466)	(8,224)	26,197
<b>Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss</b>	<b>(5,232)</b>	<b>(5,947)</b>	<b>24,524</b>

## 8. Net gain/(loss) on foreign exchange and precious metals operations

	Year ended 31 December		
	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Dealing, net	2,009	4,460	(15,175)
Translation differences, net	(1,023)	(1,898)	210
	986	2,562	(14,965)

## 9. Fee and commission income and expense

### Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Fee and commission income:</b>			
Plastic cards operations	6,794	5,394	4,251
Cash operations	5,631	4,885	4,575
Settlements	3,885	3,402	2,973
Investment fees on administered pension funds	3,011	2,219	2,689
Documentary operations	2,088	2,875	3,668
Foreign exchange and securities operations	1,710	1,449	1,801
Encashment operations	361	312	281
Other	466	438	493
<b>Total fee and commission income</b>	<b>23,946</b>	<b>20,974</b>	<b>20,731</b>
<b>Fee and commission expense:</b>			
Payments to the Individuals' Deposit Insurance Fund	4,017	3,103	2,160
Insurance activity	3,107	1,154	1,190
Plastic cards services	2,283	1,862	1,578
Foreign exchange and securities operations	296	290	249
Correspondent bank services	197	169	147
The NBRK computation center services	138	130	110
Documentary operations	93	47	41
Investment expenses on administered pension funds	—	15	86
Other	217	112	139
<b>Total fee and commission expense</b>	<b>10,348</b>	<b>6,882</b>	<b>5,700</b>

## 10. Net realized gain/(loss) on investments available-for-sale

### Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009. (KZT million)
Realized gain from investments available-for-sale	102	69	34
Impairment loss of investments available-for-sale	—	—	(1,060)
	102	69	(1,026)

## 11. Other income

### Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009. (KZT million)
Insurance income	7,323	5,547	4,586
Income from repurchase of own debt securities and early redemption of other obligations	543	180	30,727
Gain from sale of foreclosed assets held for sale	465	1	41
Fines and penalties received	120	1	68
Income from sale of property, equipment and intangible assets	30	82	18
(Impairment)/recovery of impairment of foreclosed assets	(164)	515	(1,207)
Other	575	204	194
	8,892	6,530	34,427

For the year ended 31 December 2011, the Bank purchased its own Eurobonds in the amount of KZT 47,841 million (USD 322 million). As a result of this operation the Bank received a gain on debt repayment in the amount of KZT 543 million, which is included in other income in the consolidated income statement.

For the year ended 31 December 2010, the Bank purchased Eurobonds issued by Kazkommerts International B.V. and its own Eurobonds in the amount of KZT 66,765 million (USD 453 million). The Bank purchased these bonds through both purchasing them on the open market, and by customers, which own Eurobonds of the Bank and Kazkommerts International B.V. transferring their rights to the Bank in exchange for their loan repayment. As a result of this operation the Bank received a gain on debt repayment in the amount of KZT 180 million which is included in other income in the consolidated income statement.



For the year ended 31 December 2009, the Bank foreclosed loans to customers in the amount of KZT 162,938 million (USD 1,097 million) for Eurobonds issued by its subsidiary Kazkommerts International B.V. recorded at book value of KZT 168,256 million (USD 1,133 million) which resulted in a gain on redemption of own debt of KZT 5,318 million. In addition, the Bank purchased from the market, Eurobonds issued by Kazkommerts International B.V. with a book value of KZT 73,203 million (equivalent of USD 493 million) which resulted in a gain on extinguishment of KZT 23,378 million. On 1 April 2009, the Bank purchased KZT 19,187 million (USD 127 million) in aggregate principal amount of Securitization Notes through a tender offer held between 23 March 2009 and 30 March 2009. The purchase price was USD 920 per USD 1,000 in principal amount of Notes, which resulted in a gain of KZT 2,031 million.

## 12. Operating expenses

	Year ended 31 December		
	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Staff costs	18,036	17,709	14,180
Depreciation and amortization	3,286	3,481	3,643
Operating leases	2,509	2,386	2,600
Property and equipment maintenance	2,276	2,085	1,890
Advertising costs	1,661	1,183	886
Taxes, other than income tax	1,609	1,319	1,127
Bank cards services	824	725	648
Communications	717	753	692
Consulting and audit services	402	396	377
Vehicle maintenance	343	329	266
Security services	322	299	333
Business trip expenses	321	346	221
Collection services	191	284	153
Training and information services	190	201	143
Legal services	163	34	98
Stationery	152	125	130
Mail and courier expenses	105	99	92
Charity and sponsorship expenses	95	248	92
Other expenses	926	728	421
	34,128	32,730	34

## 13. Income tax

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from IFRS.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2011, 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Tax effect of temporary differences as at 31 December 2011, 2010 and 2009:

	Year ended 31 December		
	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Deferred income tax assets:</b>			
Unrealised loss on trading securities and derivatives	4,093	2,603	2,967
Tax losses carried forward	2,517	591	1,198
Bonuses accrued	309	794	478
Provision on guarantees and letters of credit	61	492	836
Unamortized deferred loan fees	—	58	81
Unrealised loss on revaluation of financial instruments treated as cash flow hedges	—	46	234
Realized loss on securities	—	—	676
Investments in associates	100	—	238
Other assets	165	—	—
Total deferred income tax assets	7,145	4,584	6,708
<b>Deferred income tax liabilities:</b>			
Allowance for losses on loans and advances to banks and customers	34,447	32,681	29,294
Property, equipment and intangible assets	1,922	1,922	1,807
Unrealized gain on revaluation of financial instruments, recognized on cash flow hedges	100	—	—
Unrealised gain on trading securities and derivatives и производных инструментов	—	8	124
Other liabilities	—	8	2
Total deferred income tax liabilities	36,276	34,619	31,227
Net deferred income tax liabilities	29,131	30,035	24,519

Relationships between tax expenses and accounting profit for the years ended 31 December 2011, 2010 and 2009 are explained as follows:

**Year ended 31 December**

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Profit before income tax from continued and discontinued operations	31,177	29,357	31,786
Tax at the statutory tax rate	6,235	5,871	6,357
Tax effect of permanent differences:			
— tax exempt income	(1,853)	(1,446)	(168)
— non-deductible expense	3,252	2,944	1,402
Recalculation of net deferred liability expenses due to tax rate changes	—	—	3,252
Adjustments in respect of current income tax of prior years	23	—	280
Income tax expense	7,657	7,369	12,763
Current income tax expense	8,553	2,768	1,406
Deferred income tax (benefit)/expense	(896)	4,601	4,601
Income tax expense	7,657	7,369	12,763
Income tax expense from continued operations	7,657	7,419	13,101
Income tax benefit from discontinued operations	—	(50)	(338)
Income tax expense	7,657	7,369	12,763

During 2011, 2010 and 2009, tax exempted income was represented by interest income and capital gains on state and other securities listed on the Kazakhstan stock exchange, dividend income and interest income on finance lease, and non-deductible expenses comprising non-deductible operating expenses and provisions on finance lease.

Corporate income tax rate in the Republic of Kazakhstan was 20% during 2011, 2010 and 2009.

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Deferred income tax liabilities</b>			
1 January	30,035	24,519	10,205
increase of deferred tax liability due to tax rate changes	—	—	4,892
(Decrease)/increase of deferred tax liability	(896)	4,601	6,465
Effect of disposal of discontinued operations	—	663	—
Change in hedging reserve	147	188	2,445
Increase of deferred tax expenses through the equity due to tax rate changes	—	—	453
Change in available-for-sale reserve	(154)	(54)	438
Change in deferred tax liability from revaluation of property and equipment	(1)	118	(379)
31 December	29,131	30,035	24,519

## 14. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

As described in Note 30, dividend payments per ordinary shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Year ended 31 December		
	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
<b>Basic and diluted earnings per share</b>			
Net profit for the year attributable to equity holders of the Parent	23,480	21,879	19,423
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	(2,385)	(2,385)	(2,271)
Net profit for the year attributable to ordinary shareholders	20,877	19,494	17,152
Weighted average number of ordinary shares for basic and diluted earnings per share	778,508,421	778,595,809	706,725,587
<b>Earnings per share — basic and diluted (KZT)</b>	<b>26.82</b>	<b>25.04</b>	<b>24.27</b>

The Group is not presenting the earnings per share for discontinued operations because its impact on total earnings per share is not material.

The book value per share for each type of shares as at 31 December 2011, 2010 and 2009 is as follows:

31 December 2011				31 December 2010			31 December 2009		
Type of shares	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT
Ordinary shares	778,362,588	428,912	551.04	778,585,361	405,783	521.18	778,601,164	381,353	489.79
Preference shares	123,963,374	13,002	104.89	124,514,944	13,034	104.68	124,452,984	13,059	104.93
		441,914			418,817			394,412	

The number of outstanding ordinary and preferred shares is calculated net of treasury shares.

According to amendments enacted to the Kazakhstan Stock Exchange (“the KASE”) Listing Rules effective from 25 August 2010, listed companies are required to present book value per share (ordinary and preferred) in their financial statements. The Management of the Group believes that the book value per share is calculated in accordance with the methodology in the KASE Listing Rules.

## 15. Cash and balances with national (central) banks

### Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Cash on hand	41,308	38,243	35,073
Balances with national (central) banks	63,759	22,973	55,460
	105,067	61,216	90,533

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

### Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Cash and balances with national (central) banks	105,067	61,216	90,533
Loans and advances to banks with original maturities less than 3 months	30,771	95,227	84,976
Less funds deposited with the National Bank of the Republic of Kazakhstan ("NBK")	(54,653)	(35,693)	(35,540)
Less funds deposited with the Central Bank of Russian Federation ("CBR")	(2,916)	(2,378)	(949)
Less funds deposited with the National Bank of the Kyrgyz Republic ("NBKR")	(126)	(110)	(204)
Less funds deposited with the National Bank of Tajikistan ("NBT")	(79)	(39)	(20)
	78,064	118,223	138,796

## 16. Financial assets and liabilities at fair value through profit or loss

### Year ended 31 December

	2011 (KZT million)	2010 (KZT million)	2009 (KZT million)
Debt securities	165,359	197,188	74,125
Derivative financial instruments	13,102	4,519	37,440
Equity investments	9,852	4,519	2,638
Total financial assets at fair value through profit or loss	188,313	223,231	114,203

The financial assets at fair value through profit or loss relate entirely to financial assets held for trading.

### 31 December 2011

### 31 December 2010

### 31 December 2009

	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
<b>Debt securities:</b>						
State treasury bonds of the Ministry of Finance of Republic of Kazakhstan	2.50–8.75	86,456	8.75	36,084	4.05–8.90	5,738
Short-term NBRK notes	—	41,621	—	110,913	—	51,822
Bonds of Russian companies	7.25–14.25	10,062	6.21–14.75	11,069	7.29–16.50	2,891
Eurobonds of the government of the RF	7.85	8,765	—	—	—	—
Eurobonds of Kazakhstani banks	7.25–14.25	3,398	7.25–9.25	1,428	3.15–8.00	591
Bonds of international financial organizations, foreign banks and foreign financial organizations						
Bonds of Russian banks	4.20–6.75	3,018	5.05–7.75	919	4.85–7.75	1,385
Eurobonds of Kazakhstani companies	7.60–9.00	3,002	6.48–9.00	3,943	15.00–16.00	1,905
Bonds of Kazakhstani companies	6.25–9.13	2,889	6.25–11.75	3,778	—	—
Bonds of local executive bodies of the RF	7.50–9.50	2,509	6.25–11.00	8,916	5.69–11.00	7,837

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	31 December 2011		31 December 2010		31 December 2009	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Bonds of local executive bodies of the RF	8.79–9.00	2,195	7.70–9.00	2,167	6.73–8.20	218
Bonds of local executive bodies of the RF	7.38	638	—	6.50	—	—
Bonds of Kazakhstani banks	6.00–10.00	586	7.50–9.70	833	7.50–10.90	1,440
Bonds of Development Bank of Kazakhstan	6.50	147	6.50	150	6.50	144
Bonds of federal loan of the Ministry of Finance of the RF	8.00	73	8.00	155	6.50	154
Eurobonds of OECD countries	—	—	0.38–4.75	16,184	—	—
Bonds of Eurasian Bank of Development	—	—	7.38	649	—	—
		165,359		197,188		74,125



As at 31 December 2011, 2010 and 2009, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data, and certain debt securities, which are valued using valuation models not based on observable market data.

	31 December 2011		31 December 2010		31 декабря 2009 г.	
	Ownership share, %	Amount (KZT million)	Ownership share, %	Amount (KZT million)	Ownership share, %	Amount (KZT million)
<b>Equity investments:</b>						
Shares of Kazakhstani companies	0.01–3.08	6,642	0.12	267	0.124–0.158	265
GDRs of Kazakhstani banks	0.0001–1.1	1,421	0.002–0.25	2,310	0.20	1,609
GDRs of Kazakhstani companies	0.05	465	0.002–0.25	1,052	0.0006	31
Shares of foreign companies	0.0001–1.47	383	0.0002	34	0.0003	27
Shares of Russian companies	0.03	383	0.0001	88	0.006–0.619	29
GDRs of Russian banks	0.0001–0.01	264	0.014	723	0.072	546
GDRs of Russian companies	0.001–0.005	122	0.00002–0.0018	45	0.0001–2.468	67
Shares of foreign banks	0.0002–0.01	165	—	—	—	—
Shares of Russian banks	0.0008	60	—	—	—	—
ADRs of Russian company	0.0002	23	—	—	0.014	58
ADRs of foreign companies	0.004	22	—	—	—	—
Shares of Kazakhstani banks	0.000004–0.01	—	—	—	0.006	6
		9,852		4,519		2,638

As at 31 December 2011, financial assets at fair value through profit or loss included accrued interest income on debt securities of KZT 2,510 million (2010: KZT 1,417 million, 2009: KZT 441 million).

As at 31 December 2011, fair value of financial assets at fair value through profit or loss pledged under repurchase agreements were equal to KZT 29,404 million (2010: KZT 37 million, 2009: KZT Nil).

	31 December 2011			31 December 2010			31 December 2009		
	Notional value	Fair value (KZT million)		Notional value	Fair value (KZT million)		Notional value	Fair value (KZT million)	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments:									
Foreign exchange contracts:									
Swaps	268,016	13,012	(26,605)	338,379	20,228	(23 470)	303,891	37,182	(24,011)
Spot	10,044	5	(17)	5,012	1,114	(1,112)	4,684	—	—
Forwards	3,768	12	—	4,216	3	(1)	1,041	8	(4)
Interest rate contracts:									
Swaps	68,068	73	(11,149)	98,819	179	(11,464)	111,743	250	(11,976)
		13,102	(37,771)		21,524	(36,047)		37,440	(35,991)
Included in the above are derivatives held and classified for hedging purposes as follows:									
Cash flow hedging:									
Interest rate swap	—	—	—	—	—	—	2,524	11	(105)
	—	—	—	—	—	—	—	11	(105)

To hedge against the variability in the cash flows on financial liabilities due to the floating interest rate risk, the Group used interest rate swap contracts to exchange the floating rates for fixed rates. As such, the Group converted its floating rate debt repayments to fixed rate debt repayments and minimizes the effect of change in interest rates on its future cash flows. The cash flow related to the hedging relationship will occur over the life of the debt securities instruments which are being hedged. The Group de-designated some hedge relationship in 2009 and the rest of them in 2010. Accordingly, changes in fair values of these instruments since the de-designation of the hedging relationships have been recognized in the consolidated income statement.

To hedge the foreign exchange risk on financial liabilities the Group uses cross-currency swap contracts to convert, partially or in-full, its repayments on foreign currency denominated liabilities to the functional currency of the subsidiary which issues these liabilities. The cash flows related to the hedging relationships will occur over the life of the debt securities instruments which are being hedged. The Group de-designated some hedge relationships in 2009 and the rest of them in 2010. Accordingly, changes in fair value of these instruments since the de-designation of the hedging relationships have been recognized in the consolidated income statement.

As at 31 December 2011, the fair value of assets and liabilities arising from the derivative financial instruments classified as hedging instruments is KZT Nil (2010: KZT Nil, 2009: KZT 11 million and KZT 105 million).

For the year ended 31 December 2011, gain from

hedge ineffectiveness recognized in net gain/(loss) on financial assets and liabilities at fair value through profit or loss was KZT Nil (2010: KZT Nil, 2009: KZT 730 million).

As at 31 December 2011, the aggregate amount of unrealized gain/(losses) under foreign exchange swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 1,646 million (2010: KZT 1,428 million, 2009: KZT 975 million). It is being recycled to profit or loss over the periods up to February 2017, in line with the previously hedged cash flows relating to these contracts.

As at 31 December 2011, the aggregate amount of unrealized losses under interest rate swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 1,145 million (2010: KZT 1,658 million, 2009: KZT 2,144 million). It is being recycled to the consolidated income statement over the periods up to January 2018, in line with the previously hedged cash flows relating to these contracts.

## 17. Loans and advances to banks and other financial institutions

Recorded as loans and receivables:	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Loans and advances to banks	26,433	120,370	90,676
Correspondent accounts with other banks	26,895	17,690	46,828
Loans under reverse repurchase agreements	800	8,407	10,893
	54,128	146,467	148,397
Less allowance for impairment losses	(160)	(136)	(22)
	53,968	146,331	148,375

Movements in allowances for impairment losses on loans and advances to banks and other financial institutions for the years ended 31 December 2011, 2010 and 2009 are disclosed in Note 6.

As at 31 December 2011, loans and advances to banks and other financial institutions included accrued interest of KZT 220 million (2010: KZT 275 million, 2009: KZT 402 million).

As at 31 December 2011, 2010 and 2009, the Group had no loans and advances to banks and other financial institutions, which individually exceeded 10% of the Group's equity. As at 31 December 2011, the maximum exposure to any individual bank amounted to KZT 18,324 million (2010: KZT 24,161 million, 2009: KZT 33,434 million).

As at 31 December 2011 the maximum credit risk exposure on loans and advances to banks and other financial institutions amounted to KZT 53,968 million (2010: KZT 146,331 million, 2009: KZT 148,375 million).

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2011, 2010 and 2009 comprised:

	31 December 2011 (KZT million)		31 December 2010 (KZT million)		31 December 2009 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Notes of NBRK	842	800	5,263	5,000	—	—
Bonds of the executive bodies and subjects of the RF	—	—	1,549	1,256	495	421
Bonds of the Russian banks	—	—	1,024	901	1,313	1,134
Bonds of the Russian companies	—	—	844	724	812	981
Bonds of the Ministry of Finance of the Republic of Kazakhstan	—	—	54	500	8,725	7,913
Shares of Kazakhstani companies	—	—	37	26	—	—
Shares of Kazakhstani companies	—	—	—	—	494	444
	842	800	8,771	8,407	11,839	10,893

In addition, as at 31 December 2011, the Bank maintained deposits of KZT 228 million included in loans and advances to banks as collateral for credit cards operations (2010: KZT 403 million, 2009: KZT 2,036 million).

As at 31 December 2011 reverse repo agreements were concluded through KASE. The Bank believes that counterparties of these agreements are banks and other financial institutions.

## 18. Loans to customers

<b>Recorded as loans and receivables:</b>	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Originated loans	2,731,605	2,739,966	2,658,772
Net investments in finance lease	6,164	6,417	6,654
Loans under reverse repurchase agreements	—	827	889
	2,737,769	2,747,211	2,666,315
Less allowance for impairment losses	(658,108)	(572,450)	(505,548)
	2,079,661	2,174,760	2,160,767

<b>Analysis by type of collateral:</b>	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Loans collateralized by real estate	962,619	1,093,333	1,167,069
Loans collateralized by equipment	557,616	401,473	309,245
Loans collateralized by inventories	213,059	226,045	181,694
Loans collateralized by shares of the banks and other companies	162,865	220,857	208,693
Loans collateralized by accounts receivable	74,744	57,804	61,264
Loans collateralized by cash or Kazakhstani Government guarantees	36,051	24,896	23,563
Loans collateralized by mixed types of collateral	21,784	3,755	14,725
Loans collateralized by guarantees of enterprises	17,109	37,958	81,507
Loans with collateral under the registration process (property, land, shares, guarantees, etc.)	2,072	20,496	49,503
Loans collateralized by securities	—	818	889
Loans collateralized by guarantees of financial institutions	—	143	171
Unsecured loans	31,742	87,182	62,444
	2,079,661	2,174,760	2,160,767

As at 31 December 2011, accrued interest income included in loans to customers amounted to KZT 343,680 million (2010: KZT 301,219 million, 2009: KZT 224,510 million).

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2011, 2010 and 2009 are disclosed in Note 6.

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

Mixed collateral consists of multiple types of collateral including real estate, guarantees and inventories. Loans are classified as being collateralized by mixed collateral where it is impractical to split this collateral into the categories disclosed above.

In addition to the collateral disclosed above, as at 31 December 2011, the Bank has own bonds and Eurobonds (previously issued by its subsidiary Kazkommerts Finance II B.V.) with a fair value of KZT 12,673 million (USD 85 million) (2010: KZT 12,547 million (USD 85 million), 2009: KZT 15,087 million (USD 102 million)) as collateral for certain loans.

<b>Analysis by sector:</b>	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Housing construction	538,737	368,093	311,969
Commercial real estate construction	280,338	160,702	187,171
Individuals	208,786	232,690	274,141
Wholesale and retail trade	207,291	255,718	282,509
Hospitality business	132,654	183,800	171,795
Real estate	131,525	327,872	306,961
Production of other non-metal materials	99,485	102,749	111,920
Investments and finance	96,886	95,349	67,441
Transport and communication	64,311	92,830	106,099
Energy	54,286	57,699	49,992
Industrial and other construction	53,892	48,345	27,889
Agriculture	27,376	41,699	24,328
Production of construction materials	18,616	18,896	18,499
Food industry	17,258	42,481	60,102
Mining and metallurgy	13,361	11,809	15,756
Medicine	6,905	8,099	6,526
Machinery construction	6,424	10,357	28,826
Culture and art	574	2,996	402
Other	120,956	112,576	108,441
	2,079,661	2,174,760	2,160,767

During the years ended 31 December 2011, 2010 and 2009, the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2011, such assets in the amount of KZT 68,141 million (2010: KZT 16,517 million, 2009: KZT 2,479 million) are included in the other assets line of the consolidated statement of financial position. These assets are represented mostly by real estate the majority of which will be realized through auctions.

Loans to individuals comprise the following products:

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Mortgage loans	127,527	144,264	183,016
Consumer loans	72,954	73,105	59,724
Car loans	3,483	5,348	8,951
Business loans	2,231	2,760	15,279
Other	2,591	7,213	7,171
	208,786	232,690	274,141

As at 31 December 2011, the Group granted loans to the borrowers, which individually exceeded 10% of the Group's equity, in the total amount of KZT 401,578 million (2010: KZT 326,602 million, 2009: KZT 322,766 million).

As at 31 December 2011, a significant part of loans 87.67% (2010: 84.42%, 2009: 82.42%) of the total portfolio is granted to companies operating in the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

As at 31 December 2011, the maximum credit risk exposure on loans to customers without taking account of any collateral held or other credit enhancements amounted to KZT 2,079,661 million (2010: KZT 2,174,760 million, 2009: KZT 2,160,767 million).



As at 31 December 2011, 2010 and 2009, the fair value of collateral and carrying value of loans under reverse repurchase agreements comprised:

	31 December 2011 (KZT million)		31 December 2010 (KZT million)		31 December 2009 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Promissory notes of Russian companies	—	—	461	461	—	—
Bonds of Kazakhstani companies	—	—	357	366	34	342
Notes of the NBRK	—	—	—	—	338	483
Shares of Kazakhstani banks	—	—	—	—	21	58
Shares of Kazakhstani companies	—	—	—	—	6	6
	—	—	818	827	399	889
Less allowance for impairment losses	—	—	—	(9)	—	—
Total securities purchased under reverse repurchase agreements	—	—	818	818	399	889

The components of net investment in finance lease as at 31 December 2011, 2010 and 2009 are as follows:

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Minimum lease payments	6,381	6,941	8,359
Less: unearned finance income	(217)	(524)	(1,705)
Net investment in finance lease	6,164	6,417	6,654
Current portion	2,458	3,126	2,778
Long-term portion	3,706	3,291	3,876
Net investment in finance lease	6,164	6,417	6,654

The value of future minimum lease payments receivable from the customer under a finance lease as at 31 December 2011, 2010 and 2009 comprised:

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Not later than one year	1,699	2,731	2,985
From one year to five years	3,544	2,897	3,864
More than five years	1,138	1,313	1,510
Total value of future minimum lease payments	6,381	6,941	8,359
Less: unearned finance income	(217)	(524)	(1,705)
Present value of minimum lease payments receivable	6,164	6,417	6,654

As at 31 December 2011, 2010 and 2009 the Group's finance lease agreements have an average life of five years.

## 19. Investments available-for-sale

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Debt securities	11,312	11,876	11,444
Equity securities	4,107	4,946	5,252
	15,419	16,822	16,696

	Nominal interest rate %	31 December 2011 (KZT million)	Nominal interest rate %	31 December 2011 (KZT million)	Nominal interest rate %	31 December 2011 (KZT million)
<b>Debt securities:</b>						
Bonds of Kazakhstani companies	0.00–9.90	6,118	0.00–18.59	6,346	6.10–18.59	6,194
State treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	0.01–8.40	3,522	0.00–10.10	4,974	0.50–10.10	4,345
Bonds of Kazakhstani banks	7.25–9.10	1,097	3.70–10.50	556	7.90–10.90	766
Eurobonds of federal loan of the Ministry of Finance of the RF	7.85	575				
Short-term notes of the NBRK	—	—	—	—	—	139
		11,312		11,876		11,444

*table continued on page 128*

	Nominal interest rate %	31 December 2011 (KZT million)	Nominal interest rate %	31 December 2011 (KZT million)	Nominal interest rate %	31 December 2011 (KZT million)
<b>Equity securities:</b>						
GDR of Kazakhstani companies	0.02	1,635	0.180	2,242	0.040	2,798
ADR of Kazakhstani companies	1.06	1,402	0.650	1,262	3.230	1,154
Shares of Kazakhstani companies	0.03-0.44	657	0.030-0.120	701	0.006-0.119	718
GDR of Russian banks	0.01	284	0.009	492	0.066	348
GDR of Kazakhstani banks	0.02	79	0.017	155	0.020	134
Shares of Kazakhstani banks	0.000001-0.01	50	0.000007-0.014	94	0.008-0.014	100
	—	4,107	—	4,946		5,252

As at 31 December 2011, interest income on debt securities amounting to KZT 525 million (2010: KZT 438 million, 2009: KZT 478 million), was accrued and included in investments available-for-sale.

As at 31 December 2011, 2010 and 2009 there were no investments available for sale pledged under repurchase agreements.

During 2008, the Group reclassified certain debt and equity securities with a total fair value as at 31 December 2011 of KZT 9,537 million (2010: KZT 10,329 million, 2009: KZT 11,083 million) from the held-for-trading category of financial assets at fair value through profit or loss into investments available-for-sale (as permitted by IAS 39 as amended). The total fair value of debt and equity securities reclassified amounted to KZT 14,896 million as at the reclassification date.

The reclassifications were made for those securities which have had a significant decline in volume of transactions in the financial markets as a result of the financial crisis. In the current situation the Group has revised its investment strategy and has the intention and ability to hold those securities for the foreseeable future. Those debt and equity securities which were reclassified in 2008 are presented in the tables below.

	On reclassification			31 December 2011		31 December 2010		31 December 2009	
	Effective interest rate, %	Fair value	Estimated cash flows expected to be recovered	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
		(KZT million)		(KZT million)		(KZT million)		(KZT million)	
<b>Debt securities:</b>									
Bonds of Kazakhstani companies	17.6453	6,419	6,456	5,514	5,594	5,514	5,562	5,514	5,622
Bonds of Kazakhstani banks	5.5054	1,556	1,846	—	—	—	—	304	307
Total debt securities		7,975	8,302	5,514	5,594	5,514	5,562	5,818	5,929

	31 December 2011			31 December 2010		31 December 2009	
	Fair value on reclassification	Cost	Fair value	Cost	Fair value	Cost	Fair value
	(KZT million)	(KZT million)		(KZT million)		(KZT million)	
<b>Equity securities:</b>							
GDR of Kazakhstani companies	3,232	2,124	1,635	2,112	2,242	2,125	2,798
ADR of Kazakhstani companies	2,201	910	1,402	905	1,262	911	1,154
Shares of Kazakhstani companies	621	1,067	533	1,067	594	1,067	681
GDR of Kazakhstan banks	484	179	79	178	155	179	134
Shares of Kazakhstan banks	286	380	10	380	22	380	39
GDR of Russian banks	97	380	284	825	492	830	348
Total equity securities	6,921	5,490	3,943	5,467	4,767	5,492	5,154

	After reclassification		Amount*	
	Interest income/other income	Impairment losses	Movements in available-for-sale revaluation reserves	Income from FVTPL
		(KZT million)		(KZT million)
Debt securities	496	—	447	447
Equity securities	—	—	(1,160)	(1,160)
	496	—	(713)	(713)
Debt securities	506	—	(367)	(367)
Equity securities	—	—	(387)	(387)
	506	—	(754)	(754)
Debt securities	828	—	(1,658)	(1,658)
Equity securities	—	(1,060)	1,855	795
	828	(1,060)	197	(863)

					As at and for the year ended 31 December 2011
					As at and for the year ended 31 December 2009

\*Amount that would have been recognized had reclassification not occurred

## 20. Investments held to maturity

	31 December 2011		31 December 2010		31 December 2009	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
<b>Debt securities:</b>						
Discount bonds of JSC National company Kazmunaigaz	0.00	819	0.00-7.00	754	—	—
Bonds of JSC ATF Bank	8.80-11.00	571	9.20-11.00	91	10.90-11.00	91
Eurobonds of HSBK Europe BV	9.25	384	9.25	366	9.25	337
Eurobonds of the government of RF	7.85	292	—	—	—	—
Coupon bonds of JSC National company Food contract corporation	9.00	250	—	—	—	—
Bonds of the Ministry of Finance of the Republic of Kazakhstan	0.07-6.75	243	6.75	238	6.75	234
Bonds of National Welfare Fund “Samruk-Kazyna”	6.50	204	—	—	—	—
International bonds of JSC ATF bank	9.00	198	—	—	—	—
Bonds of Rosselhozbank	8.70	189	—	—	—	—
International coupon bonds of EBRD	6.75	167	—	—	—	—
International coupon bonds of European Investment Bank	6.75	166	—	—	—	—
Eurobonds of JP Morgan Chase Bank	6.69	154	6.69	154	—	—
Eurobonds of National company Kazmunaigaz	11.75	136	11.75	139	—	—
Bonds of JSC Halyk Bank	6.60-7.70	110	6.00-7.90	110	6.00-9.20	110
Bonds of JSC Bank CenterCredit	8.70-10.00	95	8.70-10.00	95	8.90-10.00	116
Bonds of JSC Batys Transit	8.60	48	7.80	48	9.20	49
Bonds of JSC KazexportAstik	—	—	8.70	1	6.80	1
Bonds of the Ministry of Finance of the Kyrgyz Republic	—	—	—	—	4.04-11.65	5
		4,026		1,996		943

As at 31 December 2011, interest income on debt securities amounting to KZT 88 million (2010: KZT 39 million, 2009: KZT 30 million) was accrued and included in investments held to maturity.

## 21. Goodwill

Goodwill arising as a result of business acquisition relates to expected income from business expansion from the distribution of products on new markets, raising long-term funds and expected combined activity.

Goodwill arising as a result of a business acquisition is distributed to the companies that generate cash flows (cash generating units).

<b>Companies that generate cash flows:</b>	31 December 2011 (KZT million)	31 December 2011 (KZT million)	31 December 2011 (KZT million)
JSC Grantum APF	1,281	1,281	1,281
JSC OCOPAIM Grantum Asset Management	1,124	1,124	1,124
	2,405	2,405	2,405

As at 31 December 2011, 2010 and 2009, there was no evidence that the goodwill that arose on the acquisition of JSC Grantum APF and JSC OCOPAIM Grantum Asset Management has been impaired.

As at 31 December 2011, the Group has tested goodwill attributable to Grantum APF and Grantum PAMC for impairment. For the estimations of cash flows, the Group used the following assumptions:

- The economy is cyclical;
- Equity market volatility;
- Conservative investment strategy;
- Stable customer base (high salary customers);
- Favorable population indicators (expanding younger

population); and

- Cross-selling opportunities.

The Bank used forecasted cash flows for revenues and expenses of Grantum APF and Grantum PAMC for the next 4 years based on the budgets; the revenues and expenses were segregated by sources of inflows/outflows (e.g. commission income/expense, general and administrative expenses). Estimation was made using the discounted cash flows method. Calculations used pre-tax discounted rates of 17.10% (2010: 15.40%, 2009: 15.94%) and growth rates of 3%. Based on the results of internal estimation of goodwill the recoverable value of shares exceeds the carrying value of the CGU. As such, the Management of the Bank believes that there is no impairment of goodwill. Moreover, a sen-

sitivity analysis allowing for reasonable possible changes in the key assumptions used, on which Management has based its determination of the recoverable amounts, did not cause the carrying amount of goodwill to exceed its recoverable amount.



## 22. Property, equipment and intangible assets

	Buildings and other real estate	Furniture and equipment	Intangible assets	Construction in progress	Other	Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>At primary/revalued cost:</b>						
31 December 2008	13,849	16,151	3,468	10,195	2,440	46,103
Discontinued operations	—	(62)	—	—	—	(62)
Additions	64	1,624	556	2,108	31	4,383
Transfers	11,891	—	—	(11,891)	—	—
Revaluation decrease	(2,352)	—	—	—	—	(2,352)
Disposals	(178)	(739)	(390)	—	(239)	(1,546)
Exchange differences	83	236	58	—	141	518
31 December 2009	23,357	17,210	3,692	2,373	2,373	47,044
Additions	2,458	2,393	322	—	84	5,257
Revaluation decrease	142	—	—	—	—	142
Disposals	(3,377)	(1,110)	(18)	(374)	(510)	(5,389)
Exchange differences	(6)	(122)	(57)	—	(18)	(203)
31 December 2010	22,574	18,371	3,939	38	1,929	46,851
Additions	1,432	2,296	373	51	634	4,786
Revaluation increase	36	—	—	—	—	36
Disposals	(77)	(943)	(94)	(21)	(1,120)	(2,255)
Exchange differences	(23)	(48)	(17)	—	(56)	(144)
31 December 2011	23,942	19,676	4,201	68	1,387	49,274

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	Buildings and other real estate	Furniture and equipment	Intangible assets	Construction in progress	Other	Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Accumulated depreciation:</b>						
31 December 2008	273	7,883	1,631	—	851	10,638
Discontinued operations	—	12	—	—	—	12
Charge for the year	143	2,332	506	—	662	3,643
Transfers	—	(56)	—	—	56	—
Disposals	(177)	(632)	(390)	—	(219)	(1,418)
Exchange differences	6	105	23	—	64	198
31 December 2009	245	9,644	1,414	—	1,414	13,073
Charge for the year	261	2,167	577	—	476	3,481
Transfers	(15)	70	—	—	(55)	—
Disposals	(100)	(100)	(18)	—	(343)	(1,440)
Exchange differences	(1)	(88)	(22)	—	(9)	(120)
31 December 2010	390	10,814	2,307	—	1,483	14,994
Charge for the year	275	2,076	391	—	391	3,286
Disposals	(9)	(747)	(94)	—	(1,112)	(1,962)
Exchange differences	(1)	(40)	(17)	—	(14)	(72)
31 December 2011	655	12,103	2,740	—	2,740	16,246
<b>Net book value:</b>						
31 December 2011	23,287	7,573	1,461	68	639	33,028
31 December 2010	22,184	7,557	1,632	38	446	31,857
31 December 2009	23,112	7,566	1,922	412	959	33,971

As at 31 December 2011, property, equipment and intangible assets of the Group included fully depreciated and amortized assets on initial cost amounting to KZT 7,363 million (2010: KZT 6,342 million, 2009: KZT 3,620 million), of which KZT 6,487 million pertain to the Bank (2010: KZT 5,389 million, 2009: KZT 3,217 million).

Buildings and other real estate are revalued on a regular cyclical basis, with the last valuation being conducted on 26 August 2011 (2010: 22 September 2010, 2009: 20 August 2009). The valuation was conducted by a local independent appraisal company and for determining of the final value on these dates, the Group used observable prices in an active market for the properties. These prices are obtained through publications and current market data, and are adjusted based on characteristics of the valued property.

The carrying value of the buildings and other real estate as at 31 December 2011 amounted to KZT 23,287 million (2010: KZT 21,184 million, 2009: KZT 23,112 million). If the buildings were accounted for at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value as at 31 December 2011 would be KZT 14,366 million (2010: KZT 13,361 million, 2009: KZT 15,632 million).

Intangible assets include software, patents and licenses.

## 23. Other assets

<b>Other financial assets recorded as loans and receivables in accordance with IAS 39:</b>	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Receivables on other transactions	7,302	7,935	10,249
Accounts receivable from insurance activity	2,059	1,901	1,598
Accrued commission	842	1,159	983
	10,203	10,995	12,830
Less allowance for impairment losses	(3,773)	(3,773)	(2,756)
<b>Total other financial assets recognized as loans and receivables in accordance with IAS 39</b>	<b>1,281</b>	<b>1,281</b>	<b>1,281</b>
Non-current assets held for sale	68,141	16,517	2,479
Tax settlements, other than income tax	4,380	2,597	1,692
Prepaid expenses	1,208	1,574	2,554
Income tax assets	363	495	1,972
<b>Total other non-financial assets</b>	<b>74,092</b>	<b>21,183</b>	<b>8,697</b>
	80,522	28,145	18,771

During the years ended 31 December 2011, 2010 and 2009, the Group received non-financial assets by taking possession of collateral it held as security as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active program to locate a buyer and complete the plan has been initiated. The type

of assets recognized was land, buildings and constructions. The majority of these assets are in Almaty and Astana. The proceeds from disposal were expected to exceed the carrying value of the assets and accordingly no impairment losses have been recognized on these assets during the years 2011, 2010 and 2009. It was intended that the fair value of these assets would be recovered principally through a sale transaction within one year from the date of classification.

For the year ended 31 December 2011, the amount of gain from the sale of non-current assets amounted to KZT 465 million (2010: KZT 1 million, 2009: KZT 41 million). The non-current assets are included in the retail banking and corporate banking segments in Note 34. The loss from revaluation of such non-financial assets amounted to KZT 164 million (2010: gain KZT 515 million, 2009: loss KZT 1,207 million). Movements in allowances for impairment losses for the years ended 31 December 2011, 2010 and 2009 are disclosed in Note 6.

## 24. Loans and advances from banks and other financial institutions

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
<b>Recorded at amortized cost:</b>			
Correspondent accounts of other banks	3,322	1,940	2,680
Correspondent accounts of organizations that serve certain types of banking operations	180	227	254
Loans from banks and other financial institutions, including:			
Loan with maturity of June 2014	14,960	23,037	32,357
Loan with maturity of December 2012	1,045	—	—
Loan with maturity of August 2011	—	148	314
Loans with other banks and financial establishments	44,433	121,760	172,093
Deposits with banks	338	1	1,424
Loans under repurchase agreements	27,937	26	—
	92,215	147,139	209,122

As at 31 December 2011, accrued interest expense included in loans and advances from banks and other financial institutions amounted to KZT 236 million (2010: KZT 492 million, 2009: KZT 1,059 million).

As at 31 December 2011, loans with other banks and financial institutions of KZT 42,890 million (97% of total loans with other banks and financial establishments) (2010: KZT 116,985 million or 96% of total loans with other banks and financial establishments, 2009: KZT 162,264 million or 94% of total loans with other banks and financial establish-

ments, 2009: KZT 162,264 million or 94% of total loans with other banks and financial establishments) consisted of 6 (2010: 9, 2009: 14) banks and financial institutions of such countries as Great Britain, Austria, Kazakhstan, Germany, and China. Maturities of these loans range from 7 days to 97 months (2010: 48 days to 52 months, 2009: 13 days to 97 months). Interest rates on loans with other banks and financial establishments varied from 0.25% to 9% (2010: from 1.33% to 9.75%, 2009: from 0.72% to 11.84%).

As at 31 December 2011, included in loans and

advances to banks and other financial institutions are loans under repurchase agreements of KZT 27,937 million (2010: KZT 26 million, 2009: KZT Nil).

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2011, 2010 and 2009 are presented as follows:

	31 December 2011 (KZT million)		31 December 2010 (KZT million)		31 December 2009 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Notes of the NBRK	—	—	37	26	—	—
Shares of Kazakhstani companies	29,404	27,937	—	—	—	—
	29,404	27,937	26	26	—	—

As at 31 December 2011 reverse repo agreements were concluded through KASE. The Bank believes that counterparties of these agreements are banks and other financial institutions.

In accordance with the contractual terms of the loans from certain OECD based banks and EBRD, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In accordance with the terms of certain of those loans, the Group is also required to obtain the approval of the lender before distributing any dividends to the common shareholders except for dividends to be reinvested for ordinary shares. Furthermore, certain of the Group's outstanding financing agreements include covenants restricting the capability of the Group to create the right of pledge on its

assets. The Group's failure to observe obligations on these covenants can lead to cross reduction in the maturity and a chain of defaults on the terms of other financial agreements of the Group.

As at 31 December 2011, 2010 and 2009, the Group was in compliance with the covenants of the various debt agreements the Group has with other banks and financial institutions.

## 25. Customer accounts

Recorded at amortized cost:	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Time deposits	894,543	893,814	799,880
Demand deposits	457,588	459,480	299,926
JSC National Welfare Fund “Samruk-Kazyna”, JSC Entrepreneurship Development Fund “Damu” and JSC Stress Assets Fund	107,689	152,383	175,583
Accounts in precious metals	3,257	1,123	1,075
	1,463,077	1,506,800	1,276,464

As at 31 December 2011, customer accounts included accrued interest expense of KZT 12,238 million (2010: KZT 16,767 million, 2009: KZT 18,943 million).

As at 31 December 2011, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 7,697 million (2010: KZT 3,711 million, 2009: KZT 5,438 million).

As at 31 December 2011, the total amount of funds deposited under the stabilization program of the Government of Kazakhstan by means of deposits from JSC National Welfare Fund “Samruk-Kazyna” and JSC Stress Assets Fund amounted to KZT 105,072 million (2010: KZT 138,314 million, 2009: KZT 145,640 million), including:

- KZT 24,000 million for refinancing mortgage loans;
- KZT 77,432 million for completion of construction projects in Almaty and Astana (initially granted and

deposited in the Bank KZT 111,998 million); and

- KZT 3,640 million for financing large-scale businesses in the manufacturing sector.

On 23 February 2012, the Bank has completed a program of refinancing mortgage loans under the government program of the JSC National Welfare Fund “Samruk-Kazyna”.

As at 31 December 2011, customer accounts of KZT 610,002 million or 41.69% (2010: KZT 769,594 million or 51.07%, 2009: KZT 774,868 million or 60.8%), were due to 10 customers, which represents a significant concentration. The Management of the Group believes that in the event of withdrawal of funds, the Group would be given sufficient notice as to realize its liquid assets to enable repayment.

**Analysis by sector:**

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Individuals	566,624	451,428	327,622
Investments and finance	121,196	130,164	92,916
Transport and communication	116,924	107,617	48,533
Chemical and petrochemical industry	114,558	289,085	356,415
Distribution of electricity, gas and water	98,340	104,791	116,402
Public authorities	84,862	120,650	147,447
Public organizations and unions	71,082	21,130	1,516
Individual services	66,878	72,220	48,513
Construction	55,868	46,524	35,360
Wholesale and retail trade	55,472	54,606	43,688
Education	25,480	31,854	19,002
Agriculture	22,841	28,831	19,002
Mining and metallurgy	18,723	21,179	7,655
Accounts in precious metals	3,257	1,123	1,075
Other	40,972	25,598	19,301
	1,463,077	1,506,800	1,276,464

## 26. Debt securities issued

Recorded at amortized cost:	Currency	Maturity date	Annual coupon rate, %	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Eurobonds of JSC Kazkommertsbank (previously Kazkommerts International B.V.):						
Issued in March, 2006 at the price of 99.993%	EUR	March 2011	5.125	—	35,741	50,840
Issued in May 2008 at the price of 100%	USD	May 2011	12.00	—	5,739	34,146
Issued in February 2007 at the price of 99.962%	GBP	February 2012	7.625	25,903	30,632	51,893
Issued in April 2003 at the price of 97.548%	USD	April 2013	8.50	45,279	51,625	51,893
Issued in April 2004 at the price of 99.15%	USD	April 2014	7.875	26,851	36,183	38,335
Issued in November 2005 at the price of 98.32%	USD	November 2015	8.00	39,030	40,363	45,350
Issued in November 2006 at the price of 98.282%	USD	November 2016	7.50	41,410	50,250	52,878
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.875	75,258	77,283	90,158
Issued in May 2011, at the price 99.353%*	USD	May 2018	8.50	44,490	—	—
Other Eurobonds	USD	December 2012	12.85	10,384	26,330	32,497
				308,605	354,146	438,287
(Less)/including:						
Discount on debt securities issued				(2,038)	(2,361)	(3,162)
Accrued interest on Eurobonds issued				8,886	10,850	13,588
Total issued Eurobonds of JSC Kazkommertsbank (previously Kazkommerts International B.V)				315,453	362,635	448,713
Debt securities issued of JSC Kazkommertsbank at the price 102.21%-104.48%		April 2016	9.00	2,329	2,329	—

table continued on page 141



	Currency	Maturity date	Annual coupon rate, %	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Accrued interest expenses on debt securities issued of JSC Kazkommertsbank				47	47	—
Premium on debt securities issued of JSC Kazkommertsbank				79	97	—
Issued promissory notes of OJSC Moskommertsbank at the price of 88.00-100.00%		Январь 2013	4.01—12.00	471	2,642	6,124
Accrued interest expense on issued promissory notes of OJSC Moskommertsbank				7	419	647
Issued bonds of Moscow Stars B.V. at the price of 99.00%		Июнь 2022	2.03—5.53	5,692	7,020	8,161
Accrued interest on bonds of Moscow Stars B.V.				9	10	11
				324,087	375,199	463,656

\* Eurobonds issued by JSC Kazkommertsbank initially.

As at 31 December 2011 accrued interest expense included in debt securities issued amounted to KZT 8,949 million (2010: KZT 11,326 million, 2009: KZT 14,246 million).

On 11 February 2010, the Bank replaced Kazkommerts International B.V. as a Eurobonds issuer. As a result, the Bank's guarantee is no longer effective and all of the issuer's liabilities on the Eurobonds have been transferred to the Bank. The issuer has been substituted in accordance with the terms and conditions of the Eurobonds; and this transfer has no effect on the bondholders' rights.

On 18 July 2007, Eurobonds were issued by Moscow Stars B.V. with a maturity of June 2022, the first coupon payment was due on 16 August 2007 and subsequent coupon is to be paid on the 15th of each month. Moscow Stars B.V. is the special purpose vehicle created for securitization of mortgage loans, and it is consolidated into the financial statement of MKB in accordance with SIC 12 "Consolida-

tion – Special Purpose Entities".

On 3 November 2009, the Bank redeemed the issue of Eurobonds placed in November 2004 of KZT 75,425 million (USD 500 million). The issuer of bonds was Kazkommerts International B.V. Full scheduled redemption of the issue was made through own funds of the Bank. Previously, the Bank has partially repurchased Eurobonds of this issue.

On 23 March 2011, the Bank has announced the repayment of its Eurobond issued in March 2006 for the original amount of EUR 300 million. The Eurobond was repaid in full on the date of its maturity from the Bank's own funds.

On 12 May 2011, the Bank issued Eurobonds in the amount USD 300 million bearing an 8.5% annual coupon rate at a price of 99.353% of the nominal, maturing in 7 years.

On 30 May 2011, the Bank has announced the repay-

ment of its Eurobond issued in May 2008 for the original amount of USD 230 million. The Eurobond was repaid in full on the date of its maturity from the Bank's own funds.

During 2011, the Bank acquired its own bonds for total nominal amount of KZT 47,841 million (USD 322 million) (2010: KZT 66,765 million (USD 453 million), 2009: KZT 168,256 million (USD 1,133 million)) with maturity dates in 2011-2016.

The Group is obligated to comply with financial covenants in relation to the debt securities disclosed above. These covenants include stipulated capital ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants in the years ended 31 December 2011, 2010 and 2009.

## 27. Other borrowed funds

	Currency	Maturity	31 December 2009 (KZT million)	31 December 2009 (KZT million)	31 December 2009 (KZT million)
Funding by JSC Entrepreneurship Development Fund “Damu”*	KZT	August 2016	20,359	16,300	19,059
Societe Generale Financial Corp	USD	September 2017	3,062	3,549	4,656
London Forfaiting Company LTD	USD	June 2012	1,484	1,475	1,485
Private Export Funding Corporation	USD	April 2017	1,378	1,788	1,798
Deere Credit	USD	May 2013	76	170	275
DEG-Deutsche Investitions MBH	USD	November 2011	—	642	1,291
Funding by the Ministry of Finance of the Republic of Kazakhstan and by the Ministry of Finance of Kyrgyz Republic	KZT	September 2011	—	19	40
Funding of agricultural equipment purchasing by Export Development Canada	USD	March 2011	—	—	316
NLB InterFinanz AG	USD	August 2010	—	—	2,252
			26,359	23,943	31,172

\*JSC Entrepreneurship Development Fund “Damu” is a subsidiary of JSC National Welfare Fund “Samruk-Kazyna”.

As at 31 December 2011, accrued interest expense included in other borrowed funds amounted to KZT 371 million (2010: KZT 317 million, 2009: KZT 405 million).

On 11 June 2009, Kazkommertsbank, acting in its capacity as originator, requested the securitization of future payments programme's controlling parties (Ambac Assurance Corporation, MBIA Insurance Corporation, Financial Guaranty Insurance Company, the Asian Development Bank and WestLB) to terminate the programme. As a result of this termination, the programme's issuer, Kazkommerts DPR Company ("SPC") optionally redeemed all of its outstanding notes issued under the programme. The principal amount of KZT 127,892 million on 11 June 2009 (equivalent of USD 850.4 million) and KZT 14,965 million on 16 March 2009 (USD 99.6 million).

The Group is obligated to comply with financial covenants in relation to other borrowed funds disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2011, 2010 and 2009.

## 28. Other liabilities

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
<b>Other financial liabilities:</b>			
Payable to employees	2,353	4,206	2,514
Accounts payable on re-insurers	1,234	783	674
Settlements on other transactions	876	919	1,212
Accrued commission expense	32	44	16
	4,495	5,952	4,416
<b>Other non-financial liabilities</b>			
Taxes payable	2,760	1,755	4,037
Advances received	392	161	537
	7,647	7,868	8,990

## 29. Subordinated debt

	Currency	Maturity date (year)	Interest rate (%)	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Subordinated debt*	USD	2017	8.50	37,115	33,108	37,097
Subordinated bonds	KZT	2015–2019	9.10–10.40	33,645	33,108	4,656
Subordinated debt*	USD	2016	6.77	30,433	30,515	1,485
Subordinated debt of Citigroup GMD AG & Co	USD	2014	9.667	15,175	15,083	1,798
Perpetual bonds*	USD	—	9.20	14,928	14,845	275
Debt component of preference shares	USD	—		6,744	6,703	1,291
				138,040	137,137	1,291

\*Previously issued by Kazkommerts Finance II B.V.

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

As at 31 December 2011, accrued interest expenses included in subordinated debt amounted to KZT 2,139 million (2010: KZT 2,272 million, 2009: KZT 2,304 million).

On 25 August 2010, the Bank replaced Kazkommerts Finance II B.V. as a subordinated bonds issuer. As a result, all of the issuer's liabilities on the bonds have been transferred to the Bank. The issuer has been substituted in accordance with the terms and conditions of the subordinated bonds; and this transfer has no effect on the bondholders' rights.

The Group is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2011, 2010 and 2009.

## 30. Share capital

**As at 31 December 2011, the Group's share capital comprised the following:**

	Authorized share capital (KZT million)	Authorized but not issued share capital (KZT million)	Repurchased share capital (KZT million)	Issued share capital (KZT million)
Ordinary shares	11,000	(3,206)	(10)	7,784
Preferred shares	1,750	(500)	(11)	1,239
	12,750	(3,706)	(21)	9,023

**As at 31 December 2010, the Group's share capital comprised the following:**

Ordinary shares	11,000	(3,206)	(8)	7,786
Preferred shares	1,750	(500)	(5)	1,245
	12,750	(3,706)	(13)	9,031

**As at 31 December 2009, the Group's share capital comprised the following:**

Ordinary shares	11,000	(3,206)	(7)	7,787
Preferred shares	1,750	(500)	(6)	1,244
	12,750	(3,706)	(13)	9,031

During the first half of 2009, 325,000,000 ordinary shares were authorized for issue by the shareholders of the Group. As at 31 December 2011, 2010 and 2009 320,661,823 ordinary shares remain unpaid.

The preference shares carry no voting rights, unless preference dividends are not paid, but rank ahead of the ordinary shares in the event of liquidation of the Bank. The annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share.

According to Kazakhstan legislation on Joint Stock Companies, additional dividend payments on the preference shares cannot be less than the dividends paid on common shares. These shares are cumulative and not redeemable.

During 2011, dividends declared on preference shares amounted to KZT 731 million (2010: KZT 731 million, 2009: KZT 747 million). In 2011, 2010 and 2009 dividends on ordinary shares of the Bank have not been declared.

The table below provides a reconciliation of the number of shares outstanding as of 31 December 2011, 2010 and 2009:

	Preference shares Number of shares	Ordinary shares Number of shares
31 December 2008	124,356,443	574,614,870
Issue of shares	—	204,338,177
Sale/(repurchase) of treasury shares	96,541	(351,883)
31 December 2009	124,452,984	778,601,164
Sale/(repurchase) of treasury shares	61,960	(15,803)
31 December 2010	124,514,944	778,585,361
Sale/(repurchase) of treasury shares	(551,570)	(222,773)
31 December 2011	123,963,374	778,362,588

As at 31 December 2011, the number of ordinary shares held as treasury shares is 975,615 (2010: 752,815, 2009: 737,013).

The share premium reserve represents an excess of contributions received over the nominal value of shares issued.

The Group's profit distributable among shareholders is limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. At each reporting date the reserve comprises an amount not less than the reserve, accrued on the prior reporting date and a certain portion of non-distributable net profit of the Bank prior to any ordinary share dividend distributions.

## 31. Commitments and contingencies

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

The Group's maximum exposure to credit loss under contingent liabilities and credit commitments, in the event of non-performance or in the event of impairment by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

As at 31 December 2011, provisions for losses on guarantees and contingent liabilities amounted to KZT 2,524 million (2010: KZT 3,903 million, 2009: KZT 7,217 million).

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

As at 31 December 2011, the credit risk on contingent liabilities and credit commitments was covered by collateral of KZT 46,580 million (2010: KZT 23,383 million, 2009: KZT 48,958 million). The collateral includes real estate, deposits and various other financial and non-financial assets.

As at 31 December 2011, 2010 and 2009, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2011		31 December 2010		31 December 2009	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
	(KZT million)		(KZT million)		(KZT million)	
<b>Contingent liabilities and credit commitments:</b>						
Guarantees issued and similar commitments	5,280	68,895	90,557	90,557	122,096	122,096
Letters of credit and other transaction related to contingent obligations	5,280	155	2,783	131	8,391	1,040
Commitments on loans and unused credit lines	14,053	14,053	8,992	8,992	9,865	9,865
Commitments on loans sold to JSC Kazakhstan	40	40	44	44	58	58
Mortgage Company with recourse	88,268	83,143	102,376	99,724	140,410	133,059

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 31 December 2011, the amount of contingent liabilities on such unused credit lines equals KZT 396,716 million (2010: KZT 286,654 million, 2009: KZT 433,903 million). The decision to issue further funds is not obligatory since the Group is entitled to suspend or stop providing the borrower with a credit line or deny the borrower the credit for any reason including in case: the borrower violates

the obligations before the Group; insufficiency of the collateral when revaluing the collateral due to a decrease in its pledge value or change of prices in the market; or as a result of provision of the credit line (provision of credit) the Group will violate any of the prudential norms established by the regulatory authorities for the second-tier banks; without warning the borrower.

## Capital commitments

As at 31 December 2011, capital commitments amounted to KZT 395 million (2010: KZT 959 million, 2009: KZT 2,272 million).

## Operating lease commitments

As at 31 December 2011, 2010 and 2009 there were no material operating lease commitments outstanding.

## Fiduciary activities

In the normal course of its business the Group enters into agreements with limited rights on decision making with clients for the management of assets in accordance with specific criteria established by them. The Group is liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. As at 31 December 2011, these amounts represent balances of clients' funds under management of Group, including assets, which are under responsible custody at amount KZT 89,223 million (2010: KZT 104,847 million, KZT 166,031 million) respectively. As at 31 December 2011, assets of pension funds, which are under management of Group, were equal to KZT 243,170 million (2010: KZT 150,038 million, 2009: KZT 108,450 million).

## Legal proceedings

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

## Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all probable tax amounts due. Income tax related provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

## Operating environment

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

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

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



Because Kazakhstan produces and exports large volumes of oil and gas, Kazakhstani economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

The Group's Banking counterparties have neither changed their terms of co-operation nor decreased their limits in a manner, which would negatively affect the Group.

## 32. Subsequent events

On 5 January 2012, the National Bank of the Republic of Kazakhstan gave permission to the Bank on acquisition of insurance holding status of JSC Insurance Company Kazkommerts-Policy and JSC Life Insurance Company Kazkommerts Life. The Bank is singular shareholder of both above-listed insurance organizations.

On 13 February 2012, the Bank has announced the repayment of its Eurobond issued in February 2007 for the original amount of GBP 350 million. The Eurobond was repaid in full on the date of its maturity.

## 33. Transactions with related parties

Related parties or transactions with related parties are assessed in accordance with IAS 24.

In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2011 (KZT million)		31 December 2010 (KZT million)		31 December 2009 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
<b>Loans to customers</b>	<b>1,006</b>	<b>2,737,769</b>	<b>1,055</b>	<b>2,747,210</b>	<b>1,140</b>	<b>2,666,315</b>
— key management personnel of the entity or its parent	1,006		1,055		1,138	
— other related parties	—		—		2	
<b>Allowance for impairment losses</b>	<b>(78)</b>	<b>(658,108)</b>	<b>(110)</b>	<b>(572,450)</b>	<b>(114)</b>	<b>(505,548)</b>
— key management personnel of the entity or its parent	(78)		(110)		(114)	
<b>Customer accounts</b>	<b>5,758</b>	<b>1,463,077</b>	<b>5,255</b>	<b>1,506,800</b>	<b>7,769</b>	<b>1,276,464</b>
— parent company	1,456		1,402		1,287	
— entities with joint control or significant influence over the entity	303		327		106	
— key management personnel of the entity or its parent	3,761		3,474		3,966	
— other related parties	238		52		2,410	

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	31 December 2011 (KZT million)		31 December 2010 (KZT million)		31 December 2009 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
<b>Commitments on loans and unused credit lines</b>	<b>121</b>	<b>14,053</b>	<b>305</b>	<b>8,992</b>	<b>456</b>	<b>9,865</b>
— key management personnel of the entity or its parent	121		305		453	
— other related parties	—		—		3	
<b>Guarantees issued and similar commitments</b>	<b>19</b>	<b>68,895</b>	<b>18</b>	<b>90,557</b>	<b>580</b>	<b>122,096</b>
— key management personnel of the entity or its parent	19		18		8	
— other related parties	—		—		572	

Included in the consolidated income statement for the years ended 31 December 2011, 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2011 (KZT million)		Year ended 31 December 2010 (KZT million)		Year ended 31 December 2009 (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	81	246,853	91	291,515	204	372,460
— key management personnel of the entity or its parent	81		91		204	
Interest expense	(438)	(133,531)	(471)	(152,091)	204	(178,846)
— parent company	(120)		(130)		(59)	
— entities with a joint control or significant influence of the entity	(2)		(7)		(22)	
— key management personnel of the entity or its parent	(316)		(316)		(257)	
— other related parties	—		(18)		(16)	
Operating expenses	(2,428)	(34,128)	(1,033)	(32,730)	(730)	(27,988)
— short-term employee benefits	(2,428)		(1,033)		(730)	
Recovery/(provision) for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	(3)	(66,573)	8	(95,973)	(11)	(194,317)
— key management personnel of the entity or its parent	(3)		8		(11)	
Share of results of associates	—	—	—	—	345	4,372

Key management personnel compensation for the years ended 31 December 2011, 2010 and 2009 is represented by salary and bonuses.

As at 31 December 2011, 2010 and 2009, the Group does not pledge any assets in connection with guarantees issued to Management.

## 34. Segment reporting

### Business segments

The Group is managed and reported on the basis of four main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, documentary credits, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice.
- Other – representing insurance operations and other activities.

Retail Banking offers a range of personal banking, savings and mortgage products and services. Corporate Banking offers business banking services principally to small and mid sized companies and commercial loans to larger corporate and commercial customers. Investment Banking consists of assets and liabilities required to support the liquidity and funding requirements of the Group, Asset and Liability Management activities, Group Capital and shared ser-

fers a range of personal banking, savings and mortgage products and services. Corporate Banking offers business banking services principally to small and mid sized companies and commercial loans to larger corporate and commercial customers. Investment Banking consists of assets and liabilities required to support the liquidity and funding requirements of the Group, Asset and Liability Management activities, Group Capital and shared services.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments, if any, have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the financial position, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

More specific information on the revenues from external customers for each product and service, or each group of similar products and services is not available and the cost to develop it is excessive. Hence the Group presents operating segments on the basis of three main products.

Segment information about these businesses is presented below.

	Retail Banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2011
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
External interest income	29,122	205,812	11,080	839	—	—	246,853
Internal interest income	57,024	50,183	192,455	—	—	(299,662)	—
External interest expenses	(42,580)	(42,910)	(48,041)	—	—	—	(133,531)
Internal interest expenses	(16,666)	(160,106)	(122,890)	—	—	299,662	—
Net interest income before provision for impairment losses on interest bearing assets	26,900	52,979	32,604	839	—	—	113,322
Provisions for impairment losses on interest bearing assets	(1,215)	(64,716)	(37)	(127)	—	—	(66,095)
<b>Net interest income/(expense)</b>	<b>25,685</b>	<b>(11,737)</b>	<b>32,567</b>	<b>712</b>	<b>—</b>	<b>—</b>	<b>47,227</b>
Net loss on financial assets and liabilities at fair value through profit or loss	(1)	—	(5,042)	(189)	—	—	(5,232)
Net gain/(loss) on foreign exchange and precious metals operations	911	228	(125)	(28)	—	—	986
Fee and commission income	11,339	9,426	3,181	—	—	—	23,946
Fee and commission expense	(5,983)	9,426	(509)	(3,255)	—	—	(10,348)
Net realized gain on investments available-for-sale	—	—	25	77	—	—	102
Dividends received	—	—	186	24	—	—	210
Other income	149	1,225	128	7,390	—	—	8,892

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	Retail Banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2011
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Net non-interest income/(loss)</b>	<b>6,415</b>	<b>10,278</b>	<b>(2,156)</b>	<b>4,019</b>	<b>—</b>	<b>—</b>	<b>18,556</b>
<b>Operating income/(loss)</b>	<b>32,100</b>	<b>(1,459)</b>	<b>30,411</b>	<b>4,731</b>	<b>—</b>	<b>—</b>	<b>65,783</b>
<b>Operating expenses</b>	<b>(19,417)</b>	<b>(8,295)</b>	<b>30,411</b>	<b>(3,021)</b>	<b>—</b>	<b>—</b>	<b>(34,128)</b>
<b>Profit/(loss) before other operating provisions and results of associates</b>	<b>12,683</b>	<b>(9,754)</b>	<b>27,016</b>	<b>1,710</b>	<b>—</b>	<b>—</b>	<b>31,655</b>
Recovery of provision/(provision) for impairment losses on other transactions	—	81	(14)	(1,932)	—	—	(1,865)
Recovery of provision for guarantees and other contingencies	—	1,387	—	—	—	—	1,387
<b>Operating profit/(loss) before income tax</b>	<b>12,683</b>	<b>(8,286)</b>	<b>27,002</b>	<b>(222)</b>	<b>—</b>	<b>—</b>	<b>31,177</b>
Segment assets	236,547	1,945,678	383,429	59,431	4,594	(63,990)	2,129,057
Segment liabilities	568,301	568,301	640,855	9,812	31,669	(22,160)	2,129,057

	Retail Banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2010
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
External interest income	32,970	246,812	11,023	710	—	—	291,515
Internal interest income	45,736	59,893	177,375	—	—	(283,004)	—
External interest expenses	(37,974)	(58,802)	(55,315)	—	—	—	(152,091)
Internal interest expenses	(18,848)	(165,600)	(98,556)	—	—	283,004	—
Net interest income before provision for impairment losses on interest bearing assets	21,884	82,303	34,527	710	—	—	139,424
Provisions for impairment losses on interest bearing assets	(172)	(95,212)	(171)	—	—	—	(95,555)
<b>Net interest income/(expense)</b>	<b>21,712</b>	<b>(12,909)</b>	<b>34,356</b>	<b>710</b>	<b>—</b>	<b>—</b>	<b>43,869</b>
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	—	—	(6,259)	312	—	—	(5,947)
Net gain on foreign exchange and precious metals operations	686	88	1,775	13	—	—	2,562
Fee and commission income	8,821	9,640	2,513	—	—	—	20,974
Fee and commission expense	(4,275)	(917)	(441)	(1,249)	—	—	(6,882)
Net realized gain on investments available-for-sale	—	—	64	5	—	—	69
Dividends received	—	—	166	15	—	—	181
Other income	6	272	704	5,548	—	—	181

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	Retail Banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2010
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Net non-interest income</b>	<b>181</b>	<b>9,083</b>	<b>(1,478)</b>	<b>4,644</b>	<b>—</b>	<b>—</b>	<b>17,487</b>
<b>Operating income</b>	<b>26,950</b>	<b>(3,826)</b>	<b>32,878</b>	<b>5,354</b>	<b>—</b>	<b>—</b>	<b>61,356</b>
<b>Operating expenses</b>	<b>(14,412)</b>	<b>(13,367)</b>	<b>(2,437)</b>	<b>(2,514)</b>	<b>—</b>	<b>—</b>	<b>(32,730)</b>
<b>Profit/(loss) before other operating provisions and results of associates</b>	<b>12,538</b>	<b>(17,193)</b>	<b>30,441</b>	<b>(1,795)</b>	<b>—</b>	<b>—</b>	<b>28,626</b>
(Provision)/recovery of provision for impairment losses on other transactions	—	(1,905)	21	(1,795)	—	—	(3,679)
Recovery of provision for guarantees and other contingencies	—	3,261	—	—	—	—	3,261
<b>Operating profit /(loss) before income tax</b>	<b>12,538</b>	<b>(15,837)</b>	<b>30,462</b>	<b>1,045</b>	<b>—</b>	<b>—</b>	<b>28,208</b>
Segment assets	258,973	1,968,934	30,462	59,989	2,979	(42,266)	2,688,108
Segment liabilities	453,765	1,061,873	762,042	7,385	31,563	(42,266)	2,274,362

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2009
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
External interest income	48,762	312,053	10,841	804	—	—	372,460
Internal interest income	35,869	49,674	177,786	—	—	(263,329)	—
Internal interest income	(29,818)	(55,849)	(93,179)	—	—	—	(178,846)
Internal interest expenses	(24,810)	(181,752)	(56,767)	—	—	263,329	—
Net interest income before provision for impairment losses on interest bearing assets	30,003	124,126	38,681	804	—	—	193,614
(Provisions)/recovery for impairment losses on interest bearing assets	(22,793)	(171,411)	1,798	—	—	—	(192,406)
<b>Net interest income/(expense)</b>	<b>7,210</b>	<b>(47,285)</b>	<b>40,479</b>	<b>804</b>	<b>—</b>	<b>—</b>	<b>1,208</b>
Net gain on financial assets and liabilities at fair value through profit or loss	—	—	24,758	(234)	—	—	24,524
Net gain/(loss) on foreign exchange and precious metals operations	1,563	538	(17,265)	(5)	—	—	(14,965)
Fee and commission income	7,513	10,214	3,004	—	—	—	20,731
Fee and commission expense	(2,961)	(1,103)	(305)	(1,320)	—	—	(5,700)
Net realized (loss)/gain on investments available-for-sale	—	—	(1,079)	53	—	—	(1,026)
Dividends received	—	—	171	15	—	—	186
Other income	58	225	704	4,764	—	—	34,427

table continued on page 159

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2009
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Net non-interest income</b>	<b>6,173</b>	<b>9,874</b>	<b>38,615</b>	<b>3,273</b>	<b>242</b>	<b>—</b>	<b>58,177</b>
<b>Operating income</b>	<b>13,383</b>	<b>(37,411)</b>	<b>79,094</b>	<b>4,077</b>	<b>242</b>	<b>—</b>	<b>59,385</b>
<b>Operating expenses</b>	<b>(13,839)</b>	<b>(10,017)</b>	<b>(2,290)</b>	<b>(1,748)</b>	<b>(94)</b>	<b>—</b>	<b>(27,988)</b>
<b>(loss)/profit before other operating provisions and results of associates</b>	<b>(456)</b>	<b>(47,428)</b>	<b>76,804</b>	<b>2,329</b>	<b>148</b>	<b>—</b>	<b>31,397</b>
Provision for impairment losses on other transactions	—	(1,334)	(495)	(682)	—	—	(2,511)
Recovery of provision for guarantees and other contingencies	—	600	—	—	—	—	600
Gain from sale of associates	—	—	4,372	—	—	—	4,372
<b>Operating (loss)/profit before income tax</b>	<b>(456)</b>	<b>(48,162)</b>	<b>80,681</b>	<b>1,647</b>	<b>148</b>	<b>—</b>	<b>33,858</b>
Segment assets	296,959	1,905,565	976,688	54,410	3,598	(649,347)	2,587,873
Segment liabilities	329,176	957,983	1,497,298	5,720	28,276	(620,168)	2,198,285

## Geographical segments

Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2011, 2010 and 2009:

	Kazakhstan	CIS	OECD Countries	For the year ended 31 December 2011 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Interest income	234,913	11,932	8	246,853
Interest expense	(124,435)	(7,951)	(1,145)	(133,531)
Provision for impairment losses on interest bearing assets	(66,201)	106	—	(66,095)
Net loss on financial assets and liabilities at fair value through profit or loss	(5,127)	(105)	—	(5,232)
Net gain/(loss) on foreign exchange and precious metals operations	60	934	(8)	986
Fee and commission income	23,282	664	—	23,946
Fee and commission expense	(10,036)	(322)	10	(10,348)
Net realized gain on investments available-for-sale	102	—	—	102
Dividends received	210	—	—	210
Other income	8,864	28	—	8,892
<b>Operating income/(expense)</b>	<b>61,632</b>	<b>5,286</b>	<b>(1,135)</b>	<b>65,783</b>

	Kazakhstan	CIS	OECD Countries	For the year ended 31 December 2010 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Interest income	275,681	15,646	188	291,515
Interest expense	(133,177)	(9,162)	(9,752)	(95,555)
Provision for impairment losses on interest bearing assets	(96,760)	1,205	—	(95,555)
Net loss on financial assets and liabilities at fair value through profit or loss	(5,857)	(90)	—	(5,947)
Net gain/(loss) on foreign exchange and precious metals operations	2,088	499	(25)	2,562
Fee and commission income	20,359	615	—	20,974
Fee and commission expense	(6,703)	(178)	(1)	(6,882)
Net realized gain on investments available-for-sale	69	—	—	69
Dividends received	181	—	—	181
Other income	5,966	564	—	6,530
<b>Operating income/(expense)</b>	<b>61,847</b>	<b>61,847</b>	<b>(9,590)</b>	<b>61,356</b>

	Kazakhstan	CIS	OECD Countries	For the year ended 31 December 2009 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Interest income	347,202	(12,878)	557	372,460
Interest expense	(97,989)	(12,878)	(67,979)	(178,846)
Provision for impairment losses on interest bearing assets	(189,567)	(2,839)	—	(192,406)
Net gain on financial assets and liabilities at fair value through profit or loss	23,498	1,026	—	24,524
Net (loss)/gain on foreign exchange and precious metals operations	(15,943)	774	204	(14,965)
Fee and commission income	20,016	715	—	20,731
Fee and commission expense	(5,481)	(218)	(1)	(5,700)
Net realized (loss)/gain on investments available-for-sale	(1,028)	2	—	(1,026)
Dividends received	186	—	—	186
Other income	35,553	(1,126)	—	34,427
<b>Operating income/(expense)</b>	<b>116,447</b>	<b>10,157</b>	<b>(67,219)</b>	<b>59,385</b>

External operating income has been allocated based on domicile of the company within the Group.

## 35. Fair value of financial instruments

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

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value:

Loans and advances to and from banks and other financial institutions and other borrowed funds – for assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over three months, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances and other borrowed funds the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing

market rates as at the respective year-end.

Debt securities issued – market values have been used, where available, to determine the fair value of debt securities traded on an active market.

Subordinated debt – market values have been used, where available, to determine the fair value of subordinated bonds issued and perpetual debt.

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

	31 December 2011		31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>						
Loans and advances to banks and other financial institutions	53,968	54,107	146,331	144,960	148,375	149,321
Loans to customers	2,079,661	2,061,752	2,174,760	2,123,515	209,122	2,033,690
<b>Financial liabilities:</b>						
Loans and advances from banks and financial institutions	92,215	89,302	147,139	139,022	209,122	179,422
Debt securities issued	324,087	290,527	375,199	353,548	463,656	402,996
Other borrowed funds	26,359	20,306	23,943	20,496	31,172	22,488
Subordinated debt	138,040	137,913	137,137	136,827	136,411	113,289

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated statement of financial position. The carrying amounts of cash and balances with national (central) banks, investments held to maturity, other financial assets and other financial liabilities and customer accounts approximates fair value due to the short-term nature of such financial instruments. The carrying amount of customer accounts approximates fair value as interest rates charged to customers closely approximate market interest rates.



## 36. Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total and tier 1 capital to risk weighted assets.

Capital adequacy requirements are set by the FMSC and controlled using the principles, methods and factors identified by the Basel Committee on Banking Supervision.

	31 December 2011 (KZT million)	31 December 2010 (KZT million)	31 December 2009 (KZT million)
Composition of regulatory capital: <sup>a</sup>			
Tier 1 capital:			
Share capital (ordinary shares)	7,784	7,786	7,787
Share premium reserve	194,924	195,024	195,006
Retained earnings <sup>b</sup>	202,380	180,609	161,971
Current income <sup>b</sup>	23,480	21,879	19,423
Non-controlling interest	1,112	1,074	(223)
Goodwill	(2,405)	(2,405)	(2,405)
Innovative instrument <sup>c</sup>	14,729	14,649	14,085
Total qualifying tier 1 capital	442,004	418,616	395,644
Property and equipment revaluation reserve <sup>d</sup>	4,866	5,940	5,040
Share capital (preferred shares)	1,239	1,245	1,244
Subordinated debt <sup>e</sup>	82,947	92,030	97,871
Total qualifying tier 2 capital	89,052	99,215	104,155
Total capital	531,056	517,831	499,799
Ratio of tier 1 capital adequacy	18.57%	16.23%	15.94%
Capital adequacy ratio	22.32%	20.08%	20.14%

<sup>a</sup> According to the principles applied by Basel Committee.

<sup>b</sup> As at 31 December 2011, in the computation of total capital for capital adequacy purposes the line “Retained earnings” included statutory reserve, which is required by legislation of the Republic of Kazakhstan and reflected in IFRS financial statements since 1 July 2011.

<sup>c</sup> Innovative instruments represents perpetual bonds.

<sup>d</sup> The line “Property and equipment revaluation reserve” includes discounted amount of investments available-for-sale securities revaluation reserve/(deficit) (in accordance with the Basel standards).

<sup>e</sup> As at 31 December 2011, 2010 and 2009, the Group included in the computation of total capital for capital adequacy purposes the subordinated debt received, which is not to exceed 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

During the years ended 31 December 2011, 2010 and 2009, the Group complied with all set capital requirements.

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

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks and other financial institutions for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

## 37. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated and perpetual debt disclosed in Note 29, and equity comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board of the Bank reviews its capital structure on quarterly basis. Based on the recommendations of the Management Board by making decisions on

the Board of Directors or shareholders meeting, the Group balances its overall capital structure through new share issues, issues of new debt or the redemption of existing debt, and the payment of dividends.

The Group's overall capital risk management policy remains unchanged in comparison with 2010 and 2009.

## 38. Risk management policies

Management of risks is fundamental to the Group's business. The risk management functions include:

- **Risk identification:** The risks, which the Group is exposed to in its daily activities, are identified by the risk management system.
- **Measuring risks:** The Group measures the risks using various quantitative and qualitative methodologies, which include risk based profitability analysis, calculation of possible loss amounts, and utilization of specialized models. Measurement models and associated assumptions are periodically reviewed to ensure that the tools represent the risks adequately and reasonably.
- **Risk monitoring:** Group's policies and procedures determine the processes for mitigating and minimizing the risks and establish limits on various types of operations. Such limits are reviewed on a periodic basis set forth in internal documents of the Group.
- **Risk reporting:** Risk reporting is performed on a line of business and on a consolidated basis. This information is periodically presented to the Management.

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Interest rate risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risk.

## Credit risk

The Group is exposed to credit risk which is the risk that counterparty to a financial instrument will fail to fulfill its obligation to the Group. This covers actual payment defaults as well as losses in value resulting from a decrease in credit quality of the counterparty.

Risk management and monitoring is performed within set procedures and limits by the Credit Committees and the Management of the Group. Risk management coordination is performed by the risk management specialist or Risk Management Departments. Daily risk management is performed by the Head of the Credit Departments or Credit Divisions of branches and subsidiaries.

To measure credit risk, the Group employs several methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on types of assets (e.g. consumer loans versus corporate term loan), risk measurement parameters (e.g. delinquency status and credit bureau reports versus corporate risk

rating), and risk management and collection procedures (e.g. consumer lending collection center versus centrally managed workout groups).

The Group determines the level of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product, by industry sector and by region are approved by the Credit Committees. The exposure to any individual borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committees.

Off-balance sheet credit commitments represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk of off-balance sheet financial instruments is defined as the probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet instruments, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. The actual amount of this loss is likely to be less than the total unused commitments since the commitments are contingent upon customers maintaining certain credit standards. The Group applies the same credit policy to contingent liabilities as it does to the on-balance sheet financial instruments.

### Structure of credit committees

The Group has developed policies and guidelines that are designed to preserve the independence and integrity of the

approval and decision making of extending credit and are aimed at accurate assessment of credit risk and its proper and timely monitoring. The policy frameworks (separate for retail lending and corporate lending) establish credit approval authorities, risk-rating methodologies, credit review parameters and guidelines for management of distressed loans.

The Group has been centralizing decision making in the Head Office over the past several years. In particular, authorities of branches and regional directorates on approval of small entrepreneurship and retail loans have been transferred to Decision Making Centers ("DMCs") in the Head office. Furthermore, most of the branch and regional directorate authorities on corporate loan approvals have also been transferred to the Head Office of the Bank.

The Group currently has the following credit committees:

- **Head office committees.**
  - **Head Office Credit Committee.** This committee is authorized to approve corporate loans of up to equivalent of USD 5 million. The committee also approves retail and small entrepreneurship loans which exceed the thresholds and authorities set for DMCs.
  - **Commercial Directorate.** There are six members of the committee, including the Chair person of the Group, who presides, and five Managing Directors. The committee is authorized to approve loans exceeding the equivalent of USD 5 million.

- o **Board of Directors.** All loans exceeding 10% of the Group's total assets as well as all transactions with related parties have to be approved by the Board of Directors.
- **North Regional Directorate Committee.** The Group has a North Regional Directorate Committee, covering the north regions of Kazakhstan (Astana, Kostanay, Kokshetau and Petropavlovsk). The north regional directorate has limited authorities to grant loans.
- **Branch Committees.** Each of the Group's branches has a credit committee. The branches have limited authorities to grant loans.

### Corporate loans

While considering loan applications of corporate borrowers, the related Credit Committees take into account the analysis and conclusions of Risk Management Department №1, Collateral Valuation, Legal and Security Departments.

- **Risk Management Department №1.** The analytic group within the Head Office, which provides advice on commercial loans based on their assessment of the borrower's business and/or the project, to which the loan relates. Their assessment takes into account a number of industry and borrower specific factors, future cash flows of the potential borrower and anticipated risk-adjusted returns for the Group. For the purpose of the analysis, risk managers utilize the rating model described below. Furthermore, the Department of Risk Management №1 is involved in the Group's loan portfolio monitoring and in the development

of procedures and guidelines with respect to the Group's lending.

- **Collateral Valuation Department.** The Group requires collateral for almost all of its loans. According to Kazakh legislation, collateral valuation should be performed by independent collateral valuation companies ("IVCs"). The collateral Valuation Department reviews appraisal reports issued by IVCs and carries out certification and monitoring of IVCs.
- **Legal Department.** The Group obtains legal advice from the Legal Department regarding proposed loans and receives confirmation as to the valid corporate existence of the potential borrower and its authority to enter into loan transactions and collateral agreements.
- **Security Department.** The Security Department provides information on assets, credit history and reputation of potential borrowers. A central credit bureau has recently been established in Kazakhstan and this should improve the quality of information on the credit history of potential borrowers.

### Retail and small entrepreneurship loans

Loans to retail and small entrepreneurship loans are subject to a standardized approval procedure. The Group has established two new divisions in Risk Management Department №2, the Decision Making Centers ("DMCs"). One DMC processes retail loan applications, while the second unit makes decisions on small entrepreneurship loans. In order to approve or decline an application, the DMCs analyze payment ability and creditworthiness of a potential

borrower on the basis of standard terms, criteria and procedures set forth by the Group.

The DMC on retail is authorized to approve applications from customers with one obligor exposure of up to the equivalent of USD 200,000. The DMC on small entrepreneurship has authorities to approve applications from customers with one obligor exposure of up to the equivalent of USD 500,000. Applications with larger exposures are referred to one of the relevant credit committees in the Head Office. The DMCs conduct analysis of the applications exceeding their authority limits, and the relevant credit committee takes their conclusions into account in decision making.

### Allowance for credit losses

The Group establishes an allowance for impairment losses on loans and off-balance liabilities where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, a loan officer takes into account a number of criteria, including financial performance of the borrower, terms of the loan, collateral value and debt service of the borrower.

## Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks of certain financial assets and general market economy risks.

The following table presents the maximum exposure

to credit risk of financial assets and commitments. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other commitments the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. The information in relation to financial guarantees and other contingent liabilities is disclosed in Note 31.

	31 December 2011				
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged <sup>1</sup>	Net exposure after offset and collateral
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Financial assets at fair value through profit or loss	188,313	—	188,313	—	188,313
Loans and advances to banks and other financial institutions	53,968	—	53,968	(800)	53,168
Loans to customers	2,079,661	(16,161)	2,063,500	(972,557)	1,090,943
Investments available-for-sale	15,419	—	15,419	—	15,419
Investments held to maturity	4,026	—	4,026	—	4,026
Other financial assets	6,430	—	6,430	—	6,430
Contingent liabilities and other credit commitments	88,268	(7,407)	80,861	(39,127)	41,734

	<b>31 December 2010</b>				
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged <sup>1</sup>	Net exposure after offset and collateral
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Financial assets at fair value through profit or loss	223,231	—	223,231	—	223,231
Loans and advances to banks and other financial institutions	146,331	—	146,331	(8,407)	137,924
Loans to customers	2,174,760	(18,576)	2,156,184	(1,124,117)	1,032,067
Investments available-for-sale	16,822	—	16,822	—	16,822
Investments held to maturity	1,996	—	1,996	—	1,996
Other financial assets	6,962	—	6,962	—	6,962
Contingent liabilities and other credit commitments	102,376	(4,810)	97,566	(18,527)	79,039

	<b>31 December 2009</b>				
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged <sup>1</sup>	Net exposure after offset and collateral
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Financial assets at fair value through profit or loss	114,203	—	114,203	—	114,203
Loans and advances to banks and other financial institutions	148,375	—	148,375	(10,893)	137,482
Loans to customers	2,160,767	(16,161)	2,063,500	(972,557)	1,084,596
Investments available-for-sale	16,696	—	15,419	—	16,696
Investments held to maturity	943	—	4,026	—	943
Other financial assets	10,074	—	6,430	—	10,074
Contingent liabilities and other credit commitments	140,410	(5,372)	135,038	(43,586)	91,452

<sup>1</sup> A description of the collateral presented on loans to customers is included in Note 18.

The collateral pledged amount on loans to banks and other financial institutions is determined on the basis of fair value of collateral and capped by outstanding amount of loan.

The collateral pledged amount for loans to customers is represented by its fair value adjusted for costs to sell, including financial costs and adjusted for the period required to sell collateral. Fair value of collateral is reviewed on semi-annual basis.

As at 31 December 2011, loans and advances to banks and other financial institutions also include loans under reverse repurchase agreements in amount of KZT 800 million (2010: KZT 8,407 million, 2009: KZT 10,893 million).

As at 31 December 2011, loans to customers include loans under reverse repurchase agreements in amount of KZT Nil (2010: KZT 818 million, 2009: KZT 889 million).

## Credit ratings

Financial assets are graded according to the current credit rating of international rating agencies. The highest possible rating is AAA. Investment grade of the financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as a speculative grade.

The following table details the credit ratings of financial assets held by the Group:

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2011 Total (KZT million)
Financial assets at fair value through profit or loss	922	141	489	153,884	19,323	13,554	188,313
Loans and advances to banks and other financial institutions	—	13,756	11,213	23,384	1,210	4,405	53,968
Loans to customers	—	—	—	—	3,025	2,076,636	2,079,661
Investments available-for-sale	—	—	—	6,800	2,901	15,419	15,419
Investments held to maturity	333	—	154	1,883	1,608	48	4,026
Other financial assets	—	2	1,210	6	653	4,559	6,430

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2010 Total (KZT million)
Financial assets at fair value through profit or loss	15,831	7,042	291	164,367	13,774	21,926	223,231
Loans and advances to banks and other financial institutions	—	40,478	36,813	30,460	3,761	34,819	146,331
Loans to customers	—	—	—	—	3,506	2,171,254	2,174,760
Investments available-for-sale	—	—	—	5,837	5,015	5,970	16,822
Investments held to maturity	—	154	—	1,132	661	49	1,996
Other financial assets	—	114	2	314	948	5,584	6,962

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2009. Total (KZT million)
Financial assets at fair value through profit or loss	—	11,102	146	59,789	6,506	36,660	114,203
Loans and advances to banks and other financial institutions	—	50,409	17,380	28,436	7,818	44,332	148,375
Loans to customers	—	—	—	483	4,614	2,155,670	2,160,767
Investments available-for-sale	—	—	—	5,373	5,268	6,055	16,696
Investments held to maturity	—	—	—	285	266	392	943
Other financial assets	—	—	—	—	—	10,074	10,074

Since not all counterparties of the Group have credit ratings from international rating agencies, the Group has developed its own methodologies allowing it to assign internal credit ratings. Such methodologies include a rating model for corporate borrowers and scoring models for retail banking clients and small and medium enterprises. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan.

Loans to customer are classified by the responsible departments on the basis of internal assessment and other analytical procedures. Taking into account past experience, in December 2010 there was an improvement of the assessment methodology of probability of default of the loans based on a deeper analysis of the financial position of the borrower and future cash flows. As a result of this improvement, added to this analysis were qualitative and quantitative factors of the borrowers, such as operational efficiency, liquidity, capital adequacy ratios, cash flows and debt servicing ratios, quality of the management risk of the industry,

presence of facts of misapplication of funds and the customers' credit history.

At present, the Bank uses the classification of loans to customers as follows:

**Homogeneous loans:** Loans to customers with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults and other factors). Collective assessment is performed on loans that were determined not to be individually significant and on individually significant loans that did not exhibit credit losses based on the individual assessment.

**Group 1:** The borrower makes interest and principal payments without delay and in full. The borrower is clearly able to repay both the loan principal and interest and the borrower's high financial efficiency is expected to continue.

**Group 2:** The borrower makes interest and principal payments without delay and in full. The borrower is currently in a stable financial position, however, a possible negative trend may arise.

**Group 3:** The borrower makes interest and principal payments without delay and in full. There is evidence of some unsatisfactory financial results which may affect the ability of the borrower to repay in the future.

**Group 4:** The borrower makes interest and principal payments with delays and/or not in full. There is evidence of a significant number of unsatisfactory financial results which will affect the ability of the borrower to repay.

**Group 5:** The borrower is unable to make interest and principal payments without delays and in full.



Financial efficiency is questionable and there is low probability of a full repayment in the future.

	31 December 2011	31 December 2010	31 December 2009.
Homogeneous loans	111,935	114,401	133,615
Group 1	148,867	196,778	308,175
Group 2	483,908	560,786	595,156
Group 3	1,000,285	911,211	817,484
Group 4	234,792	284,612	162,781
Group 5	99,874	106,154	142,667
	2,079,661	2,173,942	2,159,878
Reverse repurchase agreements	—	818	889
Loans to customers	2,079,661	2,174,760	2,160,767

## Impairment of financial assets

The following table details the carrying value of assets that are impaired and not impaired:

	Financial assets that are not impaired	Financial assets that have been assessed individually for impairment	Homogenous and individually assessed watch assets	31 December 2011 Total
Loans and advances to banks and other financial institutions	50,456	—	3,512	53,968
Loans to customers	124,772	481,092	1,473,797	2,079,661
Investments available-for-sale	15,419	—	—	15,419
Investments held to maturity	4,026	—	—	4,026
Other financial assets	6,430	—	—	6,430

	Financial assets that are not impaired	Financial assets that have been assessed individually for impairment	Homogenous and individually assessed watch assets	<b>31 December 2010 Total</b>
Loans and advances to banks and other financial institutions	144,741	—	1,590	146,331
Loans to customers	191,175	473,550	1,510,035	2,174,760
Investments available-for-sale	16,822	—	—	16,822
Investments held to maturity	1,996	—	—	1,996
Other financial assets	6,962	—	—	6,962

	Financial assets that are not impaired	Financial assets that have been assessed individually for impairment	Homogenous and individually assessed watch assets	<b>31 December 2009 Total</b>
Loans and advances to banks and other financial institutions	148,373	—	2	148,375
Loans to customers	309,855	440,013	1,410,899	2,160,767
Investments available-for-sale	16,696	—	—	16,696
Investments held to maturity	943	—	—	943
Other financial assets	10,074	—	—	10,074

As at 31 December 2011, the carrying value of financial assets that are overdue, but not impaired is KZT 1,502 million (2010: KZT 1,738 million, 2009: KZT 5,722 million) and they are overdue for less than 2-month period.

## Geographical concentration

The relevant Credit Committees exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. The Group sets country limits for all countries with ratings below A- according to the Standard and Poor's classification.

The Management of the Group considers the main segment to be the Republic of Kazakhstan.

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

	Kazakhstan	CIS	OECD countries	Non-OECD countries*	31 December 2011 Total
<b>Financial assets:</b>	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Cash and balances with national (central) banks	98,175	6,874	18	—	105,067
Precious metals	—	—	3,280	—	3,280
Financial assets at fair value through profit or loss	145,031	22,225	21,057	—	188,313
Loans and advances to banks and other financial institutions	2,102	8,195	43,671	—	53,968
Loans to customers	1,823,196	164,680	44,830	46,955	2,079,661
Investments available-for-sale	14,946	379	94	—	15,419
Investments held to maturity	3,057	482	487	—	4,026
Other financial assets	3,618	1,482	1,296	34	6,430
<b>Total financial assets and precious metals</b>	<b>2,090,125</b>	<b>204,317</b>	<b>114,733</b>	<b>46,989</b>	<b>2,456,164</b>

*table continued on page 176*

	Kazakhstan	CIS	OECD countries	Non-OECD countries*	31 December 2011 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial liabilities:</b>					
Loans and advances from banks and other financial institutions	32,744	15	53,674	5,782	92,215
Customer accounts	1,379,073	60,726	16,469	6,809	1,463,077
Financial liabilities at fair value through profit or loss	5	106	37,660	—	37,771
Debt securities issued	1,565	233	322,194	95	324,087
Other borrowed funds	20,359	—	6,000	—	26,359
Dividends payable	—	6	—	—	6
Other financial liabilities	4,020	410	35	30	4,495
Subordinated debt	40,213	—	97,827	—	138,040
<b>Total financial liabilities</b>	<b>1,477,979</b>	<b>61,496</b>	<b>533,859</b>	<b>12,716</b>	<b>2,086,050</b>
<b>Net position</b>	<b>612,146</b>	<b>142,821</b>	<b>(419,126)</b>	<b>34,273</b>	

	Kazakhstan	CIS	OECD countries	Non-OECD countries*	31 December 2010 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>					
Cash and balances with national (central) banks	54,693	6,503	20	—	61,216
Precious metals	—	—	1,345	—	1,345
Financial assets at fair value through profit or loss	157,537	14,968	50,726	—	223,231
Loans and advances to banks and other financial institutions	10,694	9,055	126,582	—	146,331
Loans to customers	1,835,714	177,055	36,042	125,949	2,174,76
Investments available-for-sale	16,330	492	—	—	16,822
Investments held to maturity	1,842	—	154	—	1,996
Other financial assets	5,136	1,613	209	4	6,962
<b>Total financial assets and Precious metals</b>	<b>2,081,946</b>	<b>209,686</b>	<b>215,078</b>	<b>125,953</b>	<b>2,632,66</b>
<b>Financial liabilities:</b>					
Loans and advances from banks and other financial institutions	558	1,560	139,987	5,034	147,139
Customer accounts	1,450,156	38,769	10,781	7,094	1,506,800
Financial liabilities at fair value through profit or loss	37	5	36,005	—	36,047
Debt securities issued	1,717	2,975	370,427	80	375,199
Other borrowed funds	16,472	—	7,471	—	23,943
Dividends payable	—	4	—	—	4
Other financial liabilities	5,691	178	83	—	5,952
Subordinated debt	39,700	—	97,437	—	137,137
<b>Total financial liabilities</b>	<b>1,514,331</b>	<b>43,491</b>	<b>662,191</b>	<b>12,208</b>	<b>2,232,221</b>
<b>Открытая позиция</b>	<b>567,615</b>	<b>166,195</b>	<b>(447,113)</b>	<b>113,745</b>	

	Kazakhstan	CIS	OECD countries	Non-OECD countries*	31 December 2009 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>					
Cash and balances with national (central) banks	84,566	5,951	16	—	90,533
Precious metals	—	—	1,209	—	1,209
Financial assets at fair value through profit or loss	69,232	5,868	39,061	42	114,203
Loans and advances to banks and other financial institutions	14,886	4,218	128,480	791	148,375
Loans to customers	1,780,993	201,871	36,304	141,599	2,160,767
Investments available-for-sale	16,348	348	—	—	16,696
Investments held to maturity	938	5	—	—	943
Other financial assets	2,388	6,729	769	188	10,074
<b>Total financial assets And precious metals</b>	<b>1,969,351</b>	<b>224,990</b>	<b>205,839</b>	<b>142,620</b>	<b>2,542,800</b>
<b>Financial liabilities:</b>					
Loans and advances from banks and other financial institutions	16,976	9,179	177,137	5,830	209,122
Customer accounts	1,240,089	17,814	10,880	7,681	1,276,464
Financial liabilities at fair value through profit or loss	11	60	35,920	—	35,991
Debt securities issued	—	1,385	462,197	74	463,656
Other borrowed funds	19,097	2	12,073	—	31,172
Dividends payable	—	15	—	—	15
Other financial liabilities	3,354	355	256	451	4,416
Subordinated debt	47,493	—	88,918	—	136,411
<b>Total financial liabilities</b>	<b>1,327,020</b>	<b>28,810</b>	<b>787,381</b>	<b>14,036</b>	<b>2,157,247</b>
<b>Net position</b>	<b>642,331</b>	<b>196,180</b>	<b>(581,542)</b>	<b>128,584</b>	

\* As at 31 December 2011, 2010 and 2009, over 90% of non-OECD countries operations were represented by operations in the Republic of Cyprus.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Main credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

## Asset and Liability Management Risks

Effective assets and liabilities management is fundamental to the Bank, which allows the Bank to offer competitive products in the market while maintaining the risk and profitability balance on the level creating additional value for shareholders.

The following are defined by the bank as key areas within asset and liability management:

- Structural risk management: structural interest rate and currency risks;
- Liquidity risk management;
- Market risk management in trading portfolio;
- Capital management.

The Group's Assets and Liabilities Management Committee ("the ALMC") is responsible for managing risks the bank is exposed to while managing assets and liabilities.

The ALMC is responsible of making strategic and operational decisions with respect of managing asset and liabilities with purpose of:

- Maintaining and further increasing net income while keeping risk exposure at an acceptable level;
- Ensuring continuity of the bank operations.

In order to fulfill the objectives set above, short meetings of the ALMC take place on a weekly basis while extended meetings are organized monthly. Operational asset and liability management questions including trading portfolio performance and liquidity management are considered at the weekly meetings. At the monthly meetings ALMC discusses more strategic questions including balance sheet structure management. Various reports are presented to ALMC's attention including but not limiting to trading portfolio reports, open currency positions, liquidity gaps, cash flows, stress tests, etc.

## Structural interest rate risk

To define and manage overall interest rate risk the Group applies an approach, which implies distinguishing interest rate risk in trading portfolio from structural interest rate risk since they impact capital and profit and loss differently. These two subtypes of the risk are now measured and managed separately. This section covers structural interest rate risk. Interest rate risk in trading portfolio is measured and managed by the bank as a part of market risks.

Structural interest rate risk is a risk of possible decline in interest income generated on balance and off-balance sheet positions accounted at amortized cost as a result of changes in market interest rates. Thus managing structural interest rate risk implies managing exposure of the Bank's

net interest income and hence capital to market interest rate changes with the purpose of limiting and controlling possible income reductions or losses and ensuring optimal and stable interest income inflow.

To manage structural interest rate risk ALMC monitors and analyzes re-pricing gap and earnings at risk as well as interest rate margins. This helps the Group mitigate exposure to the structural interest rate risk and maintain positive interest rate margin. The Risk Management Department monitors financial activity of the Group regularly assessing its exposure to changes in interest rates and income impact of the changes.

As for the moment most of the loans extended by the Group are at fixed rate agreements. At the same time the loan agreements allow the Group to change the interest rate thus allowing the Group to decrease interest rate risks.

The following table presents an analysis of interest rate risk. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2011			31 December 2010			31 December 2009		
	% KZT	% USD	% Other CCY	% KZT	% USD	% Other CCY	% KZT	% USD	% Other CCY
<b>Assets:</b>									
Financial assets at fair value through profit or loss	3.33	5.95	8.50	2.53	3.16	9.47	3.50	4.01	12.61
Loans and advances to banks and other financial institutions	1.60	5.09	0.17	0.35	3.99	0.84	0.56	4.01	1.91
Loans to customers	10.20	10.10	10.11	12.38	11.79	11.80	13.86	13.70	11.59
Investments available-for-sale and held to maturity	5.85	2.89	7.71	5.32	1.05	—	7.34	—	7.37
<b>Liabilities:</b>									
Loans and advances from banks and other financial institutions	1.68	4.55	1.16	1.15	4.97	5.33	3.49	5.10	7.76
Customer accounts	4.27	4.43	6.73	5.38	4.72	6.92	5.91	6.95	6.81
Debt securities issued	9.00	8.21	7.04	9.00	8.36	6.59	—	8.71	6.72
Other borrowed funds	7.24	1.33	—	7.66	1.31	—	7.66	1.88	—
Subordinated debt	9.79	8.43	—	6.94	8.61	—	7.52	8.47	—

The Group uses derivative financial instruments to mitigate the interest rate risk and control the interest rate margin by types of products. Management monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of change in interest rates and related cash flow interest rate risk.



## Interest rate risk sensitivity analysis

The Risk Management Department periodically estimates the Group's sensitivity to changes in market interest rates and their influence on the Group's profitability. If necessary, the Risk Management Department suggests decreasing the relevant risk levels to the ALMC of the Group.

In calculating and analyzing sensitivity of net profit of the Group to structural interest rate risk, the Group applies the earnings at risk ratio (EaR). EaR is based on interest rate gap and measures the potential fluctuations in earnings over a given time interval under normal market conditions and based on the following assumptions:

- the period when possible losses are incurred, is one year. One year is viewed as a period, within which the Group may raise new funding or restructure its assets and liabilities with a purpose of returning and keeping its risks level within its risk appetite;
- EaR is calculated based on the assumption that each interest rate gap will be reassessed at a new interest rate.

As at the reporting date, in calculating EaR, as reasonably possible, the Group applied the range of interest rate fluctuations in 200 bp across the yield curve.

The following table presents the sensitivity of the Group's consolidated income statement to the above changes to interest rates, in which all other parameters are assumed to be constant:

### Earnings at risk (EaR) 31 December 2011 (KZT million)

Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	(1,223)
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	1,223

### Earnings at risk (EaR) 31 December 2010 (KZT million)

Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	1,982
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	(1,982)

### Earnings at risk (EaR) 31 December 2009 (KZT million)

Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	3,694
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	(3,694)

At the reporting date, the Group's equity is not sensitive to interest rate fluctuations, since the interest rate swaps became ineffective in 2009 and, accordingly, changes in fair value of these instruments are recognized in the consolidated income statement.

## Liquidity risk

Liquidity risk is the risk that the Bank will not have enough funding at reasonable price to meet all cash outflows (on- and off-balance sheet).

ALMC controls these types of risks by means of weekly liquidity gap analysis and taking appropriate decisions to reduce liquidity risk. Current liquidity is managed by the Treasury Department through the deals in the money markets, with placement of available funds in liquid securities in line with instructions of ALMC.

The Group maintains the compliance to regulatory requirements, including term liquidity ratios and foreign exchange liquidity. The Group considers these requirements to be strict, and, as such, this measure guarantees maintaining appropriate liquidity level.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the contractual maturity date.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>							
Debt securities and derivatives in the financial assets at fair value through profit or loss	12,500	29,872	33,636	48,241	51,702	—	175,951
Loans and advances to banks and other financial institutions	31,775	745	2,489	18,679	60	—	53,748
Loans to customers	32,470	43,609	605,174	527,473	527,255	—	1,735,981
Debt securities included in investments available-for-sale	154	—	202	3,131	7,300	—	10,787
Investments held to maturity	—	—	95	2,173	1,670	—	3,938
Total interest bearing assets	76,899	74,226	641,596	599,697	587,987	—	1,980,405
Cash and balances with national (central) banks	—	—	—	—	2,916	—	105,067
Precious metals	—	—	—	—	—	—	3,280
Equity securities in the financial assets at fair value through profit or loss	—	—	—	—	—	9,852	9,852
Equity securities in the investments available-for-sale	—	—	—	—	—	4,107	4,107
Accrued interest income on interest-bearing assets	70,578	28,335	84,731	163,312	67	—	347,023
Other financial assets	3,452	920	2,058	—	—	—	10,787
<b>Total financial assets and precious metals</b>	<b>256,360</b>	<b>103,481</b>	<b>728,385</b>	<b>763,009</b>	<b>590,970</b>	<b>13,959</b>	<b>2,456,164</b>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial liabilities:</b>							
Loans and advances from banks and other financial institutions	35,019	576	17,202	39,182	—	—	91,979
Customer accounts	79,605	144,029	411,958	238,866	105,117	—	979,575
Debt securities issued	234	26,124	10,351	160,381	118,048	—	315,138
Other borrowed funds	—	—	1,512	20,711	3,765	—	25,988
Subordinated debt	—	—	—	71,647	57,510	6,744	135,901
Total interest bearing liabilities	114,858	170,729	441,023	530,787	284,440	6,744	1,548,581
Financial liabilities at fair value through profit or loss	730	22,673	866	5,511	7,991	—	37,771
Customer accounts	471,264	—	—	—	—	—	471,264
Dividends payable	6	—	—	—	—	—	6
Accrued interest expense on interest-bearing liabilities	4,684	10,136	7,204	1,909	—	4,519	23,933
Other financial liabilities	4,356	56	83	—	—	4,946	4,495
<b>Total financial liabilities</b>	<b>595,898</b>	<b>203,594</b>	<b>449,176</b>	<b>538,207</b>	<b>292,431</b>	<b>6,744</b>	<b>2,086,050</b>
Liquidity gap	(339,538)	(100,113)	279,209	224,802	298,539		
Interest sensitivity gap	(37,959)	(96,503)	200,573	68,910	303,547		
Cumulative interest sensitivity gap	(37,959)	(134,462)	66,111	135,021	438,568		
Cumulative interest sensitivity gap as a percentage of total assets	(1,5%)	(5,5%)	2,7%	5,5%	17,9%		
Contingent liabilities and credit commitments	7,511	2,718	23,889	27,305	12,752	676	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>							
Debt securities and derivatives in the financial assets at fair value through profit or loss	37,256	18,997	85,580	40,550	34,912	—	217,295
Loans and advances to banks and other financial institutions	94,795	10,184	17,473	23,589	15	—	146,056
Loans to customers	32,128	95,225	568,158	611,068	566,962	—	1,873,541
Debt securities included in investments available-for-sale	—	—	940	4,359	6,157	—	11,456
Investments held to maturity	—	—	1	1,007	949	—	1,957
Total interest bearing assets	164,179	124,406	672,152	680,573	608,995	—	2,250,305
Cash and balances with national (central) banks	58,837	—	—	—	2,379	—	61,216
Precious metals	1,345	—	—	—	—	—	1,345
Equity securities in the financial assets at fair value through profit or loss	—	—	—	—	—	4,519	4,519
Equity securities in the investments available-for-sale	—	—	—	—	—	4,946	4,946
Accrued interest income on interest-bearing assets	50,197	56,372	65,617	131,120	64	—	303,370
Other financial assets	4,800	917	1,225	20	—	—	6,962
<b>Total financial assets and precious metals</b>	<b>279,358</b>	<b>181,695</b>	<b>738,994</b>	<b>811,713</b>	<b>611,438</b>	<b>9,465</b>	<b>2,632,663</b>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial liabilities:</b>							
Loans and advances from banks and other financial institutions	2,725	12,614	59,047	72,261	—	—	146,647
Customer accounts	82,121	108,891	479,002	257,491	87,696	—	1,015,201
Debt securities issued	714	36,781	8,557	190,480	127,341	—	363,873
Other borrowed funds	—	95	666	5,042	17,823	—	23,626
Subordinated debt	—	—	—	41,834	86,328	6,703	134,865
Total interest bearing liabilities	85,560	158,381	547,272	567,108	319,188	6,703	1,684,212
Financial liabilities at fair value through profit or loss	2,051	2,474	448	28,366	2,708	—	36,047
Customer accounts	474,832	—	—	—	—	—	474,832
Dividends payable	—	—	4	—	—	—	4
Accrued interest expense on interest-bearing liabilities	5,551	11,935	13,019	669	—	—	31,174
Other financial liabilities	5,036	344	269	303	—	—	5,952
<b>Total financial liabilities</b>	<b>573,030</b>	<b>173,134</b>	<b>561,012</b>	<b>596,446</b>	<b>321,896</b>	<b>6,703</b>	<b>2,232,221</b>
Liquidity gap	(293,672)	8,561	177,982	215,267	289,542		
Interest sensitivity gap	78,619	(33,975)	124,880	113,465	289,807		
Cumulative interest sensitivity gap	78,619	44,644	169,524	282,989	572,796		
Cumulative interest sensitivity gap as a percentage of total assets	(3.0%)	(1.7%)	(6.4%)	(10.7%)	21.8%		
Contingent liabilities and credit commitments	1,672	5,829	51,791	29,357	4,692	—	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>							
Debt securities and derivatives in the financial assets at fair value through profit or loss	6,076	17,618	32,108	19,574	35,748	—	111,124
Loans and advances to banks and other financial institutions	89,440	531	52,080	5,907	15	—	147,973
Loans to customers	19,363	53,437	534,511	886,195	442,751	—	1,936,257
Debt securities included in investments available-for-sale	3	100	5,453	4,557	853	—	10,966
Investments held to maturity	—	194	11	558	150	—	913
Total interest bearing assets	114,882	71,880	624,163	916,791	479,517	—	2,207,233
Cash and balances with national (central) banks	89,584	—	—	—	949	—	90,533
Precious metals	1,209	—	—	—	—	—	1,209
Equity securities in the financial assets at fair value through profit or loss	—	—	—	—	—	2,638	2,638
Equity securities in the investments available-for-sale	—	—	—	—	—	5,252	5,252
Accrued interest income on interest-bearing assets	47,126	56,372	88,003	60,452	61	—	225,861
Other financial assets	5,958	516	3,145	435	20	—	10,074
<b>Total financial assets</b>	<b>258,759</b>	<b>102,615</b>	<b>715,311</b>	<b>977,678</b>	<b>480,547</b>	<b>7,890</b>	<b>2,542,800</b>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial liabilities:</b>							
Loans and advances from banks and other financial institutions	24,656	4,752	42,296	133,463	2,896	—	208,063
Customer accounts	86,524	54,037	458,544	324,501	50,973	—	974,579
Debt securities issued	314	684	2,246	248,862	197,304	—	449,410
Other borrowed funds	—	23	674	4,946	25,124	—	30,767
Subordinated debt	—	—	—	14,836	112,524	6,747	134,107
Total interest bearing liabilities	111,494	59,496	503,760	726,608	388,821	6,747	1,796,926
Financial liabilities at fair value through profit or loss	174	137	594	26,361	8,725	—	35,991
Customer accounts	282,942	—	—	—	—	—	282,942
Dividends payable	—	—	15	—	—	—	15
Accrued interest expense on interest-bearing liabilities	6,078	6,278	15,153	560	8,888	—	36,957
Other financial liabilities	769	3,470	100	77	—	—	4,416
<b>Total financial liabilities</b>	<b>401,457</b>	<b>69,381</b>	<b>519,622</b>	<b>753,606</b>	<b>406,434</b>	<b>6,747</b>	<b>2,157,247</b>
Liquidity gap	(142,698)	33,234	195,689	224,072	74,113		
Interest sensitivity gap	3,388	12,384	120,403	190,183	90,696		
Cumulative interest sensitivity gap	3,388	15,772	136,175	326,358	417,054		
Cumulative interest sensitivity gap as a percentage of total assets	0.1%	0.6%	5.4%	12.8%	16.4%		
Contingent liabilities and credit commitments	11,508	12,213	52,530	54,095	86	55	



Based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over. The Group is aware of the importance of maintaining the stability of these deposits. In order to achieve this it is essential that the Group ensures depositor confidence in the Group's liquidity, by continuing to position itself as the depositor of choice in local markets and a leading financial institution in both the Republic of Kazakhstan and abroad.

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial liabilities:</b>							
Loans and advances from banks and other financial institutions	35,019	576	17,202	39,182	—	—	91,979
Customer accounts	79,605	144,029	411,958	238,866	105,117	—	979,575
Debt securities issued	234	26,124	10,351	160,381	118,048	—	315,138
Other borrowed funds	—	—	1,512	20,711	3,765	—	25,988
Subordinated debt	—	—	—	71,647	57,510	6,744	135,901
Total interest bearing financial liabilities	114,858	170,729	441,023	530,787	284,440	6,744	1,548,581
Financial liabilities at fair value through profit or loss	730	22,673	866	5,511	7,991	—	37,771
Customer accounts	471,264	—	—	—	—	—	471,264
Accrued interest expense on interest-bearing liabilities	11,372	29,301	70,296	148,675	52,337	—	311,981
Other financial liabilities	4,356	56	83	—	—	—	4,495
Contingent liabilities and other credit commitments	7,511	2,718	23,889	27,305	12,076	676	74,175
<b>Total financial liabilities</b>	<b>610,091</b>	<b>225,477</b>	<b>536,157</b>	<b>712,278</b>	<b>356,844</b>	<b>7,420</b>	<b>2,448,267</b>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year	5 years	Over 5 years	Maturity undefined	31 December 2010 r.
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial liabilities:</b>								
Loans and advances from banks and other financial institutions	2,725	12,614	59,047	72,261	—	—	—	146,647
Customer accounts	82,121	108,891	479,002	257,491	87,696	—	—	1,015,201
Debt securities issued	714	36,781	8,557	190,480	127,341	—	—	363,873
Other borrowed funds	—	95	666	5,042	17,823	—	—	23,626
Subordinated debt	—	—	—	41,834	86,328	6,703	—	134,865
Total interest bearing financial liabilities	85,560	158,381	547,272	567,108	319,188	6,703	—	1,684,212
Financial liabilities at fair value through profit or loss	2,051	2,474	448	28,366	2,708	—	—	36,047
Customer accounts	474,832	—	—	—	—	—	—	474,832
Accrued interest expense on interest-bearing liabilities	12,538	33,909	95,871	166,545	66,494	—	—	375,357
Other financial liabilities	5,036	344	269	303	—	—	—	5,952
Contingent liabilities and other credit commitments	1,672	5,829	51,791	29,357	4,692	—	—	93,341
<b>Total financial liabilities</b>	<b>581,689</b>	<b>200,937</b>	<b>695,651</b>	<b>791,679</b>	<b>393,082</b>	<b>6,703</b>	—	<b>2,669,741</b>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year - 5 years	Over 5 years	Maturity undefined	31 December 2009
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial liabilities:</b>							
Loans and advances from banks and other financial institutions	24,656	4,752	42,296	133,463	2,896	—	208,063
Customer accounts	86,524	54,037	458,544	324,501	50,973	—	974,579
Debt securities issued	314	684	2,246	248,862	197,304	—	449,410
Other borrowed funds	—	23	674	4,946	25,124	—	30,767
Subordinated debt	—	—	—	14,836	112,524	6,747	134,107
Total interest bearing financial liabilities	111,494	59,496	503,760	726,608	388,821	6,747	1,796,926
Financial liabilities at fair value through profit or loss	174	137	594	26,361	8,725	—	35,991
Customer accounts	282,942	—	—	—	—	—	282,942
Accrued interest expense on interest-bearing liabilities	9,755	18,726	84,826	141,193	72,859	—	327,359
Other financial liabilities	769	3,470	100	77	—	—	4,416
Contingent liabilities and other credit commitments	11,508	12,213	52,530	54,095	86	55	130,487
<b>Total financial liabilities</b>	<b>416,642</b>	<b>94,042</b>	<b>641,810</b>	<b>948,334</b>	<b>470,491</b>	<b>6,802</b>	<b>2,578,121</b>

## Market risk

The Group defines market risk as currency, equity, commodity and interest rate risks related to its trading and available-for-sale portfolios, as well as currency positions.

The Risk Management Department measures the risks and generates treasury position reports, which are presented to the ALMC of the Group. Risk Management Department calculates VaR to measure the market risk on equity, fixed income and currency positions and breaks it down to individual risk factors (currency risk, interest rate risk, equity risk etc.). This allows the Group to analyze exposure to each risk factor and make further decisions to mitigate a particular exposure. For internal reporting purposes, in addition to VAR analysis discussed above, the Bank also performs sensitivity analysis on its currency risk and interest rate exposures. This sensitivity analysis is presented in these financial statements.

## Currency risk

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

The ALMC controls currency risk by managing its open currency positions on the basis of which give the Group an opportunity to minimize losses from significant currency

fluctuations. Similar to liquidity risk management, the Treasury Department manages open currency positions of the Group using data generated by the Prudentials Monitoring and Credit Reporting Division on a daily basis.

The FMSC sets strict limits on open currency positions. This measure also limits the currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

As at 31 December 2011 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2011 (KZT million)
<b>Financial assets:</b>						
Cash and balances with national (central) banks	75,947	21,498	2,426	4,290	906	105,067
Precious metals	—	—	—	—	3,280	3,280
Financial assets at fair value through profit or loss	137,515	15,201	7,582	22,585	5,430	188,313
Loans and advances to banks and other financial institutions	2,855	38,800	5,749	2,214	4,350	53,968
Loans to customers	957,602	1,089,404	6,073	26,117	465	2,079,661
Investments available-for-sale	10,380	4,471	680,573	568	—	15,419
Investments held to maturity	2,629	583	—	814	—	4,026
Other financial assets	3,224	2,222	49	925	10	6,430
<b>Total financial assets and precious metals</b>	<b>1,190,152</b>	<b>1,172,179</b>	<b>21,879</b>	<b>57,513</b>	<b>14,441</b>	<b>2,456,164</b>
<b>Financial liabilities:</b>						
Loans and advances from banks and other financial institutions	30,658	55,942	5,476	39	100	92,215
Customer accounts	882,272	485,772	58,681	30,954	5,398	1,463,077
Financial liabilities at fair value through profit or loss	33,182	4,445	—	8	136	37,771
Debt securities issued	2,455	214,408	79,355	231	27,638	324,087
Other borrowed funds	20,359	6,000	—	—	—	26,359
Dividends payable	—	—	—	—	6	6
Other financial liabilities	4,289	—	1	122	83	4,495
Subordinated debt	33,734	104,306	—	—	—	138,040
<b>Total financial liabilities</b>	<b>1,006,949</b>	<b>870,873</b>	<b>143,513</b>	<b>31,354</b>	<b>33,361</b>	<b>2,086,050</b>
<b>Open balance sheet position</b>	<b>183,203</b>	<b>301,306</b>	<b>(121,634)</b>	<b>26,159</b>	<b>(18,920)</b>	

## Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2011:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2011 (KZT million)
<b>Financial assets:</b>						
Accounts payable on spot and derivative contracts	(12,472)	(249,779)	(1,685)	—	(17,892)	(281,828)
Accounts receivable on spot and derivative contracts	11,368	30,710	125,289	1,738	91,239	260,344
<b>Net spot and derivative financial Instruments position</b>	<b>(1,104)</b>	<b>(219,069)</b>	<b>123,604</b>	<b>1,738</b>	<b>73,347</b>	
<b>Open position</b>	<b>182,099</b>	<b>82,237</b>	<b>1,970</b>	<b>27,897</b>	<b>54,427</b>	

As at 31 December 2010 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2010 (KZT million)
<b>Financial assets:</b>						
Cash and balances with national (central) banks	44,631	7,509	3,355	4,710	1,011	61,216
Precious metals	—	—	—	—	1,345	1,345
Financial assets at fair value through profit or loss	162,170	32,910	9,747	12,994	5,410	223,231
Loans and advances to banks and other financial institutions	9,857	118,233	12,041	3,553	2,647	146,331
Loans to customers	891,462	1,246,378	10,579	26,029	312	2,174,760
Investments available-for-sale	12,671	4,151	—	—	—	16,822
Investments held to maturity	1,491	505	—	—	—	1,996
Other financial assets	4,377	1,217	92	1,267	9	6,962
<b>Total financial assets and precious metals</b>	<b>1,126,659</b>	<b>1,410,903</b>	<b>35,814</b>	<b>48,553</b>	<b>10,734</b>	<b>2,632,663</b>
<b>Financial liabilities:</b>						
Loans and advances from banks and other financial institutions	1,797	140,400	4,777	125	40	147,139
Customer accounts	784,476	635,996	60,435	22,762	3,131	1,506,800
Financial liabilities at fair value through profit or loss	27,561	8,481	—	5	—	36,047
Debt securities issued	2,473	220,977	118,542	545	32,662	375,199
Other borrowed funds	16,319	7,624	—	—	—	23,943
Dividends payable	—	—	—	—	4	4
Other financial liabilities	5,783	—	5	132	32	5,952
Subordinated debt	33,205	103,932	—	—	—	137,137
<b>Total financial liabilities</b>	<b>871,614</b>	<b>1,117,410</b>	<b>183,759</b>	<b>23,569</b>	<b>35,869</b>	<b>2,232,221</b>
<b>Open balance sheet position</b>	<b>255,045</b>	<b>293,493</b>	<b>(147,945)</b>	<b>24,984</b>	<b>(25,135)</b>	



## Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2010:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2010 (KZT million)
<b>Financial assets:</b>						
Accounts payable on spot and derivative contracts	(23,889)	(288,827)	(26,943)	(3,851)	(4,097)	(347,607)
Accounts receivable on spot and derivative contracts	25,508	50,651	177,645	1,423	79,911	335,138
<b>Net spot and derivative financial Instruments position</b>	<b>1,619</b>	<b>(238,176)</b>	<b>150,702</b>	<b>(2,428)</b>	<b>73,347</b>	
<b>Open position</b>	<b>256,664</b>	<b>55,317</b>	<b>2,757</b>	<b>22,556</b>	<b>54,427</b>	

As at 31 December 2009 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	USD	EUR	RUR	Other CCY	31 December 2009
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>						
Cash and balances with national (central) banks	61,450	7,753	16,345	2,913	2,072	90,533
Precious metals	—	—	—	—	1,209	1,209
Financial assets at fair value through profit or loss	91,413	359	10,647	5,196	6,588	114,203
Loans and advances to banks and other financial institutions	13,253	120,762	6,065	3,943	4,352	148,375
Loans to customers	773,155	1,338,637	10,172	37,770	1,033	2,160,767
Investments available-for-sale	12,262	4,434	—	—	—	16,696
Investments held to maturity	938	—	—	—	5	943
Other financial assets	3,138	876	52	5,585	423	10,074
<b>Total financial assets and precious metals</b>	<b>955,609</b>	<b>1,472,821</b>	<b>43,281</b>	<b>55,407</b>	<b>15,682</b>	<b>2,542,800</b>
<b>Financial liabilities:</b>						
Loans and advances from banks and other financial institutions	4,959	178,337	9,939	15,846	41	209,122
Customer accounts	632,542	549,936	75,772	14,414	3,800	1,276,464
Financial liabilities at fair value through profit or loss	30,111	5,820	—	60	—	35,991
Debt securities issued	—	269,783	148,576	254	45,043	463,656
Other borrowed funds	19,097	12,075	—	—	—	31,172
Dividends payable	—	—	—	—	15	15
Other financial liabilities	2,363	333	646	634	440	4,416
Subordinated debt	31,736	104,675	—	—	—	136,411
<b>Total financial liabilities</b>	<b>720,808</b>	<b>1,120,959</b>	<b>234,933</b>	<b>31,208</b>	<b>49,339</b>	<b>2,157,247</b>
<b>Open balance sheet position</b>	<b>234,801</b>	<b>351,862</b>	<b>(191,652)</b>	<b>24,199</b>	<b>(33,657)</b>	

## Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2009:

	KZT	USD	EUR	RUR	Other CCY	31 December 2009
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
<b>Financial assets:</b>						
Accounts payable on spot and derivative contracts	(892)	(304,125)	—	(4,599)	—	(309,616)
Accounts receivable on spot and derivative contracts	28,017	5,463	192,555	5,053	83,860	314,948
<b>Net spot and derivative financial instruments position</b>	<b>27,125</b>	<b>(298,662)</b>	<b>192,555</b>	<b>454</b>	<b>83,860</b>	
<b>Open position</b>	<b>261,926</b>	<b>53,200</b>	<b>903</b>	<b>24,653</b>	<b>50,203</b>	

## Currency risk sensitivity analysis

The Group estimates the possible effect of a 10% fluctuation in foreign currency rates on the consolidated income statement and consolidated equity based on the sensitivity analysis of the internally prepared open currency position report, which includes derivative financial instruments.

The analysis is based on the calculation of the impact of possible fluctuations in US dollar, Euro and Russian Ruble currency rates on the consolidated income statements and consolidated equity. This is due to the fact that as at 31 December 2011 these were the main currencies in which the Group had open positions. A 10% fluctuation is determined as a “reasonably possible change in the risk variable” by the management of the Group. All other parameters were assumed to be constant. Negative and positive amounts in the table reflect the potential probable effect on the consolidated income statement of such fluctuations.

### 31 December 2011 (KZT million)

	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	−10%	+10%	−10%	+10%	−10%
Impact on profit or loss before tax	6,738	(6,738)	3,643	(3,643)	3,235	(3,235)
Impact on equity	—	—	—	—	—	—

### 31 December 2011 (KZT million)

	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	−10%	+10%	−10%	+10%	−10%
Impact on profit or loss before tax	4,761	(4,571)	3,428	(3,428)	2,750	(2,750)
Impact on equity	—	—	—	—	—	—

### 31 December 2011 (KZT million)

	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	−10%	+10%	−10%	+10%	−10%
Impact on profit or loss	149	(200)	3,104	(3,104)	2,925	(2,925)
Impact on equity	—	—	—	—	—	—

## Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key risk factor while all other things held constant. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger impacts should not be extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary depending on any actual market movements, since the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In instances where there are significant or unexpected changes in market conditions, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the risk factors may be different from those shown above.

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

## Operational Risk

The Group is exposed to operational risk – the risk of incurred loss resulting from deficiencies or mistakes, which were made by employees, functioning of informational systems and technologies, and also as a result of external events, in the course of execution of internal processes. Nowadays, for effective working the Group uses the following tools of identification and measure of operational risks that are in compliance with the world's best practice:

- Corporate Loss Database on operational risk (CLD);
- Risk Self-Assessment (RSA);
- Operational Risk Assessment Process (ORAP);
- Key Operational Risk Control (KORC);
- Key Risk Indicators (KRI).

Tools on operational risk management are make it possible for the Group to identify types of activities, which are more exposed to operational risk, to value and perform monitoring of losses of the Group, which were caused by operational risks, and also to establish corresponding controls and to develop preventive measures for minimization of such risk.



Report completed