Citibank Kazakhstan JSC

Financial Statements

for the year ended 31 December 2011

Contents

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Independent Auditors' Report

To the Management Board and Board of Directors of Citibank Kazakhstan JSC

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Irmatov R.I.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No МФ-0000053 of 6 January 2012

KPMG Audit LLC

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

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

26 March 2012

	Note	2011 '000 KZT	2010 '000 KZT
Interest income	4	3,978,471	4,029,134
Interest expense	4	(471,084)	(1,025,242)
Net interest income		**3,507,387**	**3,003,892**
Fee and commission income	5	1,980,880	1,529,312
Fee and commission expense	6	(732,357)	(523,290)
Net fee and commission income		**1,248,523**	**1,006,022**
Net foreign exchange gain/(loss)		1,313,729	(737,733)
Net gain on derivative financial instruments		2,285,145	2,953,707
Net realised loss on available-for-sale financial assets		(61,514)	(16,433)
Other operating expense, net		(2,891)	(1,077)
Operating income		**8,290,379**	**6,208,378**
General administrative expenses	7	(2,604,196)	(2,174,311)
Profit before taxes		**5,686,183**	**4,034,067**
Income tax expense	8	(1,003,922)	(720,642)
Profit for the year		**4,682,261**	**3,313,425**
Other comprehensive income			
Revaluation reserve for assets available for sale financial assets			
- Net change in fair value of available-for-sale financial assets		(99,587)	79,779
- Net change in fair value of available-for-sale financial assets transferred to profit or loss		61,514	62,920
Other comprehensive (loss)/income		**(38,073)**	**142,699**
Total comprehensive income		**4,644,188**	**3,456,124**

The financial statements as set out on pages 5 to 43 were approved by management on 26 March 2012 and were signed on its behalf.

Asif Zaidi
Chief Executive Officer

Malik Shkubarov
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	2011 '000 KZT	2010 '000 KZT
ASSETS			
Cash	9	228,418	333,908
Due from the National Bank of the Republic of Kazakhstan	10	186,896,902	85,456,066
Placements with banks	11	68,856,105	67,670,310
Financial instruments at fair value through profit or loss	12	1,571,253	302,102
Loans to customers	13	67,438,875	38,776,999
Available-for-sale financial assets	14	19,970,898	28,544,787
Property, equipment and intangible assets	15	473,413	529,603
Current tax assets		194,604	-
Other assets		208,578	104,991
Total assets		**345,839,046**	**221,718,766**
LIABILITIES			
Financial instruments at fair value through profit or loss	12	1,083,796	188,837
Deposits and balances from banks and other financial institutions	16	71,652,047	17,213,715
Current accounts and deposits from customers	17	248,151,992	181,056,756
Deferred tax liability	8	425,258	107,199
Current tax liability		-	47,370
Other liabilities		404,681	717,805
Total liabilities		**321,717,774**	**199,331,682**
EQUITY			
Share capital	18	2,012,500	2,012,500
Additional paid-in capital		12,800	12,800
Reserve capital		3,945,052	1,584,598
Revaluation reserve for available-for-sale financial assets		47,735	85,808
Retained earnings		18,103,185	18,691,378
Total equity		**24,121,272**	**22,387,084**
Total liabilities and equity		**345,839,046**	**221,718,766**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	2011 '000 KZT	2010 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	3,403,290	3,639,435
Interest payments	(462,024)	(1,127,757)
Fee and commission receipts	2,002,596	1,529,312
Fee and commission payments	(729,774)	(523,290)
Net receipts from foreign exchange and derivatives	2,293,537	2,955,029
Other payments	(2,891)	(37,984)
General administrative payments	(2,591,028)	(2,076,141)
(Increase)/decrease in operating assets		
Due from the National Bank of the Republic of Kazakhstan	(5,412,246)	(466,941)
Placements with banks	(19,035,256)	(770,459)
Loans to customers	(28,270,574)	(390,848)
Other assets	(116,862)	30,487
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	53,880,121	2,675,828
Current accounts and deposits from customers	66,296,809	33,475,634
Other liabilities	(261,689)	449,524
Net cash provided from operating activities before income tax paid	**70,994,009**	**39,361,829**
Taxes paid	(927,837)	(1,032,888)
Cash flows from operating activities	**70,066,172**	**38,328,941**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(54,639,639)	(67,336,109)
Sales and redemption of available-for-sale financial assets	63,552,703	68,470,097
Purchases of property, equipment and intangible assets	(12,443)	(38,556)
Cash flows from investing activities	**8,900,621**	**1,095,432**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends to equity holders	(2,910,000)	-
Cash flows used in financing activities	**(2,910,000)**	-
Net increase in cash and cash equivalents	**76,056,793**	**39,424,373**
Effect of changes in exchange rates on cash and cash equivalents	1,408,014	224,642
Cash and cash equivalents at 1 January	149,072,503	109,423,488
Cash and cash equivalents at 31 December (Note 9)	**226,537,310**	**149,072,503**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

'000 KZT	Share capital	Additional paid-in capital	Reserve Capital	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance at 1 January 2010	**2,012,500**	**12,800**	**910,666**	**(56,891)**	**16,051,885**	**18,930,960**
Total comprehensive income						
Profit for the year	-	-	-	-	3,313,425	3,313,425
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	79,779	-	79,779
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	62,920	-	62,920
Total other comprehensive income	-	-	-	142,699	-	142,699
Total comprehensive income	**-**	**-**	**-**	**142,699**	**3,313,425**	**3,456,124**
Additional reserve capital allocation	-	-	673,932	-	(673,932)	-
Balance at 31 December 2010	**2,012,500**	**12,800**	**1,584,598**	**85,808**	**18,691,378**	**22,387,084**
Total comprehensive income						
Profit for the year	-	-	-	-	4,682,261	4,682,261
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	(99,587)	-	(99,587)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	61,514	-	61,514
Total other comprehensive income	-	-	-	(38,073)	-	(38,073)
Total comprehensive income	**-**	**-**	**-**	**(38,073)**	**4,682,261**	**4,644,188**
Dividends to equity holders (Note 18(b))	-	-	-	-	(2,910,000)	(2,910,000)
Additional reserve capital allocation (Note 18(c))	-	-	2,360,454	-	(2,360,454)	-
Balance at 31 December 2011	**2,012,500**	**12,800**	**3,945,052**	**47,735**	**18,103,185**	**24,121,272**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Principal activities

Citibank Kazakhstan JSC ("the Bank") was established as a joint stock company in the Republic of Kazakhstan. The Bank was granted its general banking license in 1998 and this license was updated in 2008. The Bank is a member of the state deposit insurance system in the Republic of Kazakhstan.

The principal activities of the Bank are deposit taking, lending and operations with securities and foreign exchange. The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Committee of the National bank of the Republic of Kazakhstan ("FMSC") and the National bank of the Republic of Kazakhstan ("NBRK").

The address of the Bank's registered office is: Park Palace, Building A, 2nd floor, 41 Kazibek Bi Str., Almaty, 480100, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located in the Republic of Kazakhstan.

(b) Shareholder

The Bank is wholly-owned by Citibank N.A. ("the Shareholder Bank"). As a result the Bank is economically dependent upon the Shareholder Bank. In addition, the activities of the Bank are closely linked with the requirements of the Shareholder Bank and determination of the pricing of the Bank's services to the Shareholder Bank is undertaken in conjunction with other Shareholder Bank companies.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank. The KZT is also the Bank's presentation currency for the purposes of these financial statements.

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

2 Basis of preparation, continued

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in Note 13 "Loans to customers".

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the KZT - the functional currency of the Bank (the functional currency) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The exchange rates between the USD and the KZT and the EUR and the KZT as at 31 December 2011 and 2010 were as follows:

Currency	**2011**	**2010**
1 United States Dollar	148.40	147.50
1 Euro	191.72	196.88

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with NBRK is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies, continued

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;
- the Bank designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or 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 liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iv) Fair value measurement principles, continued

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vi) Derecognition, continued

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(viii) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3 Significant accounting policies, continued

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Computers	3 years
Fixtures and fittings	3 years
Vehicles	5 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life of 3 years.

(f) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees, if appropriate, and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and can not be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3 Significant accounting policies, continued

(f) Impairment, continued

(iii) Available-for-sale financial assets, continued

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the profit or loss when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;

3 Significant accounting policies, continued

(h) Credit related commitments, continued

- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;

- commitments to provide a loan at a below-market interest rate.

(i) Share capital

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences arising on initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided. Dividend income is recognised in profit or loss on the date that the dividend is declared.

3 Significant accounting policies, continued

(l) Fiduciary assets

The Bank provides custody services that result in the holding of assets on behalf of third parties. These assets and the income arising there from are excluded from these financial statements as they are not assets of the Bank. Commissions received from such business are shown within fee and commission income in the profit or loss.

(m) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.* The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income and expense

	2011 '000 KZT	2010 '000 KZT
Interest income		
Loans to customers	2,443,737	2,862,419
Placements with banks	1,007,457	641,396
Available-for-sale financial assets	507,780	514,904
Amounts receivable under reverse repurchase agreements	19,497	10,415
	3,978,471	**4,029,134**
Interest expense		
Current accounts and deposits from customers	453,348	953,495
Deposits and balances from banks and other financial institutions	12,028	71,519
Amounts payable under repurchase agreements	5,708	228
	471,084	**1,025,242**

5 Fee and commission income

	2011 '000 KZT	2010 '000 KZT
Transfers	634,396	512,719
Plastic cards	548,991	449,030
Custodian fees	310,757	193,759
Letters of credit provided	290,753	234,512
Guarantees issued	80,837	74,661
Fees received from a related party for general banking services	34,170	24,522
Cash transactions	17,760	11,921
Accounts maintenance	13,073	16,381
Other	50,143	11,807
	1,980,880	**1,529,312**

6 Fee and commission expense

	2011 '000 KZT	2010 '000 KZT
Guarantee and letter of credit issuance fees	351,292	243,469
Plastic cards	276,618	217,674
Custodian fees	61,362	25,158
Other	43,085	36,989
	732,357	**523,290**

7 General administrative expenses

	2011 '000 KZT	2010 '000 KZT
Administrative support provided by related banks	972,003	248,593
Employee compensation	875,361	1,286,540
Communications and information services	139,066	132,828
Administration	136,469	98,691
Taxes other than on income	55,957	45,293
Cash collection	72,417	49,686
Depreciation and amortisation	68,633	62,586
Travel expenses	63,941	53,701
Rent	60,198	55,345
Representative expenses	53,558	23,229
Professional services	16,750	43,009
Security	14,161	11,237
Office supplies	12,118	14,438
Repairs and maintenance	6,365	24,744
Advertising and marketing	6,076	1,109
Other	51,123	23,282
	2,604,196	**2,174,311**

During the year ended 31 December 2011 the Bank reversed bonuses of KZT 395,266 thousand accrued in 2010 following the decision of the Shareholder not to pay bonuses for 2010.

Expenses on administrative support provided by related banks increased as a result of increase in rates charged for various services such as management support, risk management and business development.

8 Income tax expense

	2011 '000 KZT	2010 '000 KZT
Current tax expense		
Current year	704,730	849,006
Overprovided in prior years	(18,867)	-
	685,863	**849,006**
Deferred tax expense		
Origination and reversal of temporary differences	318,059	(128,364)
Total income tax expense in profit or loss	**1,003,922**	**720,642**

Reconciliation of effective tax rate:

	2011 '000 KZT	%	2010 '000 KZT	%
Profit before tax	**5,686,183**	**100.00**	**4,034,067**	**100.00**
Income tax at the applicable tax rate	1,137,237	20.00	806,813	20.00
Current tax expense overprovided in prior years	(18,867)	(0.33)	-	-
Non-taxable income	(130,581)	(2.30)	(115,495)	(2.86)
Non-deductible expense	16,133	0.28	29,324	0.73
	1,003,922	**17.65**	**720,642**	**17.87**

8 Income tax expense, continued

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2011 and 2010. These deferred tax liabilities have been recognised in these financial statements.

These deductible temporary differences do not expire under current tax legislation.

The Bank's applicable tax rate in 2011 is the income tax rate of 20% for Kazakhstan companies (2010: 20%).

Movements in temporary differences during the years ended 31 December 2011 and 2010 are presented as follows:

'000 KZT	Balance 1 January 2011	Recognised in profit or loss	Balance 31 December 2011
Financial instruments at fair value through profit or loss	22,653	74,838	97,491
Loans to customers	148,084	196,118	344,202
Property and equipment	18,397	(138)	18,259
Other liabilities	(81,935)	47,241	(34,694)
	107,199	**318,059**	**425,258**

'000 KZT	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010
Financial instruments at fair value through profit or loss	170,697	(148,044)	22,653
Loans to customers	82,648	65,436	148,084
Property and equipment	9,662	8,735	18,397
Other liabilities	(27,444)	(54,491)	(81,935)
	235,563	**(128,364)**	**107,199**

9 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

	2011 '000 KZT	2010 '000 KZT
Nostro accounts with the NBRK (Note 10)	178,362,825	23,313,166
Placements with banks - nostro accounts (Note 11)	47,946,067	66,404,360
Cash on hand	228,418	333,908
Term deposits with the NBRK (Note 10)	-	59,021,069
Total cash and cash equivalents	**226,537,310**	**149,072,503**

None of the cash and cash equivalents are impaired or past due.

10 Due from the National Bank of the Republic of Kazakhstan

	2011 '000 KZT	2010 '000 KZT
Nostro accounts	178,362,825	23,313,166
Minimum reserve deposit	8,534,077	3,121,831
Term deposit	-	59,021,069
	186,896,902	**85,456,066**

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the NBRK and whose withdrawability is restricted. The nostro balances represent balances with the NBRK related to settlement activity and were available for withdrawal at year end. The Bank placed term deposits in the NBRK at annual interest rates varying from 0.5% to 1%.

11 Placements with banks

	2011 '000 KZT	2010 '000 KZT
Nostro accounts		
- rated A- to A+	47,242,884	66,027,353
- rated BBB	455,433	377,007
- rated B+	247,750	-
Total nostro accounts	**47,946,067**	**66,404,360**
Loans and deposits		
- rated BB	14,935,840	-
- rated B+	5,974,198	1,265,950
Total loans and deposits	**20,910,038**	**1,265,950**
	68,856,105	**67,670,310**

No loans, deposits or nostro accounts were impaired as at 31 December 2011 (2010: none).

Concentration of placements with banks

As at 31 December 2011 the Bank has 4 banks (2010: 2 banks) whose balances exceed 10 % of equity. The gross value of these balances as at 31 December 2011 is KZT 65,919,608 thousand (2010: KZT 65,983,194 thousand).

12 Financial instruments at fair value through profit or loss

	2011 '000 KZT	2010 '000 KZT
Assets		
Derivative financial instruments		
Forward exchange contracts	1,571,253	302,102
Liabilities		
Derivative financial instruments		
Forward exchange contracts	1,083,796	188,837

The table below summarises, by major currency, the contractual amounts of the Bank's forward exchange contracts outstanding at 31 December 2011 and 2010 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

12 Financial instruments at fair value through profit or loss, continued

	Notional amount		Weighted average contracted exchange rates	
	2011 '000 KZT	2010 '000 KZT	2011	2010
Buy USD sell KZT				
Less than three months	23,664,366	36,978,061	147.94	147.45
Between three months and one year	12,000,000	838,413	144.13	139.74
More than one year	6,000,000	-	146.13	-
Sell USD buy KZT				
Less than three months	89,643,294	31,011,226	148.32	147.58
Between three months and one year	2,890,893	3,166,018	144.02	148.19
More than one year	2,940,000	-	147.00	-
Sell EUR buy KZT				
Less than three months	4,411,862	964,272	199.06	202.97
Between three months and one year	535,806	1,262,668	213.79	207.73
More than one year	-	4,803	-	196.75
Buy EUR sell KZT				
Less than three months	1,330,006	-	195.48	-
Sell USD buy EUR				
Less than three months	4,411,466	883,565	1.36	1.35
Between three months and one year	1,506,207	1,141,193	1.39	1.45
More than one year	-	4,617	-	1.30
Buy USD sell EUR				
Less than three months	1,359,878	-	1.35	-
Between three months and one year	973,412	-	1.37	-
Buy KZT sell other currencies				
Less than three months	809,396	371,242	-	-
Between three months and one year	2,361,225	1,226,444	-	-
Buy other currencies sell USD				
Less than three months	791,727	390,991	-	-
Between three months and one year	2,281,008	1,205,536	-	-
Buy USD sell other currencies				
Less than three months	-	775	-	-

12 Financial instruments at fair value through profit or loss, continued

The following table provides information on the credit quality of foreign currency contracts, which are assets:

	2011 '000 KZT	2010 '000 KZT
Medium and small Kazakhstan companies	1,362,047	78,966
Large OECD banks	186,473	75,874
Kazakhstan banks	17,613	107,465
Other foreign companies	5,120	39,797
	1,571,253	**302,102**

13 Loans to customers

	2011 '000 KZT	2010 '000 KZT
Loans to large corporate	66,782,652	38,212,956
Consumer loans	160,636	58,428
Mortgage loans	495,587	505,615
Loans to customers	**67,438,875**	**38,776,999**

(a) Credit quality of loan portfolio

The Bank has no overdue loans as at 31 December 2011 (2010: KZT 263,069 thousand - these loans were overdue for 92 days). None of the loans are impaired at 31 December 2011 and 2010. No collective provision was recognised in respect of loans to customers as all possible risks have been considered in individual impairment test. Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to customers as at 31 December 2011 would be KZT 674,389 thousand higher (31 December 2010: KZT 387,770 thousand).

Analysis of collateral

The following table provides the analysis of loan portfolio, by types of collateral as at 31 December 2011 and 2010:

	31 December 2011	% of loan portfolio	31 December 2010	% of loan portfolio
Guarantees from related parties	40,664,535	60.3	22,986,344	59.3
Third party guarantees	19,910,352	29.5	11,495,871	29.6
Mortgage	495,587	0.7	424,294	1.1
No collateral	6,368,401	9.5	3,870,490	10.0
Total	**67,438,875**	**100.0**	**38,776,999**	**100.0**

Third party guarantees are mainly provided by large Kazakhstan state-owned corporations or by headquarters of international corporations operating in Kazakhstan. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

During the year ended 31 December 2011, the Bank did not obtain any assets by taking control of collateral accepted as security for commercial loans (31 December 2010: nil).

13 Loans to customers, continued

(b) Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	2011 '000 KZT	2010 '000 KZT
Energy and natural resources	21,383,684	3,480,815
Communications	11,446,966	5,931,869
Trade	9,237,938	5,271,006
Transportation	5,356,340	2,408,165
Real estate	4,693,502	3,100,426
Agriculture, forestry and timber	3,710,982	4,489,817
Food	3,166,356	3,213,543
Manufacturing	2,268,756	2,992,499
Chemical	1,958,576	1,269,124
Finance	1,238,545	1,642,487
Mining/metallurgy	763,273	2,640,733
Loans to individuals	656,223	564,043
Research	320,513	117,230
Other	1,237,221	1,655,242
	67,438,875	**38,776,999**

(c) Significant credit exposures

As at 31 December 2011 the Bank had 7 borrowers (2010: 6), whose loan balances exceeded 10% of equity. The gross value of these loans as at 31 December 2011 was KZT 44,854,438 thousand (2010: KZT 19,208,932 thousand).

14 Available-for-sale financial assets

	2011 '000 KZT	2010 '000 KZT
Debt and other fixed-income instruments		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan (Country sovereign rating: BBB)	18,961,818	28,544,787
Notes issued by the National Bank of the Republic of Kazakhstan (Country sovereign rating: BBB)	1,009,080	-
	19,970,898	**28,544,787**

15 Property, equipment and intangible assets

'000 KZT	Land and buildings	Computers	Fixtures and fittings	Vehicles	Computer software	Total
Cost						
At 1 January 2011	587,916	82,683	259,093	69,669	109,041	1,108,402
Additions	254	6,645	5,544	-	-	12,443
Disposals	-	(17,790)	(7,560)	-	(2,014)	(27,364)
At 31 December 2011	**588,170**	**71,538**	**257,077**	**69,669**	**107,027**	**1,093,481**
Depreciation and amortisation						
At 1 January 2011	(163,043)	(64,044)	(197,199)	(56,878)	(97,635)	(578,799)
Depreciation and amortisation charge	(17,289)	(10,900)	(29,529)	(4,865)	(6,050)	(68,633)
Disposals	-	17,790	7,560	-	2,014	27,364
At 31 December 2011	**(180,332)**	**(57,154)**	**(219,168)**	**(61,743)**	**(101,671)**	**(620,068)**
Carrying value						
At 31 December 2011	**407,838**	**14,384**	**37,909**	**7,926**	**5,356**	**473,413**

'000 KZT	Land and buildings	Computers	Fixtures and fittings	Vehicles	Computer software	Total
Cost						
At 1 January 2010	587,284	75,285	246,127	76,003	115,854	1,100,553
Additions	632	14,951	17,375	-	5,598	38,556
Disposals	-	(7,553)	(4,409)	(6,334)	(12,411)	(30,707)
At 31 December 2010	**587,916**	**82,683**	**259,093**	**69,669**	**109,041**	**1,108,402**
Depreciation and amortisation						
At 1 January 2010	(159,951)	(59,698)	(167,664)	(54,419)	(105,188)	(546,920)
Depreciation and amortisation charge	(3,092)	(11,899)	(33,944)	(8,793)	(4,858)	(62,586)
Disposals	-	7,553	4,409	6,334	12,411	30,707
At 31 December 2010	**(163,043)**	**(64,044)**	**(197,199)**	**(56,878)**	**(97,635)**	**(578,799)**
Carrying value						
At 31 December 2010	**424,873**	**18,639**	**61,894**	**12,791**	**11,406**	**529,603**

16 Deposits and balances from banks and other financial institutions

	2011 '000 KZT	2010 '000 KZT
Vostro accounts	71,508,875	17,072,657
Term deposits	143,172	141,058
	71,652,047	**17,213,715**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2011 the Bank has 2 financial institutions (2010: 2 financial institutions), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is KZT 69,422,919 thousand (2010: KZT 15,150,639 thousand).

17 Current accounts and deposits from customers

	2011 '000 KZT	2010 '000 KZT
Current accounts and demand deposits		
- Retail	4,055,207	187,737
- Corporate	198,427,153	154,886,367
Term deposits		
- Corporate	45,669,632	25,982,652
	248,151,992	**181,056,756**

Concentrations of current accounts and customer deposits

As at 31 December 2011, the Bank had 17 customers (2010: 18 customers) whose balances exceeded 10% of equity. These balances as at 31 December 2011 are KZT 166,785,862 thousand (2010: KZT 123,812,712 thousand).

18 Equity

(a) Issued capital

The authorised, issued share capital comprises 100 ordinary shares (2010: 100). All shares have a par value of KZT 20,125 thousand.

(b) Dividends

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

In accordance with Kazakhstan legislation the distributable reserves are limited to the balance of retained earnings as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year. As at 31 December 2011 the Bank had retained earnings of KZT 18,103,185 thousand (2010: retained earnings of KZT 18,691,378 thousand).

As at 31 December 2011 dividends in the amount of KZT 2,910,000 thousand (KZT 29,100 thousand per share) were declared and paid (31 December 2010: nil).

18 Equity, continued

(c) Reserves for general banking risks

In accordance with amendments to the Resolution #196 On Establishment of Minimum Requirement of Reserve Capital of Second-Tier Banks issued by the FMSC on 31 January 2011, banks should establish reserve capital by transferring certain amounts from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the retained profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities (as defined in the Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FMSC on 25 December 2006) during the preceding year. Such percentage increase will be not less than 10% and not more than 100%. The statutory reserve capital is non-distributable.

The amount of transfer calculated for the year ended 31 December 2011 is KZT 1,487,428 thousand (2010: KZT 2,360,454 thousand). As at 31 December 2011 the amount is presented within retained earnings pending shareholder's approval.

In 2012 the FMSC issued a requirement for banks to disclose separately a portion of their retained earnings representing the difference between impairment allowances assessed under IFRS and statutory rules. As at 31 December 2011 the amount of the difference is KZT 1,721,009 thousand (unaudited) and it represents an excess of statutory impairment allowance over IFRS impairment allowance and relates primarily to loans to customers.

19 Risk management

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

(a) Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operate within the established risk parameters.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (the "ALCO").

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

19 Risk management, continued

(b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and equity price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the CEO. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

19 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	Total
31 December 2011					
ASSETS					
Placements with banks	47,107,441	2,242,328	11,130,000	7,420,000	67,899,769
Loans to customers	47,205,833	6,013,728	8,315,534	5,903,780	67,438,875
Available-for-sale financial assets	11,995,892	6,980,699	673,254	321,053	19,970,898
	106,309,166	**15,236,755**	**20,118,788**	**13,644,833**	**155,309,542**
LIABILITIES					
Deposits and balances from banks and other financial institutions	143,172	-	-	-	143,172
Current accounts and deposits from customers	68,262,538	-	18,034,728	808,272	87,105,538
	68,405,710	**-**	**18,034,728**	**808,272**	**87,248,710**
	37,903,456	**15,236,755**	**2,084,060**	**12,836,561**	**68,060,832**

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	Total
31 December 2010					
ASSETS					
Due from the NBRK	59,021,069	-	-	-	59,021,069
Placements with banks	54,284,632	607,654	-	-	54,892,286
Loans to customers	38,293,383	483,616	-	-	38,776,999
Available-for-sale financial assets	2,635,288	24,903,630	-	1,005,869	28,544,787
	154,234,372	**25,994,900**	**-**	**1,005,869**	**181,235,141**
LIABILITIES					
Deposits and balances from banks and other financial institutions	141,058	-	-	-	141,058
Current accounts and deposits from customers	43,224,760	500,486	17,925,284	-	61,650,530
	43,365,818	**500,486**	**17,925,284**	**-**	**61,791,588**
	110,868,554	**25,494,414**	**(17,925,284)**	**1,005,869**	**119,443,553**

19 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010.

	2011 Average effective interest rate, %			2010 Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Due from the NBRK	-	-	-	0.91	-	-
Available-for-sale financial assets	1.60	-	-	1.25	-	-
Placements with banks	4.00	2.36	0.68	6.00	0.39	4.69
Loans to customers	5.75	3.40	3.35	7.11	5.08	2.81
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	-	0.50	-	-	0.50	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.10	0.02	-	0.10	0.02	-
- Term deposits	1.05	0.06	0.37	1.12	0.23	1.05

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of the Bank's net income for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 31 December 2010 is as follows:

	31 December 2011		31 December 2010	
	Net income	Equity	Net income	Equity
100 bp parallel increase	337,210	337,210	794,895	794,895
100 bp parallel decrease	(337,210)	(337,210)	(794,895)	(794,895)

19 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Fair value interest rate sensitivity analysis

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2011		31 December 2010	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	-	(47,842)	-	(102,617)
100 bp parallel decrease	-	47,972	-	95,196

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 26.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in USD and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2011		2010	
	Net income	**Equity**	**Net income**	**Equity**
5% appreciation of USD against KZT	(71,317)	(71,317)	22,517	22,517
5% depreciation of USD against KZT	71,317	71,317	(22,517)	(22,517)
5% appreciation of other currencies against KZT	(4,151)	(4,151)	7,925	7,925
5% depreciation of other currencies against KZT	4,151	4,151	(7,925)	(7,925)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors.

The Bank's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

19 Risk management, continued

(c) Credit risk, continued

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Bank's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Retail loan/credit applications are reviewed by the Bank's Credit Department.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 21.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 13 "Loans to customers".

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2011 '000 KZT	2010 '000 KZT
ASSETS		
Due from the NBRK	186,896,902	85,456,066
Placements with banks	68,856,105	67,670,310
Financial instruments at fair value through profit or loss	1,571,253	302,102
Loans to customers	67,438,875	38,776,999
Available-for-sale financial assets	19,970,898	28,544,787
Total maximum exposure	**344,734,033**	**220,750,264**

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

19 Risk management, continued

(d) Liquidity risk, continued

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Bank requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the FMSC. The Bank was in compliance with these ratios during the years ended 31 December 2011 and 2010.

The following tables show the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/ outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Bank's expected cash flows on these financial liabilities may vary significantly from this analysis.

19 Risk management, continued

(d) Liquidity risk, continued

The position of the Bank as at 31 December 2011 was as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	71,652,105	-	-	-	-	71,652,105	71,652,047
Current accounts and deposits from customers	228,405,760	1,032,578	366,822	18,153,393	846,073	248,804,626	248,151,992
Other liabilities	404,681	-	-	-	-	404,681	404,681
Derivatives							
- Inflow	(86,143,379)	(40,122,804)	(9,779,419)	(12,639,909)	(8,968,000)	(157,653,511)	(1,571,253)
- Outflow	86,311,975	40,110,020	9,896,263	12,652,288	8,940,000	157,910,546	1,083,796
Total	**300,631,142**	**1,019,794**	**483,666**	**18,165,772**	**818,073**	**321,118,447**	**319,721,263**
Credit related commitments	**32,789,944**	**-**	**-**	**-**	**-**	**32,789,944**	**-**

The position of the Bank as at 31 December 2010 was as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	17,213,715	-	-	-	-	17,213,715	17,213,715
Current accounts and deposits from customers	162,124,545	352,710	501,771	18,198,177	109,444	181,286,647	181,056,756
Current tax liability	47,370	-	-	-	-	47,370	47,370
Other liabilities	717,805	-	-	-	-	717,805	717,805
Derivatives							
- Inflow	(45,812,604)	(24,816,662)	(4,226,615)	(4,737,915)	(9,422)	(79,603,218)	(302,102)
- Outflow	45,782,447	24,817,686	4,119,848	4,720,423	9,420	79,449,824	188,837
Total	**180,073,278**	**353,734**	**395,004**	**18,180,685**	**109,442**	**199,112,143**	**198,922,381**
Credit related commitments	**24,664,404**	**-**	**-**	**-**	**-**	**24,664,404**	**-**

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, short-term state securities for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

20 Capital management

The FMSC sets and monitors capital requirements for the Bank.

The Bank defines as capital the following items defined by statutory regulation as capital for banks:

- Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, qualifying perpetual debt and deferred tax liability related to certain impairment losses accrued in prior years less intangible assets and current year losses;

- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's income, revaluation reserves, qualifying subordinated liabilities, collective impairment allowance in the amount not exceeding 1.25% of risk-weighted assets and deferred tax liability related to certain impairment losses accrued in the current year.

Tier 3 capital is required for the purposes of calculation of total capital and includes subordinated liabilities not included into tier 2 capital.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the FMSC banks have to maintain:

- a ratio of tier 1 capital less investments to total assets less investments (k1-1);
- a ratio of tier 1 capital less investments to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-2);
- a ratio of total capital to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k2).

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital. The investments are adjusted in the proportion of tier 1 capital in the total of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital).

As at 31 December 2011 and 2010 the minimum level of ratios as applicable to the Bank are: k1-1 - 5%, k1-2 – 5% and k2 - 10%. The Bank was in compliance with the statutory capital ratios as at 31 December 2011 and 2010.

20 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the FMSC, as at 31 December:

	2011 '000 KZT	2010 '000 KZT
Tier 1 capital		
Share capital	2,012,500	2,012,500
Additional paid-in capital	12,800	12,800
Retained statutory earnings of prior years	12,837,398	15,083,716
Reserves formed from statutory retained earnings of prior years	3,945,052	1,584,598
Deferred tax liability accrued in prior years	148,084	-
Intangible assets	(5,356)	(11,406)
Total tier 1 capital	**18,950,478**	**18,682,208**
Tier 2 capital		
Net statutory income for the year	3,441,556	3,055,481
Deferred tax liability accrued in the current year	196,118	-
Revaluation reserve for available-for-sale financial asset	47,735	85,808
Total tier 2 capital	**3,685,409**	**3,141,289**
Total capital	**22,635,887**	**21,823,497**
Total qualifying statutory assets	**274,937,119**	**209,903,543**
Risk-weighted statutory assets, contingent liabilities, operational and market risk		
Risk weighted statutory assets	120,801,659	74,417,148
Risk weighted statutory contingent liabilities	21,649,306	17,510,688
Risk weighted statutory derivative financial instruments	1,466,536	244,267
Operational risk	5,630,187	5,435,014
Market risk	1,489,069	95,561
Total statutory risk weighted assets, contingent liabilities, operational and market risk	**151,036,757**	**97,702,678**
k1-1 ratio	**6.9%**	**8.9%**
k1-2 ratio	**12.5%**	**19.1%**
k-2 ratio	**15.0%**	**22.3%**

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

21 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2011 '000 KZT	2010 '000 KZT
Contracted amount		
Undrawn overdraft facilities	13,860,864	7,153,716
Guarantees and letters of credit	18,929,080	17,510,688
	32,789,944	**24,664,404**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

22 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations.

22 Contingencies, continued

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

23 Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position.

24 Related party transactions

(a) Control relationships

The Bank is wholly-owned by the Shareholder Bank which is ultimately owned by Citigroup, a public company listed on several stock exchanges. Both entities produce publicly available financial statements.

Related parties include the Parent as well as other Citigroup entities, members of the Board of Directors and members of the Management Board.

(b) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 7):

	2011 '000 KZT	2010 '000 KZT
Members of the Management Board	255,875	246,721
Members of the Board of Directors	1,471	-

The above amounts include non-cash benefits in respect of the Management Board.

The Board of Directors and the Management Board had no outstanding balances as of 31 December 2011 and 2010.

24 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2011 and 31 December 2010 and related income statement amounts of transactions for the year ended 31 December 2011 and 2010 with other related parties were as follows.

	Parent company				Other Citigroup entities				Total	
	'000 KZT		Average Interest Rate		'000 KZT		Average Interest Rate		'000 KZT	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Statement of Financial Position										
Assets										
Placements with banks	9,577,557	53,626,336	0.37	0.32	38,120,759	12,778,024	-	-	47,698,316	66,404,360
Financial instruments at fair value through profit or loss	-	-	-	-	191,593	115,671	-	-	191,593	115,671
Other assets	-	-	-	-	463	880	-	-	463	880
Liabilities										
Deposits and balances from banks and other financial institutions	-	-	-	-	1,822,874	5,755,706	-	-	1,822,874	5,755,706
Financial instruments at fair value through profit or loss	-	-	-	-	982,268	152,309	-	-	982,268	152,309
Items not recognised in the statement of financial position										
Guarantees received	-	-	-	-	40,664,535	22,986,344	-	-	40,664,535	22,986,344
Commitments to buy foreign currency for KZT	-	-	-	-	27,482,882	26,620,326	-	-	27,482,882	26,620,326
Commitments to sell foreign currency for KZT	-	-	-	-	106,242,646	49,668,489	-	-	106,242,646	49,668,489
Statement of Comprehensive Income										
Interest income	100,132	118,755	-	-	41,681	86,488	-	-	141,813	205,243
Interest expense	-	-	-	-	(1,784)	(4,347)	-	-	(1,784)	(4,347)
Fee and commission income	6,092	3,381	-	-	26,554	27,515	-	-	32,646	30,896
Fee and commission expense	(12,064)	(10,573)	-	-	(121,914)	(127,924)	-	-	(133,978)	(138,497)
General administrative expenses	-	-	-	-	(972,003)	(197,667)	-	-	(972,003)	(197,667)

25 Fair value of financial instruments

The estimated fair values of all financial instruments approximate their carrying values at 31 December 2011 and 2010.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2011 and 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 2	
	2011 '000 KZT	2010 '000 KZT
Financial assets		
Derivative financial instruments	1,571,253	302,102
Available-for-sale financial assets	19,970,898	28,544,787
Financial liabilities		
Derivative financial instruments	1,083,796	188,837

26 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2011:

'000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash	76,910	92,965	58,543	228,418
Due from the NBRK	66,544,734	120,352,168	-	186,896,902
Placements with banks	249,441	63,696,162	4,910,502	68,856,105
Financial instruments at fair value through profit or loss	1,571,253	-	-	1,571,253
Loans to customers	29,512,075	37,200,363	726,437	67,438,875
Available-for-sale financial assets	19,970,898	-	-	19,970,898
Property, equipment and intangible assets	473,413	-	-	473,413
Current tax assets	194,604	-	-	194,604
Other assets	182,594	22,035	3,949	208,578
Total assets	**118,775,922**	**221,363,693**	**5,699,431**	**345,839,046**
Liabilities				
Financial instruments at fair value through profit or loss	1,083,796	-	-	1,083,796
Deposits and balances from banks and other financial institutions	38,891,915	32,627,822	132,310	71,652,047
Current accounts and deposits from customers	112,713,706	129,902,674	5,535,612	248,151,992
Other liabilities	251,382	149,190	4,109	404,681
Deferred tax liability	425,258	-	-	425,258
Total liabilities	**153,366,057**	**162,679,686**	**5,672,031**	**321,717,774**
Net position as at 31 December 2011	**(34,590,135)**	**58,684,007**	**27,400**	**24,121,272**
The effect of derivatives held for risk management purposes	**60,598,104**	**(60,466,939)**	**(131,165)**	**-**
Net position after derivatives held for risk management purposes as at 31 December 2011	**26,007,969**	**(1,782,932)**	**(103,765)**	**24,121,272**
Net position after derivatives held for risk management purposes as at 31 December 2010	21,626,028	562,922	198,134	22,387,084