

**JSC AB KAZAKHSTAN ZIRAAT INTERNATIONAL BANK**

**International Financial Reporting Standards  
Financial Statements and  
Independent auditor's report**

**31 December 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC Subsidiary Bank Kazakhstan Ziraat International Bank

We have audited the accompanying financial statements of JSC Subsidiary Bank Kazakhstan Ziraat International Bank ("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 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.

### *Auditor's responsibility*

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

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

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**AB KZI BANK JSC**  
**Statement of financial position**

<i>In thousands of Kazakhstani Tenge</i>	Note	31 December 2011	31 December 2010
<b>ASSETS</b>			
Cash and cash equivalents	7	3,778,944	2,696,647
Due from other banks	8	297,047	-
Loans and advances to customers	9	3,891,059	3,264,630
Investment securities available for sale		7,001	7,001
Investment securities held to maturity	10	7,634,354	3,894,339
Property, plant and equipment	11	721,404	758,053
Intangible assets	12	30,760	14,918
Other assets	13	607,680	613,342
<b>TOTAL ASSETS</b>		<b>16,968,249</b>	<b>11,248,930</b>
<b>LIABILITIES</b>			
Due to other banks		1,026	1,311
Customer accounts	14	5,238,073	4,714,588
Deferred tax liability	22	104,322	99,311
Other liabilities	15	19,762	49,533
<b>TOTAL LIABILITIES</b>		<b>5,363,183</b>	<b>4,864,743</b>
<b>EQUITY</b>			
Charter capital	16	10,000,000	5,010,000
Retained earnings		357,290	538,424
Reserves	17	1,022,714	588,466
Property, plant and equipment revaluation reserve		225,062	247,297
<b>TOTAL EQUITY</b>		<b>11,605,066</b>	<b>6,384,187</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>16,968,249</b>	<b>11,248,930</b>

  
 Firat Dursun  
 Chairman of the Management Board



  
 Alma Sarsenbayeva  
 Chief Accountant

29 March 2012

The accompanying notes on pages from 5 to 48 are the integral part of these financial statements.

**AB KZI BANK JSC**  
**Statement of comprehensive income**

<i>In thousands of Kazakhstani Tenge</i>	Note	2011	2010
Interest income	18	569,936	590,318
Interest expense	18	(1,714)	(9,101)
<b>Interest income, net</b>		<b>568,222</b>	<b>581,217</b>
(Provision)/recovery for loan impairment	9	(55,073)	17,530
<b>Net interest income after provision for loan impairment</b>		<b>513,149</b>	<b>598,747</b>
Fee and commission income	19	448,369	336,670
Fee and commission expense	19	(20,971)	(15,017)
Gains less losses from trading in foreign currencies		209,715	173,109
Gains less losses from foreign currency translation		(13,837)	(51,087)
Other operating income	20	25,820	7,859
Administrative and other operating expenses	21	(766,072)	(618,113)
<b>Profit before tax</b>		<b>396,173</b>	<b>432,168</b>
Income tax expense	22	(73,368)	(70,827)
<b>PROFIT FOR THE YEAR</b>		<b>322,805</b>	<b>361,341</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>322,805</b>	<b>361,341</b>
<b>Basic and diluted earning per share (in Tenge per share)</b>	23	<b>53</b>	<b>86</b>

The accompanying notes on pages from 5 to 48 are the integral part of these financial statements.

**AB KZI BANK JSC**  
**Statement of changes in equity**

	Note	Charter capital	Property, plant and equipment revaluation reserve	Reserves	Retained earnings	Total equity
<i>In thousands of Kazakhstani Tenge</i>						
<b>Balance at 31 December 2009</b>		<b>5,010,000</b>	<b>247,297</b>	<b>169,045</b>	<b>231,539</b>	<b>5,657,881</b>
Comprehensive income for 2010		-	-	-	361,341	361,341
Transfer from retained earnings to mandatory reserve	17	-	-	54,456	(54,456)	-
Increase in reserve capital	17	-	-	364,965	-	364,965
<b>Balance at 31 December 2010</b>		<b>5,010,000</b>	<b>247,297</b>	<b>588,466</b>	<b>538,424</b>	<b>6,384,187</b>
Comprehensive income for 2011		-	-	-	322,805	322,805
Share issue	16	4,990,000	-	-	-	4,990,000
Dividends declared	24	-	-	-	(91,926)	(91,926)
Transfer of building revaluation surplus to retained earnings	17	-	(22,235)	-	22,235	-
Transfer from retained earnings to other reserve of the Bank	17	-	-	391,379	(391,379)	-
Transfer from retained earnings to capital reserve of the Bank	17	-	-	42,869	(42,869)	-
<b>Balance at 31 December 2011</b>		<b>10,000,000</b>	<b>225,062</b>	<b>1,022,714</b>	<b>357,290</b>	<b>11,605,066</b>

The accompanying notes on pages from 5 to 48 are the integral part of these financial statements.

**AB KZI BANK JSC**  
**Statement of cash flows**

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>			
Interest received		558,700	525,989
Interest paid		(1,714)	(9,942)
Fees and commissions received		448,369	334,004
Fees and commissions paid		(20,971)	(15,017)
Gains less losses from trading in foreign currencies		209,715	173,109
Other operating income received		25,820	7,859
Staff costs paid		(378,293)	(335,931)
Administrative and other operating expenses paid		(298,423)	(210,742)
Income tax paid		(39,684)	-
<b>Cash from operating activities before changes in operating assets and liabilities</b>			
		<b>503,519</b>	<b>469,329</b>
Net increase in due from other banks		(297,047)	-
Net (increase)/decrease in loans and advances to customers		(578,278)	45,936
Net (increase)/decrease in other assets		(128,516)	90,650
Net decrease in due to other banks		(285)	(237)
Net increase/(decrease) in customer accounts		518,989	(535,419)
Net (decrease)/increase in other liabilities		(29,771)	4,217
<b>Net cash used in operating activities</b>			
		<b>(11,389)</b>	<b>74,476</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities held to maturity	10	(22,065,234)	(10,591,850)
Proceeds from redemption of investment securities held to maturity	10	18,336,455	9,248,757
Acquisition of property, plant and equipment and intangible assets		(45,196)	(22,212)
Proceeds from disposal of property, plant and equipment and intangible assets		(19,847)	(3,690)
<b>Net cash used in investing activities</b>			
		<b>(3,793,822)</b>	<b>(1,368,995)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares		4,990,000	-
(Decrease)/increase in other reserves		-	364,965
Dividends paid	24	(91,926)	-
<b>Net cash from financing activities</b>			
		<b>4,898,074</b>	<b>364,965</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>			
		<b>(10,566)</b>	<b>(39,009)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<b>1,082,297</b>	<b>(968,563)</b>
Cash and cash equivalents at the beginning of the year		2,696,647	3,665,210
<b>Cash and cash equivalents at the end of the year</b>			
	7	<b>3,778,944</b>	<b>2,696,647</b>

The accompanying notes on pages from 5 to 48 are the integral part of these financial statements.



**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

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## 1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for Associated Bank Kazakhstan Ziraat International Bank Joint Stock Company ("Bank").

**Principal activity.** The Bank was established in the Republic of Kazakhstan in 1993 under the laws of the Republic of Kazakhstan. The Bank's activity is regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") under the license #163 dated 29 December 2007.

The principal activities of the Bank are attracting deposits and maintenance of customer accounts, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign currencies.

**Registered address and place of business.** The Bank's registered address is: Republic of Kazakhstan, Almaty, 132, Klochkov Str.

As at 31 December 2011 and 2010, the Bank had 2 branches: in Astana and Shymkent, Republic of Kazakhstan.

**Shareholders.** The Bank's major shareholder is T.C.Ziraat Bankasi A.S ("the Shareholder" or "the Parent Bank") located in Turkey, Ankara, 100% owned by the Government of the Republic of Turkey, the ultimate shareholder of the Bank. Detailed information on transactions with the related parties is disclosed in Note 30.

As at 31 December 2011 and 31 December 2010 the Bank's shareholders were:

	2011 %	2010 %
<b>Shareholders</b>		
T.C. Ziraat Bankasi A.S.	99.37%	97.62%
Emlak Pazarlama Insaat Proje Yonetimi ve Ticaret A.S	0.37%	0.74%
T. Emlak Bankasi A.S. Munzam Sosyal Guvenlik Ve Yardim Vakfi	0.26%	0.53%
Groupama Sigorta A.S.	-	0.89%
Licorne Gestion	-	0.22%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## 2. Operating Environment of the Bank

**Republic of Kazakhstan.** The Kazakhstan economy continues to display characteristics of an emerging market. These characteristics include the existence of national currency that is not freely convertible outside of the country, a low level of liquidity of state and private securities markets and lack of compliance and transparency in the markets.

The global financial crisis has had a severe effect on the Kazakhstan economy and the financial situation in the Kazakhstani financial and corporate sectors have significantly deteriorated since mid-2008. Since 2010, the economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase in household incomes, lower refinancing rates, stabilization of the exchange rate of the Kazakhstani Tenge against major foreign currencies, and increased money market liquidity levels.

Additionally, the banking sector is impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. These prospects for future economic stability in Kazakhstan in 2010-2011 are largely dependent upon the effectiveness of a range of measures undertaken by the Government. There remains the possibility of unpredictable changes in the financial and economic environment that may have an adverse effect on the Bank's operations.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all necessary measures to support the sustainability and development of the Bank's business.

### 3. Summary of Significant Accounting Policies

**Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the basis of historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

**Financial instruments – key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortized cost as described below.

Management prepared these financial statements on a going concern basis.

**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. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Reasonable changes in any such assumptions would result in significantly different profit, income, total assets or total liabilities.

**Transaction costs** are incremental costs directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

**Amortised cost** is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

**The effective interest method** is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

**Initial recognition of financial instruments.** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognised when the Bank becomes a party to the contractual provisions of this financial instrument.

### 3. Summary of Significant Accounting Policies (Continued)

**Derecognition of financial assets.** The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (b) the Bank has transferred the rights for cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

**Cash and cash equivalents.** Cash and cash equivalents are items readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the NBRK and all interbank placements with original maturities of less than three months. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

**Due from other banks.** Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Loans and advances to customers.** Loans and advances to customers are recorded when the Bank advances money to clients to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

**Impairment of financial assets carried at amortised cost.** Impairment loss is recognised through profit or loss as incurred as a result of one or more events (the "loss event") occurring after the initial recognition of the financial asset or affecting the value or period of the estimated future cash flows related to the financial asset or a group of financial assets which can be reliably estimated. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue due to deterioration of a borrower's financial position and the late payment cannot be attributed to a delay caused by the settlement systems;
- a borrower experiences significant financial difficulties as evidenced by the borrowers' financial information that the Bank obtains;
- a borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of a borrower as a result of changes in the national or local economic conditions that impact a borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

The Bank assesses corporate and mortgage loans, cash and cash equivalents and other financial assets on an individual basis because the number of counterparties in each of these categories is insignificant.

The Bank does not use collective impairment for consumer loans because of limited history of lending, and creates hundred percent provision for all loans overdue more than sixty days.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to its present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

### 3. Summary of Significant Accounting Policies (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related Impairment loss provision after all necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

**Credit related commitments.** The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of reporting period.

**Investment securities available for sale.** This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive Income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through profit or loss for the year.

**Sale and repurchase agreements and lending of securities.** Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate.

The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

### 3. Summary of Significant Accounting Policies (Continued)

**Investment securities held to maturity.** This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Bank has the right to require that the issuer repay or redeem the investment before its maturity, because early redemption right is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

**Property, plant and equipment.** Premises and equipment are stated at cost except for land and buildings which are stated at market value less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any indication exists, management estimates the recoverable amount, determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

**Depreciation.** Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings	50
Office and computer equipment	from 3 to 5
Vehicles	5
Other premises and equipment	from 3 to 10

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of reporting period.

**Intangible assets.** All the Bank's intangible assets have definite useful lives including capitalised software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years.

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative financial liability is carried at amortised cost. If the Bank purchases its own debt, the liability 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. Obligations to return securities borrowed and sold to third parties are carried at fair value through profit or loss.

**Customer accounts.** Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

### 3. Summary of Significant Accounting Policies (Continued)

**Income taxes.** Income taxes have been provided for in the financial statements using tax rates and in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year or directly in equity because it relates to transactions that are also recognised, in the same or a different period in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or losses carried forward will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**Uncertain tax positions.** The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Financial guarantees.** Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts, other banking facilities and performance under tenders.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the end of the reporting period.

These estimates are determined based on judgement of the management. Any increase in guarantee related liability is shown in the statement of comprehensive income within administrative and other operating expenses.

**Trade and other payables.** Accounts payable are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present obligation (legal or constructive as a result of past events) which has arisen before the reporting date. In addition, it is probable that an outflow of resources embodying economic benefits will be required for the Bank to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Mandatory reserve and other reserves.** Mandatory reserve and other reserves are accounted for in accordance with the legislation of the Republic of Kazakhstan for the Bank's general risk, including future loss and other unforeseen risk and contingent liabilities.

**Share capital.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

### 3. Summary of Significant Accounting Policies (Continued)

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The financial statements prepared in accordance with IFRS are the basis for payment of dividends and other distribution of profit. Kazakhstan legislation identifies the basis of distribution as the current year net profit and prior years retained earnings.

**Income and expense recognition.** Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all commissions and fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Bank relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

**Foreign currency translation.** The Bank's functional currency is the currency of the primary economic environment in which it operates. The functional and presentation currency of the Bank is the national currency of the Republic of Kazakhstan, i.e. ("Tenge"). At 31 December 2011 the market rate of exchange used for translating foreign currency balances was US Dollar = Tenge 148.40 (2010: US Dollar = Tenge 147.50); and Euro = Tenge 191.72 (2010: Euro = Tenge 196.88).

Monetary assets and liabilities are translated into the functional currency at the market exchange rate established during the morning trade session of the Kazakhstan Stock Exchange at reporting date. Foreign exchange gains and losses resulting from the settlement of transactions and translation of monetary assets and liabilities into the Bank's functional currency at year-end market exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

**Earnings per share.** Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

**Staff costs and related contributions.** Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses are accrued in the year in which the associated services are rendered by employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Bank withholds pension contributions from employees' salary and transfers them into the employee's designated state or private pension fund. Upon retirement of employees, all pension payments are administered by the pension funds.

The Bank does not have any legal or constructive obligation to provide further funding if the state or private pension funds fail to make the pension payments.

#### 4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment losses on loans and advances.** The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As at 31 December 2011 the Bank had not collected sufficient statistical data about historical loss rates for groups of consumer loans as portfolio age was only twenty months. The Bank did not have any reliable benchmark information of the same organisations. Therefore, estimated future cash flows used for estimation of the amount of impairment loss on consumer loans may deviate from future cash flow estimated based on historical loss experience rates, should such information be available to the Bank. Management will use estimated future cash flows based on historical loss rates as soon as sufficient statistical information is collected.

To the extent that the cash flow on repayment of the principal of loans provided for increases by 10 percent the provision would be approximately Tenge 137,877 thousand (2010: Tenge 150,475 thousand) lower. If the cash flows decrease by 10 percent, the provision would be approximately Tenge 141,657 thousand (2010: Tenge 154,600 thousand) higher.

**Tax legislation.** Kazakhstan tax and customs legislation is subject to varying interpretations. Refer to Note 27.

**Initial recognition of related party transactions.** In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party transactions are disclosed in Note 30.

**Going concern.** Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Bank.



## 5. Adoption of New or Revised Standards and Interpretations

The following new IFRS standards and interpretations became effective for the Bank from 1 January 2011:

**Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Bank shall also disclose contractual liabilities for sale or purchase of goods or services to the related parties.

**Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The amendments above resulted in the presentation of additional or revised disclosures, but did not have material impact on the measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

**Other revised standards and interpretations are mandatory for the current period.** IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, amendments to IAS 32 in terms of classification of rights issues of shares, clarifications of IFRIC 14 relating to IAS 19, Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction, relating to prepayment of a minimum funding requirement and amendments to IFRS 1, First Time Adoption of IFRS did not have any effect on these financial statements.

## **6. New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later and which the Bank has not early adopted.

**IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Subsequently IFRS 9 was revised in October 2010. Revised IFRS 9 addresses the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, the financial instrument has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments held to trading shall be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is currently considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

**IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. Currently, the Bank estimates the effect of the new standard on its financial statements.

**Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (Issued In October 2010 and effective for annual periods beginning on or after 1 July 2011.)** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset: the nature, carrying amount and a description of the risks and rewards related to the asset. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the revised standard on disclosures in its financial statements.

**Amendments to IAS 1, Presentation of Financial Statements (Issued In June 2011 effective for annual periods beginning on or after 1 July 2012)** changes the disclosure of items presented in other comprehensive income. These amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank expects the revised standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

## 6. New Accounting Pronouncements (Continued)

**Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013)**, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Bank estimates the effect of the revised standard on its financial statements.

**Disclosures—Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).** The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

**Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Bank is currently considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

**Other revised standards and interpretations:** The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions will not have any impact on these financial statements. The amendment to IAS 12, Income Taxes, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on the annual financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

## 7. Cash and Cash Equivalents

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011	31 December 2010
Cash on hand	931,138	822,456
Cash balances with the NBRK (other than mandatory reserves)	1,847,229	1,044,221
Obligatory cash balances with the NBRK	143,948	86,463
Correspondent accounts with other banks	856,629	743,507
<b>Total cash and cash equivalents</b>	<b>3,778,944</b>	<b>2,696,647</b>

**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

**7. Cash and Cash Equivalents (Continued)**

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2011:

	Cash balances with NBRK including mandatory reserves	Correspondent accounts with other banks	Total
<i>In thousands of Kazakhstani Tenge</i>			
<i>Neither past due nor impaired</i>			
- NBRK	1,991,177	-	1,991,177
- A1 rated (Moody's rating)	-	826,406	826,406
- Ba3 rated (Moody's rating)	-	17,262	17,262
- BB+ rated (Fitch rating)	-	244	244
- A2 rated (Moody's rating)	-	43	43
- Unrated	-	12,674	12,674
<b>Total cash and cash equivalents, excluding cash on hand</b>	<b>1,991,177</b>	<b>856,629</b>	<b>2,847,806</b>

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2010:

	Cash balances with NBRK including mandatory reserves	Correspondent accounts with other banks	Total
<i>In thousands of Kazakhstani Tenge</i>			
<i>Neither past due nor impaired</i>			
- NBRK	1,130,684	-	1,130,684
- A1 rated (Moody's rating)	-	670,164	670,164
- Ba3 rated (Moody's rating)	-	58,689	58,689
- BB+ rated (Fitch rating)	-	1,780	1,780
- A2 rated (Moody's rating)	-	122	122
- Unrated	-	12,752	12,752
<b>Total cash and cash equivalents, excluding cash on hand</b>	<b>1,130,684</b>	<b>743,507</b>	<b>1,874,191</b>

**8. Due from Other Banks**

As at 31 December 2011 due from other banks represents long-term deposit placed with OJSB Azer-Turk Bank of Tenge 296,800 thousand and accrued interest of Tenge 247 thousand. Interest rate on deposit is 6% p.a. with maturity of 18 months. Deposit was placed in foreign currency of USD 2 million. OJSB Azer-Turk Bank does not have any credit rating.

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**Notes to financial statements – 31 December 2011**

**9. Loans and Advances to Customers**

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011	31 December 2010
Consumer loans	1,483,612	1,072,474
Loans to small and medium enterprises	1,285,549	1,529,177
Loans issued to major customers	1,132,366	681,328
Mortgage loans	533,530	582,328
<b>Total loans and advances to customers</b>	<b>4,435,057</b>	<b>3,865,307</b>
Less: provision for loan impairment	(543,998)	(600,677)
<b>Total loans and advances to customers</b>	<b>3,891,059</b>	<b>3,264,630</b>

Movements in the provision for loan impairment during 2011 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	Consumer loans	Loans to small and medium enterprises	Loans issued to major customers	Mortgage loans	Total
<b>Impairment provision at 1 January 2011</b>	<b>258,299</b>	<b>237,671</b>	<b>43,346</b>	<b>61,361</b>	<b>600,677</b>
(Recovery of)/provision for impairment during the year	4,479	48,252	47,338	(44,996)	55,073
Recovery	8,825	61,088	-	-	69,913
Written off amounts	(74,148)	(109,385)	-	-	(183,533)
Foreign exchange difference	1,413	152	132	171	1,868
<b>Impairment provision at 31 December 2011</b>	<b>198,868</b>	<b>237,778</b>	<b>90,816</b>	<b>16,536</b>	<b>543,998</b>

Movements in the provision for loan impairment during 2010 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	Consumer loans	Loans to small and medium enterprises	Loans issued to major customers	Mortgage loans	Total
<b>Impairment provision at 1 January 2010</b>	<b>381,979</b>	<b>252,945</b>	<b>91,805</b>	<b>15,757</b>	<b>742,486</b>
(Recovery of)/provision for impairment during the year	(105,110)	86,800	(48,964)	49,744	(17,530)
Recovery	7,264	3,108	505	792	11,669
Written off amounts	(21,578)	(104,842)	-	(4,932)	(131,352)
Foreign exchange difference	(4,256)	(340)	-	-	(4,596)
<b>Impairment provision at 31 December 2010</b>	<b>258,299</b>	<b>237,671</b>	<b>43,346</b>	<b>61,361</b>	<b>600,677</b>

**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

**9. Loans and Advances to Customers (Continued)**

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011		31 December 2010	
	amount	%	amount	%
Trade	1,794,326	40.6%	1,032,201	26.7%
Consumer loans	1,483,612	33.5%	1,072,474	27.8%
Mortgages	445,488	10.0%	582,328	15.1%
Construction	208,790	4.7%	353,441	9.1%
Production	80,502	1.8%	121,615	3.2%
Education	45,525	1.0%	44,200	1.1%
Mining/metallurgy	41,912	0.9%	-	0.0%
Printing industry	32,899	0.7%	25,892	0.7%
Culture and art	15,478	0.3%	11,745	0.3%
Transportation and communication	9,190	0.2%	124,870	3.2%
Food industry	-	0.0%	193,253	5.0%
Furniture production	-	0.0%	39,895	1.0%
Textile industry	-	0.0%	26,366	0.7%
Other	277,335	6.3%	237,027	6.1%
<b>Total loans and advances to customers before impairment provision</b>	<b>4,435,057</b>	<b>100%</b>	<b>3,865,307</b>	<b>100%</b>

Information about collateral at 31 December 2011 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Consumer loans	Loans to small and medium enterprises	Loans issued to major customers	Mortgage loans	Total
<b>Unsecured loans</b>	-	-	-	-	-
Loans collateralized by:					
- buildings	1,316,627	1,090,257	1,088,141	401,491	3,896,516
- guarantee letter	152,881	24,021	44,225	33,566	254,693
- other	14,104	171,271	-	98,473	283,848
<b>Total secured loans</b>	<b>1,483,612</b>	<b>1,285,549</b>	<b>1,132,366</b>	<b>533,530</b>	<b>4,435,057</b>
<b>Total loans and advances to customers before impairment provision</b>	<b>1,483,612</b>	<b>1,285,549</b>	<b>1,132,366</b>	<b>533,530</b>	<b>4,435,057</b>

Information about collateral at 31 December 2010 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Consumer loans	Loans to small and medium enterprises	Loans issued to major customers	Mortgage loans	Total
<b>Unsecured loans</b>	-	-	-	-	-
Loans collateralized by:					
- buildings	919,084	1,350,556	681,328	475,721	3,426,689
- guarantee letter	131,276	37,489	-	7,985	176,750
- other	22,114	141,132	-	98,622	261,868
<b>Total secured loans</b>	<b>1,072,474</b>	<b>1,529,177</b>	<b>681,328</b>	<b>582,328</b>	<b>3,865,307</b>
<b>Total loans and advances to customers before impairment provision</b>	<b>1,072,474</b>	<b>1,529,177</b>	<b>681,328</b>	<b>582,328</b>	<b>3,865,307</b>

**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

**9. Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

	Consumer loans	Loans to small and medium enterprises	Loans issued to major customers	Mortgage loans	Total
<i>In thousands of Kazakhstani Tenge</i>					
<i>Neither past due nor impaired</i>					
- Loans and advances - standard	943,196	751,833	1,038,906	384,365	3,118,300
<b>Total neither past due nor impaired</b>	<b>943,196</b>	<b>751,833</b>	<b>1,038,906</b>	<b>384,365</b>	<b>3,118,300</b>
<i>Past due but not impaired</i>					
- less than 30 days overdue	74,964	73,296	93,460	69,099	310,819
- from 30 to 90 days overdue	4,199	15,649	-	45,176	65,024
- over 90 days overdue	88,237	23,137	-	22,853	134,227
<b>Total past due but not impaired</b>	<b>167,400</b>	<b>112,082</b>	<b>93,460</b>	<b>137,128</b>	<b>510,070</b>
<i>Individually impaired (total amount)</i>					
- less than 30 days overdue	52,804	34,280	-	-	87,084
- 30 to 90 days overdue	-	13,027	-	-	13,027
- overdue from 90 to 180 days	20,048	32,225	-	12,037	64,310
- overdue from 180 to 360 days	81,389	49,100	-	-	130,489
- overdue over 360 days	218,775	293,002	-	-	511,777
<b>Total individually impaired (total amount)</b>	<b>373,016</b>	<b>421,634</b>	<b>-</b>	<b>12,037</b>	<b>806,687</b>
- Impairment provision for individually impaired loans	(147,587)	(179,547)	-	(843)	(327,977)
- Impairment provision, assessed on the basis of portfolio	(51,281)	(58,231)	(90,816)	(15,693)	(216,021)
<b>Less total impairment provision</b>	<b>(198,868)</b>	<b>(237,778)</b>	<b>(90,816)</b>	<b>(16,536)</b>	<b>(543,998)</b>
<b>Total loans and advances to customers</b>	<b>1,284,744</b>	<b>1,047,771</b>	<b>1,041,550</b>	<b>516,994</b>	<b>3,891,059</b>

**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

**9. Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Consumer loans	Loans to small and medium enterprises	Loans issued to major customers	Mortgage loans	Total
<i>Neither past due nor impaired</i>					
- Loans and advances - standard	545,110	997,131	681,328	514,167	2,737,736
<b>Total neither past due nor impaired</b>	<b>545,110</b>	<b>997,131</b>	<b>681,328</b>	<b>514,167</b>	<b>2,737,736</b>
<i>Past due but not impaired</i>					
- overdue from 30 to 90 days	76,621	63,143	-	26,621	166,385
- over 90 days overdue	194,325	154,988	-	41,540	390,853
<b>Total past due but not impaired</b>	<b>270,946</b>	<b>218,131</b>	<b>-</b>	<b>68,161</b>	<b>557,238</b>
<i>Individually impaired (total amount)</i>					
- overdue less than 30 days	52,136	22,503	-	-	74,639
- overdue from 90 to 180 days	88,290	104,745	-	-	193,035
- overdue from 180 days	115,992	186,667	-	-	302,659
<b>Total individually impaired (total amount)</b>	<b>256,418</b>	<b>313,915</b>	<b>-</b>	<b>-</b>	<b>570,333</b>
- Impairment provision for individually impaired loans	(127,393)	(128,966)	-	-	(256,359)
- Impairment provision, assessed on the basis of portfolio	(130,906)	(108,705)	(43,346)	(61,361)	(344,318)
<b>Less total impairment provision</b>	<b>(258,299)</b>	<b>(237,671)</b>	<b>(43,346)</b>	<b>(61,361)</b>	<b>(600,677)</b>
<b>Total loans and advances to customers</b>	<b>814,175</b>	<b>1,291,506</b>	<b>637,982</b>	<b>520,967</b>	<b>3,264,630</b>



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**Notes to financial statements – 31 December 2011**

**9. Loans and Advances to Customers (Continued)**

The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status, financial position, debt prolongation or restructuring and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

The effect of collateral at 31 December 2011 and 31 December 2010:

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>Over-collateralised assets</b>		<b>Over-collateralised assets</b>	
	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>
Consumer loans	1,483,612	4,439,750	1,072,474	3,018,512
Loans to small and medium enterprises	1,285,549	4,656,117	1,529,177	6,233,836
Loans issued to major customers	1,132,366	3,816,813	681,328	1,775,195
Mortgage loans	533,530	1,087,974	582,328	1,060,616

**10. Investment Securities Held to Maturity**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Notes of the National Bank of the Republic of Kazakhstan	5,300,000	2,798,042
Bonds of the Ministry of Finance of the Republic of Kazakhstan	2,334,354	1,096,297
<b>Total investment securities held to maturity</b>	<b>7,634,354</b>	<b>3,894,339</b>

Notes of the National Bank of the Republic of Kazakhstan and Bonds of the Ministry of Finance of the Republic of Kazakhstan not past due and not impaired with rating BBB+ (Moody's).

The movement in Investment securities held to maturity is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>2011</b>	<b>2010</b>
<b>Gross amount at 1 January</b>	<b>3,894,339</b>	<b>2,486,057</b>
Additions	22,065,234	10,599,850
Redemption	(18,336,455)	(9,198,325)
Interest income accrual	83,226	58,432
Interest income received	(71,990)	(51,675)
<b>Gross amount at 31 December</b>	<b>7,634,354</b>	<b>3,894,339</b>

**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

**11. Property, Plant and Equipment**

<i>In thousands of Kazakhstani Tenge</i>	Land	Buildings and constructions	Construction in progress	Office and computer equipment	Vehicles	Other	Total
Cost at 31 December 2009	274,400	379,930	-	16,828	19,388	61,737	752,283
Accumulated depreciation	-	-	-	(8,968)	(9,016)	(30,877)	(48,861)
<b>Carrying value at 31 December 2009</b>	<b>274,400</b>	<b>379,930</b>	<b>-</b>	<b>7,860</b>	<b>10,372</b>	<b>30,860</b>	<b>703,422</b>
Additions	-	-	-	9,909	-	12,303	22,212
Disposals	-	-	-	(2,684)	-	(1)	(2,685)
Net transfers	-	-	72,671	-	-	-	72,671
Depreciation charges (Note 21)	-	(16,446)	-	(6,843)	(4,625)	(9,653)	(37,567)
<b>Carrying value at 31 December 2010</b>	<b>274,400</b>	<b>363,484</b>	<b>72,671</b>	<b>8,242</b>	<b>5,747</b>	<b>33,509</b>	<b>758,053</b>
Cost at 31 December 2010	274,400	379,930	72,671	15,568	19,388	67,943	829,900
Accumulated depreciation	-	(16,446)	-	(7,326)	(13,641)	(34,434)	(71,847)
<b>Carrying value at 31 December 2010</b>	<b>274,400</b>	<b>363,484</b>	<b>72,671</b>	<b>8,242</b>	<b>5,747</b>	<b>33,509</b>	<b>758,053</b>
Additions	-	-	-	13,434	10,880	20,860	45,174
Disposals	-	(42,000)	(13,331)	(774)	-	(94)	(56,199)
Net transfers	-	-	2,770	-	-	-	2,770
Depreciation charges (Note 21)	-	(2,371)	-	(8,423)	(5,429)	(12,181)	(28,934)
<b>Carrying value at 31 December 2011</b>	<b>274,400</b>	<b>319,113</b>	<b>62,110</b>	<b>12,479</b>	<b>11,208</b>	<b>42,094</b>	<b>721,404</b>
Cost at 31 December 2011	274,400	337,930	62,110	28,228	30,268	88,709	821,645
Accumulated depreciation	-	(18,817)	-	(15,749)	(19,060)	(46,615)	(100,241)
<b>Carrying value at 31 December 2011</b>	<b>274,400</b>	<b>319,113</b>	<b>62,110</b>	<b>12,479</b>	<b>11,208</b>	<b>42,094</b>	<b>721,404</b>

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**Notes to financial statements – 31 December 2011**

**12. Intangible Assets**

<i>In thousands of Kazakhstani Tenge</i>	<b>Software licenses</b>	<b>Total</b>
Cost at 31 December 2009	32,472	32,472
Accumulated amortization	(18,437)	(18,437)
<b>Carrying amount at 31 December 2009</b>	<b>14,035</b>	<b>14,035</b>
Additions	3,689	3,689
Amortization charges (Note 21)	(2,806)	(2,806)
<b>Carrying amount at 31 December 2010</b>	<b>14,918</b>	<b>14,918</b>
Cost at 31 December 2010	36,161	36,161
Accumulated amortization	(21,243)	(21,243)
<b>Carrying amount at 31 December 2010</b>	<b>14,918</b>	<b>14,918</b>
Additions	19,848	19,848
Disposals	(488)	(488)
Amortization charges (Note 21)	(3,518)	(3,518)
<b>Carrying amount at 31 December 2011</b>	<b>30,760</b>	<b>30,760</b>
Cost at 31 December 2011	55,522	55,522
Accumulated amortization	(24,762)	(24,762)
<b>Carrying amount at 31 December 2011</b>	<b>30,760</b>	<b>30,760</b>

**13. Other Assets**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Other financial assets</b>		
Fee and commissions receivable	4,746	2,211
Guarantees receivable	399	-
Other banking debtors	6,527	890
<b>Total other financial assets</b>	<b>11,672</b>	<b>3,101</b>
<b>Other non-financial assets</b>		
Reposessed collateral for non-payments	558,330	548,146
Prepaid taxes	25,348	45,542
Prepayment for utilities	7,586	13,720
Prepayments for services	3,614	622
Other	1,130	2,211
<b>Total other non-financial assets</b>	<b>596,008</b>	<b>610,241</b>
<b>Total other assets</b>	<b>607,680</b>	<b>613,342</b>

### 13. Other Assets (Continued)

Pledged assets moved to the balance for the non-payments represent real estate objects received by the Bank as settlement of overdue loans. Bank expects to realize these assets in the foreseeable future. These assets do not meet the definition of non-current assets held for sale and classified as inventory in accordance with IFRS (IAS 2), "Inventories". These assets are initially recognized at fair value on acquisition.

Information on fair value of other assets is presented in Note 28.

### 14. Customer Accounts

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011	31 December 2010
<b>State and public organizations</b>		
- Current/settlement accounts	177,985	441,883
<b>Other legal entities</b>		
- Current/settlement accounts	3,612,045	2,761,664
- Term deposits	114,732	137,657
<b>Individuals</b>		
- Current/settlement accounts	1,241,094	1,258,651
- Term deposits	92,217	114,733
<b>Total customer accounts</b>	<b>5,238,073</b>	<b>4,714,588</b>

Refer to Note 28 for fair value of each category of customer accounts. Interest rate analysis on customer accounts is detailed in Note 25. Information on related party transactions is disclosed in Note 30.

Customer accounts by industries are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011	%	31 December 2010	%
Trade and services	1,848,332	35%	1,069,724	23%
Individuals	1,333,311	26%	1,373,384	29%
Transportation and communication	923,584	18%	328,384	7%
Construction	659,851	13%	1,227,744	26%
Production	230,039	4%	203,519	4%
State organizations	168,420	3%	387,681	8%
Professional services	45,689	1%	48,148	1%
Sport and travel industry	15,830	0%	48,819	1%
Other	13,017	0%	27,185	1%
<b>Total customer accounts</b>	<b>5,238,073</b>	<b>100%</b>	<b>4,714,588</b>	<b>100%</b>

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**Notes to financial statements – 31 December 2011**

**15. Other Liabilities**

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011	31 December 2010
<b>Other financial liabilities</b>		
Other creditors on non-operating activities	9,739	41,112
Guarantees issued	2,909	4,567
<b>Total other financial liabilities</b>	<b>12,648</b>	<b>45,679</b>
<b>Other non-financial liabilities</b>		
Settlements with staff	4,856	2,023
Taxes payable other than on income	869	553
Other prepayments	1,389	1,278
<b>Total other non-financial liabilities</b>	<b>7,114</b>	<b>3,854</b>
<b>Total other liabilities</b>	<b>19,762</b>	<b>49,533</b>

Fair value of each category of other financial liabilities is presented in Note 28.

**16. Charter Capital**

<i>In thousands of Kazakhstani Tenge except for number of shares</i>	Number of outstanding shares (in thousands)	Ordinary shares	Preference shares	Total
<b>At 31 December 2010</b>	<b>5,010</b>	<b>5,010,000</b>	-	<b>5,010,000</b>
New shares issued	4,990	4,990,000	-	<b>4,990,000</b>
<b>At 31 December 2011</b>	<b>10,000</b>	<b>10,000,000</b>	-	<b>10,000,000</b>

As at 31 December 2011 the Bank's authorised, issued and outstanding share capital comprises 10,000 thousand ordinary shares (31 December 2010: 5,010 thousand). Par value of each share is Tenge 1,000.

In accordance with a decision of the General Shareholders Meeting dated 8 December 2010, the Bank decided to issue additional 4,990,000 ordinary shares, to comply with NBRK regulations Concerning Minimum Amount of Charter Capital and Equity of the Second Tier Banks No. 140 dated 2 September 2008. T.C. Ziraat Bankasi A.S., the Bank's major shareholder made the cash contribution of Tenge 4,990,000 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general Bank shareholders meetings.

## 17. Reserves

Presented below is the table on movements in the Bank's reserves:

<i>In thousands of Kazakhstani Tenge</i>	<b>General mandatory reserve</b>	<b>Reserve capital</b>	<b>Other reserves</b>	<b>Total other reserves</b>
<b>Balance at 31 December 2010</b>	<b>539,406</b>	<b>49,060</b>	<b>-</b>	<b>588,466</b>
Increase in reserve capital	36,134	-	-	36,134
Increase in general mandatory reserve for general bank risks	-	6,735	-	6,735
Reflection of adjustment in accordance with requirement of NBRK	-	-	391,379	391,379
<b>Balance at 31 December 2011</b>	<b>575,540</b>	<b>55,795</b>	<b>391,379</b>	<b>1,022,714</b>

**Increase in reserve capital.** The Bank's reserve capital at 31 December 2011 was Tenge 575,540 thousand (31 December 2010: Tenge 539,406 thousand) and its increase resulted from transfer of Tenge 36,134 thousand from the Bank's retained earnings in accordance with the decisions of the General Shareholders Meeting dated 29 April 2011 and 23 September 2011.

The reserve was formed under the laws of Kazakhstan, which sets the amount of not less than:

- The actual reserve capital generated during the previous reporting period;
- Part of undistributed net income of the Bank before payment of dividends on common shares equal to the production of undistributed net income of the Bank before payment of dividends on common shares divided on ratio of increase in assets and contingent liabilities, subject to the classification of the previous year to total assets and contingent liabilities, subject to the classification of at the beginning of the previous year, but not less than 0.1 percent and not more than 1 percent, according to the NBRK.

**Increase in general mandatory reserve for general banking risks.** The general reserve for general banking risks is created in accordance with the legislation of the Republic of Kazakhstan for bank general risks, including future losses and other unforeseen risks or contingencies.

The reserve was made in accordance with Kazakhstan legislation, which determined that general reserve should exceed 2% of assets and contingent liabilities to be classified in accordance with NBRK requirements.

Total reserve for the Bank's risks at 31 December 2011 was Tenge 55,795 thousand (31 December 2010: Tenge 49,060 thousand), which increased by transfer of Tenge 6,735 thousand from the Bank's retained earnings.

**Increase in other reserves.** In accordance with the changes in Instruction for Accounting Maintenance by the Second Tier Banks and Joint Stock Company Kazakhstan Development Bank approved by the Statement of the Management Board of the National Bank of the Republic of Kazakhstan dated 31 January 2011 № 4, the difference between the loan loss provisions to be made in accordance with the Agency's classification rules and under the International Financial Reporting Standards is recognized in the account of statement of financial position – Other Reserves of the Bank. At 31 December 2011 total provision was Tenge 391,379 thousand.

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

**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

**18. Interest income and expense**

<i>In thousands of Kazakhstani Tenge</i>	<b>2011</b>	<b>2010</b>
<b>Interest income</b>		
Loans and advances to customers	479,731	525,666
Investment securities held to maturity	83,226	58,432
Due from other banks	4,728	-
Other investments	1,008	5,600
Other	1,243	620
<b>Total interest income</b>	<b>569,936</b>	<b>590,318</b>
<b>Interest expense</b>		
Customer accounts	1,714	9,101
<b>Total interest expense</b>	<b>1,714</b>	<b>9,101</b>
<b>Net Interest income</b>	<b>568,222</b>	<b>581,217</b>

**19. Fee and commission income and expense**

<i>In thousands of Kazakhstani Tenge</i>	<b>2011</b>	<b>2010</b>
<b>Fee and commission income</b>		
- Settlement transactions	272,105	179,777
- Cash withdrawal	110,103	87,530
- Guarantees and letter of credits issued	35,017	43,787
- Money transfer services	10,078	8,375
- Safe transactions	4,125	4,420
- Other	16,941	12,781
<b>Total fee and commission income</b>	<b>448,369</b>	<b>336,670</b>
<b>Fee and commission expense</b>		
- Settlement transactions	16,411	11,372
- Other	4,560	3,645
<b>Total fee and commission expense</b>	<b>20,971</b>	<b>15,017</b>
<b>Net fee and commission income</b>	<b>427,398</b>	<b>321,653</b>

**20. Other Operating Income**

<i>In thousands of Kazakhstani Tenge</i>	<b>2011</b>	<b>2010</b>
Gain from disposal of property, plant and equipment	13,178	2,290
Gain from disposal of inventories	3,580	3,920
Other operating income	2,316	1,649
Other	6,746	-
<b>Total other operating income</b>	<b>25,820</b>	<b>7,859</b>

**AB KZI BANK JSC**  
**Notes to financial statements – 31 December 2011**

**21. Administrative and Other Operating Expenses**

<i>In thousands of Kazakhstani Tenge</i>	<b>2011</b>	<b>2010</b>
Staff costs	384,277	335,072
Social security payments	38,874	36,432
Security and signaling expenses	43,476	37,618
Losses on disposal of property, plant and equipment	42,000	-
Taxes other than income tax	39,824	17,286
Depreciation of premises and equipment	28,394	37,567
Communication and information services	26,562	23,237
Professional services	21,767	18,915
Building maintenance expenses	20,184	10,356
Rent	19,125	7,241
Repair and maintenance	13,831	3,480
Software maintenance	11,326	13,357
Membership contributions	8,471	8,199
Cash collection	8,243	3,612
Advertising and marketing	7,774	1,252
Customer expenses	6,116	5,033
Expenses on deposit insurance	4,870	8,172
Stationery and other office materials	4,786	4,139
Amortization: intangible assets	3,518	2,806
Business trip expenses	3,317	3,281
Transportation	2,754	3,442
Sponsorship	1,323	2,990
Loss on return of repossessed property	-	28,800
Representation expenses	-	2,383
Other	25,260	3,443
<b>Total administrative and other operating expenses</b>	<b>766,072</b>	<b>618,113</b>

Included in staff costs is social tax of Tenge 7,807 thousand (2010: Tenge 6,787 thousand).

**22. Income Tax**

<i>In thousands of Kazakhstani Tenge</i>	<b>2011</b>	<b>2010</b>
Current income tax expenses	68,357	23,432
Deferred tax	5,011	47,395
<b>Income tax expense for the year</b>	<b>73,368</b>	<b>70,827</b>

In accordance with changes in legislation introduced in 2011, the applicable corporate income tax rate is 20% (2010: 20%).

The management believes that the Bank mainly operates in accordance with the taxation legislation regulating its operation, however, there is a risk that the tax authorities can have other positions on disputable tax issues.



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**Notes to financial statements – 31 December 2011**

**22. Income Tax (Continued)**

Presented below is the comparison of the theoretical income tax expense with the actual income tax expense.

<i>In thousands of Kazakhstani Tenge</i>	2011	2010
<b>IFRS profit before tax</b>	<b>396,173</b>	<b>432,168</b>
Theoretical tax charge at statutory rate 20%; (2010: 20%)	79,235	86,434
Tax effect of items which are not deductible or assessable for taxation purposes:		
Nontaxable income on Investment securities held to maturity	(16,645)	(11,686)
Not deductible recovery of provision for loans losses	11,609	-
Other permanent differences	(831)	(3,921)
<b>Income tax expense for the year</b>	<b>73,368</b>	<b>70,827</b>

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Tax effect of movements in these temporary differences is recognised at the rate of 20% (2010: 20%).

<i>In thousands of Kazakhstani Tenge</i>	2009	Charged/ (credited) to profit or loss	2010	Charged/ (credited) to profit or loss	2011
<b>Tax effect of deductible temporary differences</b>					
Other liabilities	860	6,937	7,797	(5,001)	2,796
<b>Recognized deferred tax asset</b>	<b>860</b>	<b>6,937</b>	<b>7,797</b>	<b>(5,001)</b>	<b>2,796</b>
<b>Tax effect of taxable temporary differences</b>					
Premises, equipment and Intangible assets	38,538	(3,932)	34,606	(6,948)	27,658
Impairment provision on portfolio	14,238	58,264	72,502	6,958	79,460
<b>Recognized deferred tax liability</b>	<b>52,776</b>	<b>54,332</b>	<b>107,108</b>	<b>10</b>	<b>107,118</b>
<b>Net deferred tax liability</b>	<b>51,916</b>	<b>(47,395)</b>	<b>99,311</b>	<b>5,011</b>	<b>104,322</b>

**23. Earnings per Share**

Basic earnings per share are calculated by dividing net profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank does not have any treasury shares which can potentially dilute the earnings per share. Therefore, the diluted earnings equal the basic earnings per share. Earnings per share are calculated as follows:

<i>In thousands of Kazakhstani Tenge</i>	2011	2010
Profit attributable to shareholders-owners ordinary shares	396,173	432,168
Weighted-average number of ordinary shares in issue	7,505,000	5,010,000
<b>Basic and diluted earnings per share (In Tenge per share)</b>	<b>53</b>	<b>86</b>

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## 24. Dividends

All dividends are declared in Kazakhstani Tenge. Dividends payable are limited by the maximum retained earnings of the Bank determined in accordance with the legislation of the Republic of Kazakhstan.

<i>In thousands of Kazakhstani Tenge</i>	2011	2010
	Ordinary shares	Ordinary shares
<b>Dividends payable at 1 January</b>	-	-
Dividends declared during the year	91,926	-
Dividends paid during the year	(91,926)	-
<b>Dividends payable at 31 December</b>	-	-
<b>Dividends per share, declared during the year in</b>		
Tenge per share	18	-

In accordance with the Kazakhstan legislation, the Bank distributes the profit in the form of dividends on the basis of the financial statements prepared in accordance with the International Financial Reporting Standards.

## 25. Financial Risk Management

Risk is inherent in the Bank's activities. The Bank manages the risk through a process of ongoing identification, assessment and monitoring, subject to risk limits and other internal control actions. The process of risk management is critical to the Bank's continuing profitability and each specialist within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Bank is also subject to operating risks.

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

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

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

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

**Risk Management.** The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

**Risk Controlling.** The Risk Management unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business unit includes decentralized unit responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

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

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

## 25. Financial Risk Management (Continued)

**Risk measurement and reporting systems.** The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, Management Board, Asset and Liability Management Committee, Credit Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios, interest risk ratios and risk profile changes.

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

The Bank's Management Board and other relevant employees of the Bank meetings are regularly held to discuss maintenance of established limits, investments, liquidity, and risk developments.

**Risk mitigation.** As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more details).

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

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

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

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

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

## 25. Financial Risk Management (Continued)

**Risk mitigation and limitation policy.** The Bank manages, establishes the limits and controls the credit risk concentration wherever it is identified – in particular, in terms of individual counterparties and groups and industry sectors.

The Bank controls the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Credit risk limits on products, industries and countries are annually approved by the Bank's Board.

Exposure to credit risk is managed through regular analysis of the current and potential borrowers' ability to repay the interest and principal amount and through changes in credit limits, if applicable.

Presented below are other specific control methods and measures for mitigation of credit risk.

*(a) Collateral.* The Bank uses a range of methodologies and practices to mitigate the credit risk. The most common of them is to receive the collateral for loans issued which is generally acceptable practice. The Bank applies the instructions on acceptability of the special groups of collateral or credit risk mitigation.

Presented below are the main types of collateral on loans and advances:

- guarantee letter;
- buildings;
- equipment;
- deposits;
- housing;

Collateral in the form of guarantee for financial assets other than loans and advances is determined by the type of instrument. Debt securities, treasury bonds and other acceptable securities usually are not collateralised.

*(b) Limits.* The Bank's Credit Committee makes the decision on issue of borrowing within the limits provided by the Board of Directors. For borrowings exceeding the limits the Bank requests the individual decision of the Board of Directors.

*(c) Risk concentration for financial assets exposed to credit risk.* The Bank's management is focused on the risk concentration:

- Maximum risk amount for one borrower or borrowers group – not exceeding 25% of the Bank's equity;
- Maximum risk amount for unsecured loans – not exceeding 10% of the Bank's equity;
- The Bank's aggregate risk amount for one borrower (each risk exceeding 10% of the Bank's equity) should not exceed the Bank's equity for more than five times;
- Maximum risk amount for borrowers which have the special relations with the Bank – not exceeding 10% of the Bank's equity;
- Aggregate risk amount for borrowers which have the special relations with the Bank should not exceed the Bank's equity;

**Impairment and provisioning policy.** Internal and external rating systems described above are mainly focused on reflection of the credit quality from the commencement of lending and investment activities. On the contrary, for the purposes of financial statements, the impairment provisions are recognized only in terms of loss incurred at the reporting date on the basis of the objective evidences of impairment. Since the different methodologies are used, loss incurred on loans and stated in the financial statements is usually lower than loss determined by the expected loss model used for the purposes of internal management and compliance with the bank instructions.

## **25. Financial Risk Management (Continued)**

Internal assessment mechanism allows the management to determine whether the objective evidence of impairment exists according to IAS 39 on the basis of the following criteria established by the Bank:

- Delay in contract repayment of principal or interest;
- Difficulties entailed by the borrower in terms of cash flows (e.g. independence rate, net profit share of sales amount);
- Violation of loan agreements or conditions;
- Initiation of bankruptcy procedures;
- Decrease in collateral value;

The Bank's policy envisages the examination of the individual financial assets exceeding the determined materiality threshold at least once a year under the circumstances. Impairment provisions on individually assessed accounts are determined through assessment of loss incurred at the reporting date for each case and applied to all individually significant accounts.

Such assessment usually covers the current collateral (including its foreclosure possibility) and expected repayments on individual account.

Aggregate Impairment provisions are made for: portfolio of identical assets which on individual basis are lower than materiality level; and (ii) loss incurred but not identified using the historical experience, judgements and statistic methods.

The Bank's maximum credit risk is stated within carrying amount of financial assets in the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 27.

The Bank reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 25.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

**Market risk.** The Bank is exposed to market risk related to open positions in (a) currency, (b) interest and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted which are monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Currency risk.** In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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**25. Financial Risk Management (Continued)**

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Kazakhstani Tenge</i>	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
<b>2011</b>			
Tenge	13,463,719	(3,178,796)	10,284,923
US Dollars	1,942,592	(1,867,158)	75,434
Euro	198,132	(191,903)	6,229
Other	15,634	(13,890)	1,744
<b>Total</b>	<b>15,620,077</b>	<b>(5,251,747)</b>	<b>10,368,330</b>
<b>2010</b>			
Tenge	8,062,375	(2,964,976)	5,097,399
US Dollars	1,573,951	(1,647,735)	(73,784)
Euro	193,104	(124,946)	68,158
Other	36,286	(23,922)	12,364
<b>Total</b>	<b>9,865,716</b>	<b>(4,761,579)</b>	<b>5,104,139</b>

The above analysis includes only monetary assets and liabilities. The Bank believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

<i>In thousands of Kazakhstani Tenge</i>	2011 Impact on profit or loss	2010 Impact on profit or loss
US Dollar strengthening by 10% (2010: ) 10%)	(7,543)	7,378
US Dollar weakening by 10% (2010: 10%)	7,543	(7,378)
Euro strengthening by 3% (2010: 10%)	(623)	(6,816)
Euro weakening by 3% (2010: 10%)	623	6,816
Other currency strengthening by 10% (2010: 10%)	(174)	(1,236)
Other currency weakening by 10% (2010: 10%)	174	1,236
<b>Total strengthening</b>	<b>(8,341)</b>	<b>(674)</b>
<b>Total weakening</b>	<b>8,341</b>	<b>674</b>

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank. Effect on equity will be the same as on the statement of comprehensive income.

## 25. Financial Risk Management (Continued)

**Interest rate risk.** The Bank takes on exposure 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 reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Interest rate risk is determined as exposure of the Bank's financial position to unfavourable fluctuations in market interest rates. The Bank takes on exposure 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 reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of Interest rate repricing that may be undertaken.

The Bank applies the gap analysis for management of interest rate risk. The Bank classifies the financial assets and financial liabilities by the earliest from maturities or interest rate revision and determines the gap for each class. Positive gap means that increase in interest rates with the determined maturity will result in increase in net interest income (decrease in interest rates will result in decrease in net interest income). Negative gap means that increase in interest rates with the determined maturity will result in decrease in net interest income (decrease in interest rates will result in increase in net interest income).

When increase in interest rate is expected, the Bank increases the repayment periods, decreases the loans with fixed rate, decreases the maturities of investment portfolio, and decreases investments in securities and credit facilities.

When decrease in interest rate is expected, the Bank decreases the repayment periods, increases the loans with fixed rate, increases the maturities of investment portfolio and credit facilities.

To mitigate the interest rate risk, the Bank uses reserves with inclusion into the loan agreements the conditions on variable interest rates and early repayment; changes the interest rates on deposits; can sign the agreements on swaps and options; as well as revises the structure of loan portfolio.

The below table presents the model used by the Bank for monitoring of its exposure to interest rate risk at 31 December 2011 and 31 December 2010. The table also presents the carrying amounts of the Bank's financial assets and liabilities, categorized by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Kazakhstani Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Above 5 years	Total
<b>31 December 2011</b>						
Total financial assets	4,133,094	4,718,159	887,057	5,494,295	387,472	15,620,077
Total financial liabilities	5,145,112	821	95,426	10,388	-	5,251,747
<b>Net interest rates gap at 31 December 2011</b>	<b>(1,012,018)</b>	<b>4,717,338</b>	<b>791,631</b>	<b>5,483,907</b>	<b>387,472</b>	<b>10,368,330</b>
<b>31 December 2010</b>						
Total financial assets	4,908,842	2,105,000	231,363	2,400,422	220,091	9,865,718
Total financial liabilities	4,666,440	61,464	14,072	19,602	-	4,761,578
<b>Net interest rates gap at 31 December 2010 (adjusted)</b>	<b>242,402</b>	<b>2,043,536</b>	<b>217,291</b>	<b>2,380,820</b>	<b>220,091</b>	<b>5,104,140</b>

## 25. Financial Risk Management (Continued)

The Bank also determines the income from risk, i.e. effect of certain parallel change in interest rates on potential income before taxation on non-trading portfolio for this period. The Bank classifies the financial assets and liabilities at the reporting date into groups on expected maturities (but not for contractual maturities) or repricing period. The Bank determines the gaps in maturities from one day to five years. The Bank applies the possible fluctuations in interest rates in terms of gaps identified and determines the effect on profit.

If interest rates had been 200 basis points higher at 31 December 2011 (31 December 2010: 200 basis points lower), with all other variables held constant, profit for the year would have been Tenge 11,364 thousand higher (31 December 2010: Tenge 11,624 thousand higher), mainly as a result of lower interest expense on interest liabilities.

If interest rates had been 200 basis points lower at 31 December 2011 (31 December 2010: 200 basis points higher), with all other variables held constant, profit for the year would have been Tenge 11,364 thousand lower (31 December 2010: Tenge 11,624 thousand lower), mainly as a result of lower interest expense on interest liabilities.

In % p.a.	2011		2010	
	Tenge	US Dollars	Tenge	US Dollars
<b>Assets</b>				
Cash and cash equivalents	-	-	-	-
Due from other banks	-	0,5-6%	-	0,0-0,5%
Loans and advances to customers	8-20%	6-20%	8-20%	6-20%
<b>Liabilities</b>				
Due to other banks	-	6%	-	-
Customer accounts:				
Individuals				
- current/demand accounts	-	-	-	-
- term deposits	1%	0,5-1,8%	1-2%	1-2%
Legal entities				
- current/demand accounts	-	-	-	-
- term deposits	-	-	1-2%	1-2%

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

**Other price risk.** The Bank is exposed to prepayment risk through providing loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's profit and loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortized cost and the prepayment right is at or close to the amortized cost of the loans and advances to customers (2010: no material impact). The Bank's Treasury controls and authorizes the equity instrument transactions, controlling dividend income from equity instrument. Sensitivity of assumptions used for instruments revaluation is presented in Note 4.



25. Financial Risk Management (Continued)

*Geographical risk concentrations.* The geographical concentration of the Bank's financial assets and liabilities at 31 December 2011 is set out below:

<i>In thousands of Kazakhstani Tenge</i>	Kazakhstan	OECD	Other countries	Total
<b>Assets</b>				
Cash and cash equivalents	2,946,472	832,472	-	3,778,944
Due from other banks	-	-	297,047	297,047
Loans and advances to customers	3,891,059	-	-	3,891,059
Investment securities available for sale	7,001	-	-	7,001
Investment securities held to maturity	7,634,354	-	-	7,634,354
Other financial assets	11,672	-	-	11,672
<b>Total financial assets</b>	<b>14,490,558</b>	<b>832,472</b>	<b>297,047</b>	<b>15,620,077</b>
<b>Non-financial assets</b>	<b>1,348,172</b>	<b>-</b>	<b>-</b>	<b>1,348,172</b>
<b>Total assets</b>	<b>15,838,730</b>	<b>832,472</b>	<b>297,047</b>	<b>16,968,249</b>
<b>Liabilities</b>				
Due to other banks	1,026	-	-	1,026
Customer accounts	5,238,073	-	-	5,238,073
Other financial liabilities	12,648	-	-	12,648
<b>Total financial liabilities</b>	<b>5,251,747</b>	<b>-</b>	<b>-</b>	<b>5,251,747</b>
<b>Non-financial liabilities</b>	<b>111,436</b>	<b>-</b>	<b>-</b>	<b>111,436</b>
<b>Total liabilities</b>	<b>5,363,183</b>	<b>-</b>	<b>-</b>	<b>5,363,183</b>
<b>Net balance sheet position at 31 December 2010</b>	<b>10,475,547</b>	<b>832,472</b>	<b>297,047</b>	<b>11,605,066</b>
<b>Credit related commitments (Note 27)</b>	<b>1,845,848</b>	<b>-</b>	<b>-</b>	<b>1,845,848</b>

## 25. Financial Risk Management (Continued)

The concentration of the Bank's financial assets and liabilities at 31 December 2010 is set out below:

<i>In thousands of Kazakhstani Tenge</i>	Kazakhstan	OECD	Other countries	Total
<b>Assets</b>				
Cash and cash equivalents	1,978,587	705,393	12,667	2,696,647
Loans and advances to customers	3,264,630	-	-	3,264,630
Investment securities available for sale	7,001	-	-	7,001
Investment securities held to maturity	3,894,339	-	-	3,894,339
Other financial assets	3,101	-	-	3,101
<b>Total financial assets</b>	<b>9,147,658</b>	<b>705,393</b>	<b>12,667</b>	<b>9,865,718</b>
<b>Non-financial assets</b>	<b>1,383,212</b>	<b>-</b>	<b>-</b>	<b>1,383,212</b>
<b>Total assets</b>	<b>10,530,870</b>	<b>705,393</b>	<b>12,667</b>	<b>11,248,930</b>
<b>Liabilities</b>				
Due to other banks	1,311	-	-	1,311
Customer accounts	4,714,588	-	-	4,714,588
Other financial liabilities	45,679	-	-	45,679
<b>Total financial liabilities</b>	<b>4,761,578</b>	<b>-</b>	<b>-</b>	<b>4,761,578</b>
<b>Non-financial liabilities</b>	<b>103,165</b>	<b>-</b>	<b>-</b>	<b>103,165</b>
<b>Total liabilities</b>	<b>4,864,743</b>	<b>-</b>	<b>-</b>	<b>4,864,743</b>
<b>Net balance sheet position at 31 December 2010</b>	<b>5,666,127</b>	<b>705,393</b>	<b>12,667</b>	<b>6,384,187</b>
<b>Credit related commitments (Note 27)</b>	<b>1,001,518</b>	<b>-</b>	<b>-</b>	<b>1,001,518</b>

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

The Bank maintains a portfolio of highly marketable assets that can be easily sold in the event of an unforeseen interruption of cash inflows.

In addition, the Bank maintains an obligatory reserve with the National Bank of Kazakhstan, the amount of which could, apart from maintaining the liquidity level, serve as the source of maintaining the minimum reserve requirements. The Bank continuously monitors and complies with certain liquidity ratios established by NBRK.

## 25. Financial Risk Management (Continued)

### Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted repayment obligations. Liabilities which are subject to the first notice are treated as if notice is given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

The maturity analysis of financial instruments at 31 December 2011 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
<b>Liabilities</b>					
Due to other banks	1,031	-	-	-	1,031
Customer accounts	5,133,665	1,088	96,220	10,648	5,241,621
Other financial liabilities	12,648	-	-	-	12,648
<b>Total potential future payments on financial liabilities</b>	<b>5,147,344</b>	<b>1,088</b>	<b>96,220</b>	<b>10,648</b>	<b>5,255,300</b>

The maturity analysis of financial instruments at 31 December 2010 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
<b>Liabilities</b>					
Due to other banks	1,318	-	-	-	1,318
Customer accounts	4,620,452	61,583	14,198	19,847	4,716,080
Other financial liabilities	12,648	-	-	-	12,648
<b>Total potential future payments on financial liabilities</b>	<b>4,634,418</b>	<b>61,583</b>	<b>14,198</b>	<b>19,847</b>	<b>4,730,046</b>

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**25. Financial Risk Management (Continued)**

The Bank does not use the above maturity analysis without discounting to manage liquidity. Instead, the Bank controls the contractual maturities at 31 December 2011 presented in the below table.

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Over 12 months</b>	<b>Above 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	3,778,944	-	-	-	-	3,778,944
Due from other banks	-	-	-	297,047	-	297,047
Loans and advances to customers	135,644	131,899	392,081	2,843,963	387,472	3,891,059
Investment securities available for sale	7,001	-	-	-	-	7,001
Investment securities held to maturity	199,833	4,586,260	494,976	2,353,285	-	7,634,354
Other financial assets	11,672	-	-	-	-	11,672
<b>Total financial assets</b>	<b>4,133,094</b>	<b>4,718,159</b>	<b>887,057</b>	<b>5,494,295</b>	<b>387,472</b>	<b>15,620,077</b>
<b>Non-financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,348,172</b>
<b>Total assets</b>	<b>4,133,094</b>	<b>4,718,159</b>	<b>887,057</b>	<b>5,494,295</b>	<b>387,472</b>	<b>16,968,249</b>
<b>Liabilities</b>						
Due to other banks	1,026	-	-	-	-	1,026
Customer accounts	5,131,438	821	95,426	10,388	-	5,238,073
Other financial liabilities	12,648	-	-	-	-	12,648
<b>Total financial liabilities</b>	<b>5,145,112</b>	<b>821</b>	<b>95,426</b>	<b>10,388</b>	<b>-</b>	<b>5,251,747</b>
<b>Non-financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>111,436</b>
<b>Total liabilities</b>	<b>5,145,112</b>	<b>821</b>	<b>95,426</b>	<b>10,388</b>	<b>-</b>	<b>5,363,183</b>
<b>Net liquidity gap on remaining maturities</b>	<b>(1,012,018)</b>	<b>4,717,338</b>	<b>791,631</b>	<b>5,483,907</b>	<b>387,472</b>	<b>10,368,330</b>
<b>Aggregate liquidity gap at 31 December 2010</b>	<b>(1,012,018)</b>	<b>3,705,320</b>	<b>5,508,969</b>	<b>6,275,538</b>	<b>5,871,379</b>	

## 25. Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2010 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Above 5 years	Total
<b>Assets</b>						
Cash and cash equivalents	2,696,647	-	-	-	-	2,696,647
Loans and advances to customers	187,429	225,325	231,363	2,400,422	220,091	3,264,630
Investment securities available for sale	7,001	-	-	-	-	7,001
Investment securities held to maturity	2,014,664	1,879,675	-	-	-	3,894,339
Other financial assets	3,101	-	-	-	-	3,101
<b>Total financial assets</b>	<b>4,908,842</b>	<b>2,105,000</b>	<b>231,363</b>	<b>2,400,422</b>	<b>220,091</b>	<b>9,865,718</b>
<b>Non-financial assets</b>	-	-	-	-	-	<b>1,383,212</b>
<b>Total assets</b>	<b>4,908,842</b>	<b>2,105,000</b>	<b>231,363</b>	<b>2,400,422</b>	<b>220,091</b>	<b>11,248,930</b>
<b>Liabilities</b>						
Due to other banks	1,311	-	-	-	-	1,311
Customer accounts	4,619,450	61,464	14,072	19,602	-	4,714,588
Other financial liabilities	45,679	-	-	-	-	45,679
<b>Total financial liabilities</b>	<b>4,666,440</b>	<b>61,464</b>	<b>14,072</b>	<b>19,602</b>	-	<b>4,761,578</b>
<b>Non-financial liabilities</b>	-	-	-	-	-	<b>103,165</b>
<b>Total liabilities</b>	<b>4,666,440</b>	<b>61,464</b>	<b>14,072</b>	<b>19,602</b>	-	<b>4,864,743</b>
<b>Net liquidity gap on remaining maturities</b>	<b>242,402</b>	<b>2,043,536</b>	<b>217,291</b>	<b>2,380,820</b>	<b>220,091</b>	<b>5,104,140</b>
<b>Aggregate liquidity gap at 31 December 2009</b>	<b>242,402</b>	<b>2,285,938</b>	<b>2,260,827</b>	<b>2,598,111</b>	<b>2,600,911</b>	

## 26. Management of Capital

The Bank actively manages the capital adequacy to cover risk inherent in the business. The Bank's capital adequacy is monitored using, among other measures, the ratios established by the NBRK in supervising the Bank.

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

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

**NBRK capital adequacy ratio.** NBRK requires banks to maintain a tier 1 capital adequacy ratio of at least 6% of total assets and total capital adequacy ratio of at least 12% of risk-weighted assets. In 2011 and 2010, risk-weighted assets calculated in accordance with the NBRK methodology were derived from the Bank's financial statements prepared in accordance with NBRK methodology. At 31 December 2011, the Bank's capital adequacy ratios on this basis were as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011	31 December 2010
<b>Tier 1 capital</b>		
Charter capital	10,000,000	5,010,000
Provisions	575,551	539,417
Retained earnings of prior years	30,030	110,079
Deferred tax liability	58,265	-
Deductions from capital		
Intangible assets	(8,531)	(8,961)
<b>Total tier 1 capital</b>	<b>10,655,315</b>	<b>5,650,535</b>
<b>Tier 2 capital</b>		
Retained earnings of current year	305,448	102,138
Revaluation reserves	225,062	247,298
General reserves	55,793	49,059
Deferred tax liability	5,773	-
<b>Total tier 2 capital</b>	<b>592,076</b>	<b>398,495</b>
<b>Total equity</b>	<b>11,247,391</b>	<b>6,049,030</b>

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of credit, market, operational and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank's K1, K1-2 and K2 ratios were:

	31 December 2011	31 December 2010
K1	0.64%	0.52%
K1-2	1.48%	0.91%
K2	1.56%	0.98%

The Bank does not have any external requirements established in respect of its capital.

## 27. Contingencies and Commitments

**Tax legislation.** The tax and customs legislation within the Republic of Kazakhstan is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. The Kazakhstani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Republic of Kazakhstan and the changes in the approach of the Kazakhstani tax authorities, that such transfer prices could be challenged. Given the brief nature of the current transfer pricing rules of Kazakhstan, the impact of any such challenge cannot be reliably estimated; However, it may be significant to the financial position and/or the overall operations of the entity.

Kazakhstan tax legislation does not provide clear guidance on certain tax issues. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

**Capital expenditure commitments.** At 31 December 2011 the Bank does not have any contractual capital expenditure commitments in respect of premises and equipment or software and other intangible assets (31 December 2010: nil).

**Compliance with covenants.** The Bank is not subject to any covenants.

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Undrawn credit lines represent unused portions of credit facilities approved for which credit agreements have been signed with clients. The Bank does not have a legal commitment to extend unused credit lines.

Commitments to extend credit represent the Bank's unconditional commitment to extend credit to clients.

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2011	2010
Liabilities on future placement of customer loans	1,845,848	1,001,518
Guarantees issued	1,136,616	1,257,594
Undrawn credit lines	83,318	75,700
<b>Total contractual commitments</b>	<b>3,065,782</b>	<b>2,334,812</b>

## 27. Contingencies and Commitments (Continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was Tenge 1,845,848 thousand at 31 December 2011 (31 December 2010: Tenge 1,001,518 thousand). Credit related commitments are denominated in the following currencies:

<i>In thousands of Kazakhstani Tenge</i>	2011	2010
Tenge	282,613	91,559
US Dollars	1,563,235	909,959
<b>Total</b>	<b>1,845,848</b>	<b>1,001,518</b>

## 28. Fair Value of Financial Instruments

### (a) Fair values of financial instruments carried at amortized cost.

Fair values of financial instruments carried at amortized cost are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2011		2010	
	Total fair value	Carrying value	Total fair value	Carrying value
<b>FINANCIAL ASSETS</b>				
<i>Cash and cash equivalents</i>				
Cash on hand	931,138	931,138	822,456	822,456
Cash balances with the NBRK (other than mandatory reserves)	1,847,229	1,847,229	1,044,221	1,044,221
Mandatory reserves with the NBRK	143,948	143,948	86,463	86,463
Correspondent accounts with other banks	856,629	856,629	743,507	743,507
<i>Due from other banks</i>				
Current placements with other banks with original maturity of above three months	297,047	297,047	-	-
<i>Loans and advances to customers</i>				
Loans issued to major customers	1,041,550	1,041,550	637,982	637,982
Loans issued to enterprises of small and medium business	1,047,771	1,047,771	1,291,506	1,291,506
Consumer loans	1,284,744	1,277,047	814,175	814,175
Mortgage loans	516,994	516,994	520,967	520,967
<i>Other financial assets</i>				
Fee and commissions receivable from customers	4,746	4,746	2,211	2,211
Other	6,926	6,926	890	890
<b>TOTAL FINANCIAL ASSETS RECOGNISED AT AMORTISED COST</b>	<b>7,978,722</b>	<b>7,978,722</b>	<b>5,964,378</b>	<b>5,964,378</b>



28. Fair Value of Financial Instruments (Continued)

<i>In thousands of Kazakhstani Tenge</i>	2011		2010	
	Total fair value	Carrying value	Total fair value	Carrying value
<b>FINANCIAL LIABILITIES</b>				
<i>Due to other banks</i>				
Long-term placements with other banks	1,026	1,026	1,311	1,311
<i>Customer accounts</i>				
Current/settlement accounts state and public organizations	177,985	177,985	441,883	441,883
Current/settlement accounts of other legal entities	3,612,045	3,612,045	2,761,664	2,761,664
Term deposits of other legal entities	114,732	114,732	137,657	137,657
Current/settlement accounts individuals	1,241,094	1,241,094	1,258,651	1,258,651
Term deposits of individuals	92,217	92,217	114,733	114,733
<i>Other liabilities</i>				
Settlements with customers	12,648	12,648	45,679	45,679
<b>TOTAL FINANCIAL LIABILITIES RECOGNISED AT AMORTISED COST</b>	<b>5,251,747</b>	<b>5,251,747</b>	<b>4,761,578</b>	<b>4,761,578</b>

Corporate loans were granted by the Bank at the rates similar to the market with an adjustment to a credit risk associated with a borrower, therefore it is considered the carrying value of such loans is equal to their fair value.

*(b) Analysis by fair value hierarchy of financial instruments carried at fair value.*

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Effective 1 January 2009, the Bank adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

In the current year the Bank does not have any financial instruments recognized at fair value.

*(c) Reconciliation of movements in instruments belonging to level 3 of the fair value hierarchy.*

No derivatives were included as Level 3 Instruments since they are traded in an active market.

## 28. Fair Value of Financial Instruments (Continued)

### (d) The methods and assumptions applied in determining fair values

Fair value is the amount at which a financial Instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value is best evidenced by an active quoted market price of the Instrument. Where quoted market prices are not available, the Bank uses valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new Instruments with similar credit risk and remaining maturity.

The total net fair value gain estimated determined using valuation techniques and recognized in profit or loss was nil for 2011 (2010: nil).

Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

**Loans and receivables carried at amortized cost.** Fair value of floating rate instruments is usually equal to their carrying value. The fair value of unquoted fixed interest rate Instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. Analysis of these discount rates is presented below:

	2011	2010
<b>Loans and advances to customers</b>		
Loans issued to major customers	6%-15% p.a.	10%-13% p.a.
Loans to small and medium enterprises	10%-18% p.a.	10%-18% p.a.
Consumer loans	6%-20% p.a.	6%-20% p.a.
Mortgage loans	3%-20% p.a.	8%-20% p.a.

For loans and advances to customers, fair value incorporates expected future losses while the carrying value (amortized cost and related impairment) Includes only incurred losses at the end of the reporting period.

**Liabilities carried at amortized cost.** The fair value of subordinated debt and notes issued on the domestic market is based on quoted market prices. The estimated fair value of unquoted fixed interest rate instruments with stated maturity is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or prior notice ("liabilities repayable on demand") is determined as an amount payable on demand discounted over the period starting from the first date of a potential claim for repayment. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 4 to 14 percent per annum (2010: from 4 to 14 percent per annum).

## 29. Reconciliation of Financial Instruments Classes to Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, the Bank classifies its financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

<i>In thousands of Kazakhstani Tenge</i>	Loans and receivables	Assets available for sale	Total
<b>FINANCIAL ASSETS</b>			
Cash and cash equivalents	3,778,944	-	3,778,944
Due from other banks	297,047	-	297,047
<b>Loans and advances to customers</b>			
Loans issued to major customers	1,041,550	-	1,041,550
Loans to small and medium enterprises	1,047,771	-	1,047,771
Consumer loans	1,284,744	-	1,284,744
Mortgage loans	516,994	-	516,994
Investment securities held to maturity	7,634,354	-	7,634,354
Investment securities available for sale	7,001	-	7,001
Other financial assets	11,672	-	11,672
<b>TOTAL FINANCIAL ASSETS</b>	<b>15,620,077</b>	<b>-</b>	<b>15,620,077</b>
<b>FINANCIAL ASSETS</b>			
Cash and cash equivalents	2,696,647	-	2,696,647
<b>Loans and advances to customers</b>			
Loans issued to major customers	637,982	-	637,982
Loans to small and medium enterprises	1,291,506	-	1,291,506
Consumer loans	814,175	-	814,175
Mortgage loans	520,967	-	520,967
Investment securities held to maturity	3,894,339	-	3,894,339
Investment securities available for sale	7,001	-	7,001
Other financial assets	3,101	-	3,101
<b>TOTAL FINANCIAL ASSETS</b>	<b>9,865,718</b>	<b>-</b>	<b>9,865,718</b>

All of the Bank's financial assets except for derivatives and investments in stock exchange are carried at amortized cost as at 31 December 2011 and 31 December 2010. Derivatives belong to the fair value through profit or loss measurement category. Investments into stock exchange do not have any quoted prices at active market neither their fair value can be determined reliably, therefore they are recognized at historical cost.

All liabilities in the statement of financial position are recorded at amortized cost.

### 30. Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2011, the outstanding balances with related parties were as follows:

	Shareholders	Key management personnel	Entities under common control	Total
<i>In thousands of Kazakhstani Tenge</i>				
Loans and advances to customers	-	75,426	-	75,426
Customer accounts	-	712	54,277	55,004
Other liabilities	4,767	-	1,026	5,793

The income and expense items with related parties for 2011 were as follows:

	Key management personnel	Total
<i>In thousands of Kazakhstani Tenge</i>		
Interest income	12,064	12,064

At 31 December 2010, the outstanding balances with related parties were as follows:

	Shareholders	Key management personnel	Entities under common control	Total
<i>In thousands of Kazakhstani Tenge</i>				
Loans and advances to customers	-	79,378	-	79,378
Customer accounts	-	678	337,617	338,295
Other liabilities	30,106	-	31,417	61,523

The income and expense items with related parties for 2010 were as follows:

	Key management personnel	Total
<i>In thousands of Kazakhstani Tenge</i>		
Interest income	7,231	7,231

Key management compensation is presented below:

	2010	2009
<i>In thousands of Kazakhstani Tenge</i>		
Current payments:		
- Salaries and other current payments	53,807	47,794
- Social security payments	1,930	3,719

### 31. Events After the End of the Reporting Period

There are no events after the end of the reporting period which would require adjustment to or disclosure in these financial statements.