



Agrarian Credit Corporation JSC
Financial Statements

Year ended 31 December 2011
Together with Independent Auditors' Report

Ernst & Young

 **ERNST & YOUNG**

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of Agrarian Credit Corporation JSC

We have audited the accompanying financial statements of Agrarian Credit Corporation JSC, which comprise the statement of financial position as at 31 December 2011, and the income statement, statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLP



Evgeny Zhemaletdinov
Auditor / General Director
Ernst and Young LLP



State license on auditing of the Republic of
Kazakhstan : Number 0000003, type MFU - 2,
given by the Ministry of Finance of the Republic of
Kazakhstan dated 15 July 2005

Qualification certificate № 0000553 dated
24 December 2003.

26 March 2012

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

(in thousands of Kazakhstani tenge)

	Notes	2011	2010
Assets			
Cash and cash equivalents	5	5,123,360	9,503,433
Derivative financial instruments	6	348,963	534,299
Loans to customers	7	80,622,405	62,736,759
Assets held for sale	8	167,666	319,979
Current income tax assets	16	271,429	310,109
Property and equipment	9	232,920	205,970
Intangible assets	10	283,726	321,604
Deferred income tax assets	16	943,017	923,355
Other assets		51,600	58,938
Total assets		88,045,086	74,914,446
Liabilities			
Amounts due to a credit institution	11	6,776,149	12,474,053
Amounts due to a shareholder	12	14,807,777	11,898,612
Debt securities issued	13	5,506,297	4,778,281
Amounts due to the Government of the Republic of Kazakhstan	14	—	347,725
Amounts due to government-related entities	15	134,852	235,166
Other liabilities		150,014	99,399
Total liabilities		27,375,089	29,833,236
Equity			
Share capital	17	65,349,371	48,649,371
Additional paid-in capital		3,904,973	2,849,181
Reserve capital		533,203	481,883
Deemed distribution reserve		(4,655,348)	(2,319,198)
Accumulated deficit		(4,462,202)	(4,580,027)
Total equity		60,669,997	45,081,210
Total liabilities and equity		88,045,086	74,914,446

Signed and authorized for release on behalf of the Management Board of the Corporation:

Makhazhanov Dauren Sabytovich



Zaitullaeva Irina Nikolayevna

Chairman of the Board

Chief Accountant

26 March 2012

The accompanying notes on pages 6 to 31 are an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2011
(in thousands of Kazakhstani tenge)

	Notes	2011	2010
Interest income			
Loans to customers		6,649,895	5,504,255
Cash and cash equivalents		503,158	651,901
		<u>7,153,053</u>	<u>6,156,156</u>
Interest expense			
Amounts due to a credit institution		(1,254,409)	(1,754,979)
Amounts due to a shareholder		(878,155)	(603,790)
Debt securities issued		(462,279)	(395,242)
Amounts due to government related entities		(7,503)	(51,008)
Amounts due to the Government of the Republic of Kazakhstan		(1,637)	(4,720)
		<u>(2,603,983)</u>	<u>(2,809,739)</u>
Net interest income			
Loan impairment charge	7	(2,764,349)	(643,013)
		<u>1,784,721</u>	<u>2,703,404</u>
Net interest income after loan impairment charge			
Net gains/ (losses) on derivative financial instruments	6	243,570	(1,612,498)
Net translation (losses)/ gains from foreign currencies		(46,218)	114,986
Impairment of assets held for sale	8	(2,293)	(12,354)
Other income/(expense)		21,253	(4,131)
		<u>216,312</u>	<u>(1,513,997)</u>
Non-interest income/(expense)			
Personnel expenses	19	(1,010,970)	(715,910)
Other operating expenses	19	(520,490)	(335,897)
		<u>(1,531,460)</u>	<u>(1,051,807)</u>
Profit before income tax expense			
Income tax expense	16	(300,428)	(86,280)
		<u>169,145</u>	<u>51,320</u>
Profit for the year			
Basic and diluted earnings per share in KZT			
	20	3.21	1.17

Signed and authorized for release on behalf of the Management Board of the Corporation:

Makhazhanov Dauren Sabytovich

Zaitullaeva Irina Nikolayevna



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Chairman of the Board

Chief Accountant

The accompanying notes on pages 6 to 31 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(in thousands of Kazakhstani tenge)

	Note	2011	2010
Profit for the year		169,145	51,320
Other comprehensive loss			
Deemed distribution reserve	17	(2,920,188)	(2,254,567)
Initial recognition of income on loans acquired below market rates	17	1,319,740	1,895,111
Deferred income tax benefit	16	320,090	101,069
Other comprehensive loss, net of taxes		(1,280,358)	(258,387)
Total comprehensive loss for the year		(1,111,213)	(207,067)

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Makhazhanov Dauren Sabytovich



Zaitullaeva Irina Nikolayevna

Chairman of the Board

Chief Accountant

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(in thousands of Kazakhstani tenge)

	Share capital	Additional paid-in capital	Reserve capital	Deemed distributio n reserve	Accumu- lated losses	Total
At 31 December 2009	36,649,371	1,264,176	481,883	(475,806)	(4,631,347)	33,288,277
Total comprehensive loss for the year	–	1,585,005	–	(1,843,392)	51,320	(207,067)
Issue of share capital (Note 17)	12,000,000	–	–	–	–	12,000,000
At 31 December 2010	48,649,371	2,849,181	481,883	(2,319,198)	(4,580,027)	45,081,210
Total comprehensive loss for the year	–	1,055,792	–	(2,336,150)	169,145	(1,111,213)
Issue of share capital (Note 17)	16,700,000	–	–	–	–	16,700,000
Transfer to reserve capital (Note 17)	–	–	51,320	–	(51,320)	–
At 31 December 2011	65,349,371	3,904,973	533,203	(4,655,348)	(4,462,202)	60,669,997

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Zaitullaeva Irina Nikolayevna

Chairman of the Board

Chief Accountant

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(in thousands of Kazakhstani tenge)

	Notes	2011	2010
Cash flows from operating activities:			
Interest received		4,299,013	4,092,619
Interest paid		(1,581,946)	(2,260,276)
Realized gain on derivative financial instruments	6	145,047	663,555
Realized (loss)/gain from translations with foreign currencies		(40,000)	42,400
Personnel expenses paid		(1,000,668)	(714,168)
Operating expenses paid		(435,697)	(240,525)
Cash flows from operating activities before changes in operating assets and liabilities		1,385,749	1,583,605
<i>Net decrease/ (increase) in operating assets</i>			
Loans to customers		(20,515,084)	(499,781)
Other assets		7,338	(10,118)
<i>Net increase/ (decrease) in operating liabilities</i>			
Amounts due to the government-related entities		(104,239)	(154,385)
Amounts due to the Government of the Republic of Kazakhstan		(341,266)	(635,212)
Other liabilities		45,447	(9,934)
Net cash flows used in operating activities before income tax		(19,522,055)	274,175
Income tax paid		–	(25,029)
Net cash used in operating activities		(19,522,055)	249,146
Cash flows from investing activities			
Proceeds from disposal of assets held for sale	8	150,020	182,734
Purchase of property and equipment	9	(52,897)	(16,367)
Purchase of intangible assets	10	(4,846)	(18,224)
Net cash from investing activities		92,277	148,143
Cash flows from financing activities			
Proceeds from issue of share capital	17	16,700,000	12,000,000
Redemption of amounts due to a credit institution		(5,895,200)	(5,885,534)
Proceeds from amounts due to Shareholder		25,728,357	50,123,155
Redemption of amounts due to Shareholder		(22,136,565)	(52,081,192)
Proceeds from debt securities		2,580,319	1,790,432
Redemption of debt securities issued		(1,927,206)	(140,451)
Net cash from financing activities		15,049,705	5,836,410
Net (decrease)/ increase in cash and cash equivalents		(4,380,073)	6,233,699
Cash and cash equivalents, beginning	5	9,503,433	3,269,734
Cash and cash equivalents, ending	5	5,123,360	9,503,433
Non-cash transactions:			
Net off of debt securities issued against loans to customers (Note 13)	13	72,928	138,313

Signed and authorized for release on behalf of the Management Board of the Corporation:

Makhazhanov Dauren Sabytovich



Zaitullaeva Irina Nikolayevna

Chairman of the Board

Chief Accountant

The accompanying notes on pages 6 to 31 are an integral part of these financial statements.

Notes to 2011 financial statements
(in thousands of Kazakhstani tenge)

1. Principal activities

Agrarian Credit Corporation JSC (the "Corporation") was established by the Decree of the Government of the Republic of Kazakhstan No. 137 dated 25 January 2001 "On certain agricultural issues" in the form of a joint stock company in accordance with Kazakhstan. The Corporation performs its activities on the basis of a license issued by the Committee on Regulation and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan (the "FMSC") for conducting operations specified by the banking legislation of the Republic of Kazakhstan No. 24 dated 3 February 2006. Additionally, the Corporation has a status of a financial agency assigned by the resolution of the FMSC Management Board dated 30 July 2005 No. 274.

The main activities of the Corporation are as follows:

- ▶ participation in the development and implementation of state programs of lending and providing financial support to agricultural producers;
- ▶ to attract domestic and foreign investments for realization of projects in agricultural sector;
- ▶ development and realization of projects in agricultural sector;
- ▶ realization of collateral and agricultural products received for repayment of loans originated;
- ▶ to perform bank operations based on appropriate license; and
- ▶ to perform leasing operations.

The Corporation's registered office is: 11 Imanov Street, Astana, Republic of Kazakhstan.

The sole shareholder of the Corporation is JSC National Management Holding "KazAgro" ("KazAgro" or "Shareholder"). The ultimate shareholder of KazAgro is the Government of the Republic of Kazakhstan.

As at 31 December 2011 and 2010 the Corporation has 13 registered branches throughout Kazakhstan.

2. Basis of preparation

General

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

These financial statements have been prepared under the historical cost convention except for those discussed in section "Summary of significant accounting policies". For example, derivative financial instruments are carried at fair value, assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell.

These financial statements are presented in thousands of Kazakhstani Tenge ("Tenge" or "KZT"), except per share amounts and unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

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

IAS 24 "Related party disclosures" (Revised)

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

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Corporation's financial statements.

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Corporation, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquirer's identifiable net assets.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Corporation.

The following amendments to standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Corporation:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IFRIC 14 Prepayments of a Minimum Funding Requirement

Financial assets

Initial recognition

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

Date of recognition

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

Day 1' profit

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

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Loans to customers

Loans to customers represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for assets that are classified into other categories of financial instruments.

Loans provided by the Corporation are initially recorded at fair value plus transaction costs. When the Corporation accepts a credit commitment to provide loans to customers at below market rates, a liability at fair value of these credit commitments is recorded in other liabilities together with reversing entry, which is included in income statement if the decision to undertake the obligation was adopted by the Corporation's management; or as deemed distribution to the controlling Shareholder, if the decision was adopted in accordance with controlling Shareholder's instructions. Subsequently, credit commitment is adjusted to fair value through profit and loss before granting a loan, when credit commitment is reduced by consideration paid, and remaining balance is recorded as loans issued to customers. As a result, loans to customers are initially recognized at fair value, and subsequently these loans are recorded at amortized cost, using effective interest rate. Loans to customers are recorded net of any allowances for impairment.

Determination of fair value

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

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

Offsetting

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

Cash and cash equivalents

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

Derivative financial instruments

In the normal course of business, the Corporation enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the statement of comprehensive income

Borrowings

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

Notes to 2011 financial statements (continued)

*(in thousands of Kazakhstani tenge)***3. Summary of significant accounting policies (continued)****Operating – Corporation as lessee**

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

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

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

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

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

Notes to 2011 financial statements (continued)

*(in thousands of Kazakhstani tenge)***3. Summary of significant accounting policies (continued)****Impairment of financial assets (continued)***Renegotiated loans*

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

The accounting treatment of such restructuring is as follows:

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

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

Derecognition of financial assets and liabilities*Financial assets*

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

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

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

Financial liabilities

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

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

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

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

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

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

The Corporation performs offsetting of deferred tax assets and deferred tax liabilities and records them in the balance sheet on a net basis, when:

- ▶ The Corporation has a legally enforced right to offset current tax assets against current tax liabilities; and
- ▶ Deferred tax assets and deferred tax liabilities refer to income tax charged by the same tax body from the same tax payer.

The Republic of Kazakhstan also has various operating taxes that are assessed on the Corporation's activities. These taxes are included as a component of other operating expenses.

Property and equipment

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

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

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

	<u>Annual rates</u>
Buildings	4.5%
Computers and office equipment	10-20%
Motor vehicles	10%
Other	7-10%

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite and amortized over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortization is calculated on straight-line basis over the following rates based on useful economic lives of asset:

	<u>Annual rates</u>
Intangible assets	10-100%

Assets classified as held for sale

The Corporation classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Assets classified as held for sale (continued)

The sale qualifies as highly probable if the Corporation's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Corporation measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Corporation recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Share Capital

Contributions to share capital are recognized at historic cost, less direct issuance costs.

Dividends

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

Deemed distribution reserve

When the Corporation enters into a loan agreement at below market rates on behalf of its Shareholder, the fair value of credit commitment is charged through other comprehensive income to equity as deemed distribution to Shareholder.

Additional paid-in capital

When the Corporation receives loans and other financial support from its Shareholder at below market rates, the difference between received cash consideration and fair value of loans and other financial support is recorded as additional paid-in capital.

Provisions

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)**Fee and commission income**

The Corporation earns fee and commission income from a diverse range of services it provides to its customers.

Loan commitment fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. If there is a possibility that due to loan commitment a credit arrangement will be signed, loan commitment fee is included in deferred income (together with corresponding direct costs), and subsequently is reflected as an adjustment of actual proceeds from a loan. When the probability to enter into credit arrangement under loan commitments is remote, loan commitment fees are recognised in the income statement during the remaining validity period of loan commitment. Upon expiration of loan commitment validity period, which is not resulted in loan issuance, loan commitment fees are recognised in the income statement on its expiration date. Fees for loan servicing are recognized upon rendering of services. Loan syndication fees are recognized in the income statement when such services have been provided. Other commissions are recognized upon rendering of services.

Foreign currency translation

The financial statements are presented in Kazakhstani tenge, which is the Corporation's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of Kazakhstan Stock Exchange on the date of the transaction are included in gains less losses from dealing in foreign currencies. Below are the exchange rates used by the Corporation in preparation of these financial statements:

	<i>31 December</i>	
	<i>2011</i>	<i>2010</i>
Tenge/ US Dollar	148.40	147.40
Tenge/ Euro	191.72	195.23
Tenge/Russian Ruble	4.61	4.84

Future changes in accounting policies*Standards and interpretations issued but not yet effective**IFRS 9 "Financial Instruments"*

In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Corporation now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Corporation evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

Notes to 2011 financial statements (continued)

*(in thousands of Kazakhstani tenge)***3. Summary of significant accounting policies (continued)****Future changes in accounting policies (continued)***Standards and interpretations issued but not yet effective (continued)**IFRS 11 Joint Arrangements*

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Corporation expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Corporation but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement

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

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Corporation expects that adoption of revised IAS 27 will have no effect on its financial position and performance.

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

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Corporation expects that adoption of revised IAS 28 will have no effect on its financial position and performance.

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Corporation's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Corporation's financial position or performance.

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

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

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Corporation expects that these amendments will have no impact on the Corporation's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on its financial position and performance.

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. The Corporation expects that these amendments will have no impact on the Corporation's financial position.

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair value of financial instruments

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

Allowance for loan impairment

The Corporation regularly reviews its loans and receivables to assess impairment. The Corporation uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Corporation estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Corporation uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Collateral valuation

Management monitors market value of collateral on a regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value of collateral to reflect current circumstances.

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

4. Significant accounting judgments and estimates

Estimation uncertainty (продолжение)

Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Corporation may be challenged by the relevant regional and republic authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that as at 31 December 2011 its interpretation of the relevant legislation is appropriate and that the Corporation's tax, currency and customs positions will be sustained.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2011</u>	<u>2010</u>
Cash on hand	72	67
Cash on current account	5,123,288	5,503,366
Time deposit with credit institutions up to 90 days	–	4,000,000
Cash and cash equivalents	<u>5,123,360</u>	<u>9,503,433</u>

As at 31 December 2011, the Corporation had concentration of cash balances represented by KZT 3,552,116 thousand or 69% due from one resident bank (31 December 2010 – KZT 5,295,385 thousand or 56%).

6. Derivative financial instruments

The table below shows the fair values of trading derivative financial instruments, recorded as assets or liabilities, together with their notional amounts:

	<u>2011</u>			<u>2010</u>		
	<u>Notional amount</u>	<u>Fair values</u>		<u>Notional amount</u>	<u>Fair values</u>	
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>
Options	<u>2,304,335</u>	<u>348,963</u>	<u>–</u>	<u>4,719,989</u>	<u>534,299</u>	<u>–</u>

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

As at 31 December 2011 and 2010, the Corporation had certain loans that are foreign currency linked debt instruments with a floor feature, i.e. where interest and principal payments are linked to foreign currencies, in such a way, that the Corporation has an option to demand higher payments if the foreign currency specified in the contract will appreciate above a certain floor (floor is generally set at the level of spot rates prevailing on the loans issue date). At the same time, if the foreign currency rates fall below the floor, interest and principal payments will remain at original level.

The Corporation believes that the above feature is an embedded derivative that should be separated from the host contract and recorded as a separate financial instrument measured at fair value through profit or loss in the financial statements.

Net gains/losses on derivative financial instruments:

	<u>2011</u>	<u>2010</u>
Realized gains on derivative financial instruments	145,048	663,955
Unrealized losses on derivative financial instruments	98,522	(2,276,453)
Net gains/(losses) on derivative financial instruments	<u>243,570</u>	<u>(1,612,498)</u>

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

7. Loans to customers

Loans to customers comprise of:

	<i>2011</i>	<i>2010</i>
Loans to legal entities in agricultural sector	84,045,313	67,672,743
Loans to individual entrepreneurs in agricultural sector	7,165,328	2,666,417
Total loans to customers	91,210,641	70,339,160
Less- allowance for impairment	(10,588,236)	(7,602,401)
Loans to customers	80,622,405	62,736,759

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

	<i>2011</i>	<i>2010</i>
As at 1 January	7,602,401	6,956,859
Charge for the year	2,764,349	643,013
Recoveries	221,486	2,529
As at 31 December	10,588,236	7,602,401
Individual impairment	8,501,283	5,353,418
Collective impairment	2,086,953	2,248,983
	10,588,236	7,602,401
Gross amount of loans, individually determined to be impaired, before deducting impairment allowance	13,882,603	19,071,022

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2011 comprised KZT 1,327,142 thousand (2010: KZT 1,616,300 thousand). The fair value of collateral that the Corporation holds relating to loans individually determined to be impaired at 31 December 2011 amounts to KZT 8,346,262 thousand (2010: KZT 13,338,976 thousand).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- ▶ For loans to customers - charges over real estate properties, agricultural equipment, inventory, trade receivables, guarantees and securities.
- ▶ For loans to individual entrepreneurs - mortgages over residential properties and other.

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

Concentration of loans to customers

As at 31 December 2011, the Corporation had a concentration of loans represented by KZT 29,773,210 thousand due from the ten largest borrowers (34% of gross loan portfolio) (2010: KZT 19,701,197 thousand (28% of gross loan portfolio)).

8. Assets held for sale

As at 31 December 2009 the Corporation decided to sell investments in associates which represent equity interest in Credit LLPs, which provide loans to the agricultural clients located in rural areas of the Republic of Kazakhstan. During 2010 and 2011 the Corporation committed to a plan to sell the investments in associates, and an active program to locate buyers and complete the plan had been initiated. The Corporation started to actively market for sale at a price that is reasonable in relation to the investments' current fair value. As a result of this the investments in associates were reclassified as assets held for sale.

The table below represents the movement of assets held for sale:

	<i>2011</i>	<i>2010</i>
Carrying value at 1 January	319,979	-
Reclassification of investments in associates as assets held for sale	-	515,067
Sale of assets held for sale	(150,020)	(182,734)
Impairment charge for assets held for sale	(2,293)	(12,354)
Carrying value at 31 December	167,666	319,979

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

8. Assets held for sale (continued)

The movements in allowance for impairment of assets held for sale were as follows:

	<u>2011</u>	<u>2010</u>
1 January	(12,354)	–
Charge	(2,293)	(12,354)
Write-off	12,354	–
31 December	<u>(2,293)</u>	<u>(12,354)</u>

9. Property and equipment

	<i>Land</i>	<i>Buildings</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Other</i>	<i>Total</i>
Cost:						
31 December 2009	5,397	133,668	81,272	32,855	37,742	290,934
Additions	–	–	8,483	–	7,884	16,367
Disposals	–	–	(8,457)	–	(132)	(8,589)
31 December 2010	5,397	133,668	81,298	32,855	45,494	298,712
Additions	–	–	39,729	3,809	9,359	52,897
Disposals	–	–	(637)	–	(161)	(798)
31 December 2011	5,397	133,668	120,390	36,664	54,692	350,811
Accumulated depreciation:						
31 December 2009	–	28,994	26,485	7,423	14,143	77,045
Charge for the year	–	6,015	11,140	3,140	3,861	24,156
Written-off on disposal	–	–	(8,405)	–	(54)	(8,459)
31 December 2010	–	35,009	29,220	10,563	17,950	92,742
Charge for the year	–	6,015	12,273	3,053	4,497	25,838
Written-off on disposal	–	–	(566)	–	(123)	(689)
31 December 2011	–	41,024	40,927	13,616	22,324	117,891
Net book value:						
31 December 2009	5,397	104,674	54,787	25,432	23,599	213,889
31 December 2010	5,397	98,659	52,078	22,292	27,544	205,970
31 December 2011	5,397	92,644	79,463	23,048	32,368	232,920

Notes to 2011 financial statements (continued)
(in thousands of Kazakhstani tenge)

10. Intangible assets

The table below represents movement in intangible assets:

	<i>Computer software</i>
Cost:	
31 December 2009	381,198
Additions	18,224
Disposal	(1,756)
31 December 2010	397,666
Additions	4,846
31 December 2011	402,512
Accumulated amortization	
31 December 2009	36,473
Charge for the year	41,344
Written-off on disposal	(1,755)
31 December 2010	76,062
Charge for the year	42,724
31 December 2011	118,786
Net book value:	
31 December 2009	344,725
31 December 2010	321,604
31 December 2011	283,726

11. Amounts due to a credit institution

Foreign currency denominated loan from a credit institution comprised:

Bank	Currency	Repayment date	Interest rate per annum		
			2011	2010	
Commerz Bank AG	USD	25-Feb-2013	10.33%	6,776,149	12,474,053

Financial covenants

In accordance with the terms of the loan agreements, the Corporation is required to comply with certain financial covenants under this facility. At 31 December 2011 and 2010, the Corporation was in compliance with these covenants.

On 21 December 2009 the Corporation's sole Shareholder issued a guarantee to Commerzbank AG for the face value of the loan. Fair value of the guarantee in the amount of KZT 429,177 thousand was recognized as additional paid-in capital.

12. Amounts due to Shareholder

Investment loan

On 18 May 2009, the Corporation entered into Master Lending Agreement # 36 with the Shareholder, the National Management Holding KazAgro JSC. In accordance with the above agreement, the Corporation obtains a long term loan to develop, expand and modify production in agricultural sector. The senior unsecured investment loan matures on 30 December 2023, the undrawn amount under facility is KZT 8,060 million as at 31 December 2011 (2010: KZT 52,484 million), and interest is accrued at nominal rate of 1.02% per annum and effective interest rate of 6%.

Carrying amount of loan as at 31 December 2011 stands at KZT 14, 807,777 thousand (2010: KZT 11,898,612 thousand). As at 31 December 2011 and 2010, the Corporation had no covenants under amounts due to the Shareholder.

13. Debt securities issued

	Maturity date	Rate %	Currency	2011	2010
Indexed debt securities	10-Aug-12	6-9%	KZT	2,973,443	2,872,637
Fixed income debt securities	30-Dec-14	11%	KZT	35,784	1,905,644
Fixed income debt securities 3rd issue	29-Jun-14	8%	KZT	2,497,070	—
				5,506,297	4,778,281

Indexed debt securities represent debt securities issued with coupon payments linked to the change in inflation measured by CPI (Consumer Price Index), floored at 6%, capped at 9%. The Corporation treats floor and cap as embedded interest rate derivatives which are closely related to the host contract and not separated from the debt instrument.

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

13. Debt securities issued (continued)

As at 31 December 2011 and 2010, the Corporation had no covenants under amounts due to debt securities issued.

During 2010, the Corporation issued debt securities to its customers in the amount of KZT 1,790,432 thousands which were subsequently collateralized against loans previously disbursed to these customers. During 2011, the Corporation repossessed the underlying debt securities for some of its customers who did not honor their obligations under the terms of the loan agreements. The loans receivable from these customers were derecognized against debt securities issued in the amount of KZT 72,928 thousand (2010 - KZT 138,313 thousand).

During 2011, the Corporation bought back issued fixed income debt securities in the amount of KZT 1,875,966 thousand (2010 - KZT 95,103 thousand) and indexed debt securities in the amount KZT 61,110 thousand (2010 - KZT 45,348 thousand).

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

Carrying amount of loan as at 31 December 2011 nil (2010: KZT 347,725 thousand). The Corporation received loans from the Ministry of Finance of the Republic of Kazakhstan for agricultural sector development, which were fully repaid at maturity on 15 December 2011.

15. Amounts due to the Government-related entities

	<i>Currency</i>	<i>Maturity date</i>	<i>Nominal interest rate</i>	<i>2011</i>	<i>2010</i>
Administration of business activities and industry in Almaty region	KZT	23-Nov-14	1%	86,044	147,032
Administration of business activities and industry in Zhambyl region	KZT	5-Jun-15	0.1%	48,808	88,134
				134,852	235,166

In 2010 and 2009 the Corporation entered into loan agreements with the Administration of business activities and industry of Almaty and Zhambyl regions. Proceeds from the loans were used for development of stock farming; plant raising and for processing of agricultural products. On initial recognition date of these loans the difference between the fair value of the loan on initial recognition of KZT 81,444 thousand and its contractual amount was recognized in additional paid in capital.

16. Taxation

A reconciliation of the corporate income tax ("CIT") expense/ (benefit) applied to the profit before taxes based on statutory rates with CIT expenses for the years ended December 31 is as follows:

	<i>2011</i>	<i>2010</i>
Current income tax expense	-	-
Deferred tax : origination and reversal of temporary differences	(19,662)	(14,789)
Less: Deferred tax benefit recognized in other comprehensive income	320,090	101,069
Income tax expense	300,428	86,280

As at 31 December 2011 current CIT assets amounted to KZT 271,429 thousand (31 December 2010: KZT 310,109 thousand).

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

	<i>2011</i>	<i>2010</i>
On assets	584,038	411,175
On liabilities	(263,948)	(310,106)
Income tax benefit recognized in other comprehensive loss	320,090	101,069

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

16. Taxation (continued)

	2011	2010
Profit before income tax expense	469,573	137,600
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	93,915	27,520
Non-deductible tax expenses	42,334	39,225
Non-deductible sponsorship expenses	4,597	2,000
Effect of tax rate change	-	(28,047)
Non-deductible interest expense on due to credit institutions	34,479	27,806
Non-deductible interest expense on due to Shareholder	125,103	17,776
Income tax expense	300,428	86,280

Deferred tax assets and liabilities at 31 December, and their movement for corresponding years as follows:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	2009	<i>In the income statement</i>	<i>In other comprehensive loss</i>	2010	<i>In the income statement</i>	<i>In other comprehensive loss</i>	2011
Tax effect of deductible temporary differences							
Tax loss carried forward	2,198,437	82,096	-	2,280,533	(976,634)	-	1,303,899
Loans to customers	25,626	19,019	411,175	455,820	2,172	584,038	1,042,030
Vacation accrual	(1,261)	15,102	-	13,841	1,883	-	15,724
Deferred tax assets	2,222,802	116,217	411,175	2,750,194	(972,579)	584,038	2,361,653
Tax effect of non taxable temporary differences							
Impairment charge	(678,401)	(706,696)	-	(1,385,097)	923,642	-	(461,455)
Derivative financial instruments	(336,881)	517,306	-	180,425	(250,217)	-	(69,792)
Assets held for sale	-	(2,205)	-	(2,205)	13,432	-	11,227
Investments in associate	(5,156)	5,156	-	-	-	-	-
Amounts due to Shareholder	(287,068)	-	(310,106)	(597,174)	-	(263,948)	(861,122)
Property and equipment	(6,730)	(16,058)	-	(22,788)	(14,706)	-	(37,494)
Deferred tax liabilities	(1,314,236)	(202,497)	(310,106)	(1,826,839)	672,151	(263,948)	(1,418,636)
Deferred tax assets/(liabilities)	908,566	(86,280)	101,069	923,355	(300,428)	320,090	943,017

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Tax losses carried forward as of 31 December 2011 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred (2010: ten years).

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

17. Equity

Information on movement in issued and fully paid shares is given below:

	<i>Placement value</i>	<i>Number of shares</i>	<i>Total</i>
At 31 December 2009		36,649,371	36,649,371
Increase in share capital	1,000	12,000,000	12,000,000
At 31 December 2010		48,649,371	48,649,371
Increase in share capital	1,000	16,700,000	16,700,000
At 31 December 2011		65,349,371	65,349,371

As at 31 December 2011, total number of authorized common shares was 69,349,371 (2010: 48,649,371), of which 65,349,371 shares were fully paid. In accordance with the decisions of the Shareholder's meetings dated 14 February 2011, 26 October 2011 and 21 December 2011, the authorized number of shares was increased in total by 20,700,000 shares of which 16,700,000 shares with the placed value of 1,000 tenge were paid in by the Shareholder (2010: 12,000,000 at placed value of 1,000 tenge).

As at 31 December 2011 and 2010, an owner of common share has right for one vote and equal right for dividends. Distributable income is determined on the basis of income recorded in Corporation's financial statements.

For the year ended 31 December 2011, the Corporation did not declare dividends.

In accordance with Corporation's charter, reserve capital is formed for general bank risks, including deferred losses and other contingent risks and liabilities. Reserve capital is subject to distribution on the basis of decision of general shareholders meeting.

In accordance with the decision of the Shareholder's meeting dated 29 April 2011, the reserve capital was increased by KZT 51,320 thousand (2010: nil).

During 2011 the losses of KZT 2,920,188 thousand from initial recognition of fair value from loans to customers issued at a rate below market and funded by the Shareholder, are recognized in deemed distribution reserve (2010 – KZT 2,254,567 thousand).

The difference between the cost at initial recognition of loans from the Government of the Republic of Kazakhstan and the shareholder, and fair value of loans received in 2011 of KZT 1,319,740 thousand, net of tax effect KZT 263,948 thousand (2010: KZT 1,895,111 thousand (net of tax KZT 310,106 thousand) is recognized as a Shareholders' contribution as a part of additional paid in capital.

Movements in other reserves were as follows:

	<i>Reserve capital</i>	<i>Additional paid-in capital</i>	<i>Deemed distribution reserve</i>	<i>Total</i>
As at 31 December 2009	481,883	1,264,176	(475,806)	1,270,253
Deemed distribution reserve	–	–	(2,254,567)	(2,254,567)
Tax effect on deemed distribution reserve	–	–	411,175	411,175
Initial recognition of income on loans acquired below market rates	–	1,895,111	–	1,895,111
Tax effect on initial recognition of income on loans acquired below market rates	–	(310,106)	–	(310,106)
As at 31 December 2010	481,883	2,849,181	(2,319,198)	1,011,866
Deemed distribution reserve	–	–	(2,920,188)	(2,920,188)
Tax effect on deemed distribution reserve (Note 16)	–	–	584,038	584,038
Initial recognition of income on loans acquired below market rates	–	1,319,740	–	1,319,740
Tax effect on initial recognition of income on loans acquired below market rates (Note 16)	–	(263,948)	–	(263,948)
Increase of reserve capital	51,320	–	–	51,320
As at 31 December 2011	533,203	3,904,973	(4,655,348)	(217,172)

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

18. Commitments and contingencies**Legal**

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

Taxation

Kazakhstani commercial, and in particular, tax legislation contain regulations, interpretation of which could vary, and in certain cases the legislation could be amended with indirect retrospective impact. In addition, Corporation's management's interpretation of the legislation may differ from that of tax authorities, and in the result transactions carried out by the Corporation could be estimated by tax authorities in other way, and this could result in additional charge of taxes, fines and penalties. The Corporation's management considers that all necessary tax accruals were fulfilled and, correspondingly, there were no any allowances charged in the statements. Tax periods remain open for five years.

Undrawn credit lines

As at 31 December the Corporation's commitments and contingencies comprised the following:

	<u>2011</u>	<u>2010</u>
Undrawn credit lines – loans to customers	17,850,497	28,550,568

As at 31 December 2011, concentration of undrawn credit lines to 10 largest independent parties totaled KZT 4,203,092 thousand (24% of the amount of undrawn credit lines), (2010: KZT 12,712,368 thousand (45% of the undrawn credit lines)).

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<u>2011</u>	<u>2010</u>
Salaries and bonuses	(920,830)	(654,406)
Social security costs	(90,140)	(61,504)
Personnel expenses	(1,010,970)	(715,910)
Rent	(83,559)	(49,706)
Advertising	(75,401)	(53,653)
State duty	(68,799)	–
Depreciation and amortization (Note 9,10)	(68,562)	(65,501)
Legal and consultancy services	(65,731)	(63,446)
Business trip	(36,498)	(8,946)
Repair and maintenance	(27,680)	(25,681)
Communication	(23,254)	(22,378)
Sponsorship	(22,985)	(10,000)
Bank commissions	(10,069)	(10,251)
Facilities	(6,317)	(5,312)
Insurance	(5,578)	(3,624)
Trainings	(1,992)	(170)
Taxes	(1,855)	(3,458)
Municipals	(1,411)	(2,510)
Other expenses	(20,799)	(11,261)
Other operating expenses	(520,490)	(335,897)

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

20. Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations for the years ended 31 December:

	<u>2011</u>	<u>2010</u>
Net income attributable to common shareholders for basic and diluted earnings per share (thousands tenge)	169,145	51,320
Weighted average number of common shares for basic and diluted earnings per share	52,727,044	43,891,428
Basic earnings per share (in tenge)	3.21	1.17

No dilutive instruments were outstanding as of 31 December 2011 and 2010.

21. Risk management**Introduction**

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

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

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Corporation. Each business group has a decentralized unit which is 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 comprised of the Financial Risk department and Credit risk department.

Corporation Treasury

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

Internal audit

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

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

21. Risk management (continued)**Introduction (continued)***Risk measurement and reporting systems*

The Corporation'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.

Monitoring and controlling risks is primarily performed based on limits established by the Shareholder for the Corporation. These limits reflect the business strategy and market environment of the Corporation.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Board of Directors, the Management Board, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Corporation.

Risk mitigation

As part of its overall risk management, the Corporation uses derivatives and other instruments to manage exposures resulting from changes in foreign currencies.

Credit risk

Credit risk is the risk that the Corporation will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Corporation 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 Corporation has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision, the credit quality review process allows the Corporation to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

For more details on the maximum exposure to credit risk for each class of financial instruments see *Notes 5-7, 21*.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Corporation internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Corporation's credit rating system. Loans to borrowers with good financial position and no overdue payments are defined as standard. If there is a temporary decline in financial standing of the borrower and/or insufficient collateral without overdue payments, these loans are defined as substandard.

	<i>Standard rating</i>	<i>Substandard</i>	<i>Individually impaired</i>	<i>Total</i>
Loans to customers				
<i>2011</i>	62,193,107	13,047,978	5,381,320	80,622,405
<i>2010</i>	26,213,497	22,805,658	13,717,604	62,736,759

It is the Corporation's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products.

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

	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 90 days</i>	<i>Total</i>
Loans to customers					
<i>2011</i>	1,336,371	1,258,528	417,989	10,035,090	13,047,978
<i>2010</i>	5,236,205	3,825,258	391,709	13,352,486	22,805,658

Notes to 2011 financial statements (continued)
(in thousands of Kazakhstani tenge)

21. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Corporation addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Collective assessment

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

Liquidity risk and funding management

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Corporation's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted repayment obligations:

Financial liabilities As at 31 December 2011	Less than 3 months	3 to 12 months	1 to 5 Years	Over 5 years	Total
Amounts due to a credit institution	2,360,227	2,397,300	2,586,911	–	7,344,438
Amounts due to Shareholder	15,099	1,422,360	8,799,006	8,727,518	18,963,983
Debt securities issued	199,110	3,200,447	2,927,160	–	6,326,717
Amounts due to government-related entities	–	23,834	64,927	20,818	109,579
Total undiscounted financial liabilities	2,574,436	7,043,941	14,378,004	8,748,336	32,744,717

Financial liabilities As at 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to a credit institution	2,987,454	3,316,567	7,597,099	–	13,901,120
Amounts due to Shareholder	6,650	1,301,263	8,682,651	4,821,408	14,811,972
Debt securities issued	101,941	–	5,951,450	–	6,053,391
Amounts due to the Government of the Republic of Kazakhstan	–	348,739	–	–	348,739
Amounts due to government-related entities	–	36,165	236,635	34,398	307,198
Total undiscounted financial liabilities	3,096,045	5,002,734	22,467,835	4,855,806	35,422,420

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign currencies.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The interest rates for assets and liabilities (excluding inflation indexed debt securities issued) of the Corporation are fixed. The Corporation monitors its exposure to changes in inflation arising from indexed debt securities on a regular basis. The Corporation can contemplate an open market buy back for these instruments should the changes in inflation index substantially increase debt servicing costs.

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

21. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

<i>Currency</i>	<i>Change in currency rate in % 2011</i>	<i>Effect on profit before tax 2011</i>	<i>Change in currency rate in % 2010</i>	<i>Effect on profit before tax 2010</i>
USD	+/- 10.72	-/+ 501,202	+/- 11.56	-/+ 1,465,392

Prepayment risk

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

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

The effect on equity does not differ from the effect on the income statement.

	<i>Effect on net interest income</i>
As at 31 December 2011	562,251
As at 31 December 2010	523,650

22. Fair values of financial instruments

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

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

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

<i>31 December 2011</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Embedded derivative financial instruments	-	348,963	-	348,963
31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Embedded derivative financial instruments	-	534,299	-	534,299

The change in fair value of derivative financial instruments as at 31 December 2011 comparing to 31 December 2010 was due to strengthening of KZT/USD exchange rate and credit risk adjustment for the counterparty credit risk during 2011 and 2010.

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

22. Fair values of financial instruments (continued)*Financial instruments recorded at fair value*

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

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

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

2011	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash and cash equivalents	5,123,360	5,123,360	-
Loans to customers	80,622,405	78,778,610	(1,843,795)
Financial liabilities			
Amounts due to a credit institution	6,776,149	6,915,882	(139,733)
Amounts due to Shareholder	14,807,777	14,339,265	468,512
Debt securities issued	5,506,297	5,386,732	119,565
Amounts due to government-related entities	134,852	99,205	35,647
Total unrecognized change in unrealized fair value			(1,359,804)
2010	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash and cash equivalents	9,503,433	9,503,433	-
Loans to customers	62,736,759	60,765,260	(1,971,499)
Financial liabilities			
Amounts due to a credit institution	12,474,053	12,672,905	(198,852)
Amounts due to Shareholder	11,898,612	11,751,350	147,262
Debt securities issued	4,778,281	4,752,055	26,226
Amounts due to the Government of the Republic of Kazakhstan	347,725	333,397	14,328
Amounts due to government-related entities	235,166	242,055	(6,889)
Total unrecognized change in unrealized fair value			(1,989,424)

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

23. Maturity analysis of assets and liabilities

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

	2011			2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	5,123,360	–	5,123,360	9,503,433	–	9,503,433
Derivative financial instruments	348,963	–	348,963	534,299	–	534,299
Loans to customers	7,734,865	72,887,540	80,622,405	27,414,768	35,321,991	62,736,759
	<u>13,207,188</u>	<u>72,887,540</u>	<u>86,094,728</u>	<u>37,452,500</u>	<u>35,321,991</u>	<u>72,774,491</u>
Financial liabilities						
Amounts due to a credit institution	4,645,643	2,130,506	6,776,149	5,914,483	6,559,570	12,474,053
Amounts due to Shareholder	1,305,139	13,502,638	14,807,777	781,377	11,117,235	11,898,612
Debt securities issued	3,137,671	2,368,626	5,506,297	101,941	4,676,341	4,778,282
Amounts due to the Government of the Republic of Kazakhstan	–	–	–	347,725	–	347,725
Amounts due to government-related entities	28,108	106,744	134,852	17,692	217,474	235,166
Total	<u>9,116,561</u>	<u>18,108,514</u>	<u>27,225,075</u>	<u>7,163,218</u>	<u>22,570,620</u>	<u>29,733,838</u>
Net position	<u>4,090,627</u>	<u>54,779,026</u>	<u>58,869,653</u>	<u>30,289,282</u>	<u>12,751,371</u>	<u>43,040,653</u>

24. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

24. Related party disclosures (continued)

Volume of operations with related parties, ending balance, income and expenses shown below:

	2011				2010			
	Entities under common control		Associates	Due to government	Entities under common control		Associates	Due to government
	Parent				Parent			
Loans to customers as at 1 January	-	5,001,295	-	-	-	3,744,698	-	-
Loans to customers issued	-	1,756,200	-	-	-	1,266,742	-	-
Loans to customers repaid	-	(5,630,014)	-	-	-	(10,145)	-	-
Loans to customers as at 31 December	-	1,127,481	-	-	-	5,001,295	-	-
Interest income during the year	-	73,456	-	-	-	246,508	-	-
Amounts due to as at 1 January	11,898,612	154,818	468,779	582,891	15,330,459	154,818	315,667	1,336,555
Amounts received during the year	25,045,730	10,923	-	-	48,649,345	-	391,819	100,000
Amounts repaid during the year	(22,136,565)	-	(452,271)	(448,039)	(52,081,192)	-	(238,707)	(853,664)
Amounts due to outstanding as at 31 December	14,807,777	165,741	16,508	134,852	11,898,612	154,818	468,779	582,891
Interest expense during the year	243,676	14,283	25,425	9,141	293,320	17,029	43,144	55,727

Compensation of key management personnel was comprised of the following:

	2011	2010
Salaries and other short-term benefits	50,182	39,884
Social security costs	5,018	3,861
Total key management personnel compensation	55,200	43,745
	2011	2010
Undrawn credit lines – loans to associates	2,420,324	4,441,811
Guaranty issued by shareholder (Note 11)	6,776,149	12,474,053

Notes to 2011 financial statements (continued)

(in thousands of Kazakhstani tenge)

25. Capital adequacy

The Corporation maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Corporation's capital is monitored using, among other measures, the ratios established by the FMSC in supervising the Corporation. During 2011, the Corporation had complied in full with all its capital requirements imposed by the legislation.

Capital adequacy ratio under FMSC

The FMSC requires companies engaged in certain types of banking activities to maintain a minimum Tier 1 capital adequacy ratio of 6% of assets and minimum general total capital adequacy ratio of 12% of risk-weighted assets. In 2011 and 2010 the risk-weighted assets, calculated under FMSC requirements were obtained on the basis of Corporation's separate financial statements prepared in accordance with NBRK regulations. As of 31 December 2011 and 2010, the Corporation's capital adequacy ratio on this basis was as follows:

	<i>2011</i>	<i>2010</i>
Tier 1 capital	60,471,332	42,038,568
Tier 2 capital	169,145	817,638
Assets held for sale	(167,666)	(319,979)
Total regulatory capital	60,472,811	42,536,227
Risk-weighted assets	87,469,936	65,411,013
Commitments and contingencies	8,925,249	14,275,284
Operational risk	1,648,621	833,915
Capital adequacy ratio (k1)	68.7%	56.1%
Capital adequacy ratio (k1-2)	62.7%	52.8%
Capital adequacy ratio (k1-3)	61.7%	52.8%