KazAgroFinance JSC

Financial statements

Year ended 31 December 2011

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of the KazAgroFinance JSC:

We have audited the accompanying financial statements of KazAgroFinance JSC (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statements of income, 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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of KazAgroFinance 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 & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

25 March 2012

STATEMENT OF FINANCIAL POSITION

As of 31 December 2011

(In thousands of Kazakh tenge)

	Note	*2011*	*2010*
Assets			
Cash and cash equivalents	5	**10,878,777**	8,398,782
Amounts due from credit institutions	6	**10,926,990**	2,882,995
Derivative financial assets	7	**6,556,513**	9,445,631
Loans to customers	8	**25,319,978**	23,191,484
Finance lease receivables	9	**66,344,220**	53,226,523
Investment securities available-for-sale	12	**–**	3,028,722
Assets held for sale	10	**491,577**	463,109
Property held for finance leases	11	**6,467,772**	6,098,660
Property and equipment	13	**952,746**	1,104,889
Intangible assets		**163,456**	102,207
VAT and other taxes recoverable	14	**524,517**	533,000
Current income tax assets		**50,812**	74,238
Advances paid	15	**4,165,315**	1,646,929
Other assets	20	**21,714**	9,637
Total assets		**132,864,387**	110,206,806
Liabilities			
Amounts due to the Government of the Republic of Kazakhstan		**–**	139,473
Amounts due to the shareholder	16	**28,941,398**	18,183,076
Amounts due to credit institutions	17	**15,782,306**	26,085,859
Deferred income tax liabilities	18	**1,199,053**	1,614,056
Advances received	19	**2,302,050**	2,007,198
Deferred VAT		**731,048**	587,476
Other liabilities	20	**2,669,006**	1,137,006
Total liabilities		**51,624,861**	49,754,144
Equity			
Share capital	22	**74,350,191**	54,450,191
Additional paid-in capital		**7,116,969**	5,393,949
Revaluation reserve on investment securities available-for-sale		**–**	5,220
Reserve capital	22	**860,753**	860,753
Deemed distribution reserve		**(4,850,120)**	(4,071,678)
Retained earnings		**3,761,733**	3,814,227
Total equity		**81,239,526**	60,452,662
Total liabilities and equity		**132,864,387**	110,206,806

Signed and authorised for release on behalf of the Management Board of the Company

Nurlibek Tulebaevich Malelov — Chairman of the Board

Gulnara Takishevna Shodanova — Chief Accountant

The accompanying notes on pages 6 to 42 are an integral part of these financial statements.

STATEMENT OF INCOME
For the year ended 31 December 2011
(In thousands of Kazakh tenge)

	Note	*2011*	*2010*
Interest income			
Finance lease receivables		**6,136,679**	6,045,013
Loans to customers		**3,086,447**	3,086,157
Investment securities available-for-sale		**203,597**	266,198
Amounts due from credit institutions		**197,308**	303,963
		9,624,031	9,701,331
Interest expenses			
Amounts due to the shareholder		**(1,381,549)**	(781,997)
Amounts due to credit institutions		**(814,815)**	(830,441)
Amounts due to the Government of the Republic of Kazakhstan		**(4,103)**	(23,124)
Debt securities issued		**–**	(313,461)
		(2,200,467)	(1,949,023)
Net interest income		**7,423,564**	7,752,308
Allowance for loans to customers and finance lease receivables impairment charges	8, 9	**(2,395,995)**	(1,702,414)
Net interest income after allowance for loans to customers and finance lease receivables impairment charge		**5,027,569**	6,049,894
Net losses on derivative financial assets	7	**(2,412,300)**	(2,899,174)
Net translation gains from foreign currencies		**155,899**	803,143
Other income	23	**102,822**	199,948
Net other operating losses		**(2,153,579)**	(1,896,083)
Personnel expenses	24	**(1,338,531)**	(1,238,941)
Depreciation and amortisation		**(97,548)**	(99,286)
Initial recognition of losses on loans to customers, adjusted for gain on changes in future cash flows	25	**(262,797)**	(305,665)
Other operating expenses	24	**(510,690)**	(422,040)
Other impairment and provisions	26	**(61,503)**	(104,320)
Non-interest expenses		**(2,271,069)**	(2,170,252)
Profit before income tax benefit		**602,921**	1,983,559
Income tax benefit	18	**547,942**	423,155
Profit for the year		**1,150,863**	2,406,714
Earnings per share, basic and diluted (tenge)	27	**19.80**	46.87

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STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011
(In thousands of Kazakh tenge)

	Note	2011	2010
Profit for the year		**1,150,863**	2,406,714
Other comprehensive income			
Initial recognition of income on amounts due to the shareholder, acquired at the below market rates	22	**2,153,774**	2,822,136
Deemed distribution reserve	22	**(973,053)**	(843,573)
Unrealised gains/(losses) on investment securities available-for-sale		**(5,220)**	5,220
Income tax relating to components of other comprehensive income	18	**(236,143)**	(393,570)
Other comprehensive income for the year, net of tax		**939,358**	1,590,213
Total comprehensive income for the year		**2,090,221**	3,996,927

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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011
(In thousands of Kazakh tenge)

	Share capital	*Additional paid-in capital*	*Reserve capital*	*Deemed distribution reserve*	*Revaluation reserve*	*Retained earnings*	*Total*
31 December 2009	48,450,191	3,135,044	806,358	(3,397,766)	–	2,005,853	50,999,680
Total comprehensive income/(loss) for the year	–	2,258,905	–	(673,912)	5,220	2,406,714	3,996,927
Issue of share capital (Note 22)	6,000,000	–	–	–	–	–	6,000,000
Reserve capital increase (Note 22)	–	–	54,395	–	–	(54,395)	–
Dividends to the shareholder (Note 22)	–	–	–	–	–	(543,945)	(543,945)
31 December 2010	54,450,191	5,393,949	860,753	(4,071,678)	5,220	3,814,227	60,452,662
Total comprehensive income/(loss) for the year	–	**1,723,020**	–	**(778,442)**	**(5,220)**	**1,150,863**	**2,090,221**
Issue of share capital (Note 22)	**19,900,000**	–	–	–	–	–	**19,900,000**
Dividends to the shareholder (Note 22)	–	–	–	–	–	**(1,203,357)**	**(1,203,357)**
31 December 2011	**74,350,191**	**7,116,969**	**860,753**	**(4,850,120)**	–	**3,761,733**	**81,239,526**

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The accompanying notes on pages 6 to 42 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2011
(In thousands of Kazakh tenge)

	Note	2011	2010
Cash flows from operating activities:			
Interest received		6,283,204	7,117,833
Interest paid		(1,205,443)	(2,107,060)
Realised gains less losses on derivative financial assets	7	1,239,553	1,208,273
Personnel expenses paid		(1,331,710)	(1,188,939)
Other operating expenses paid		(454,159)	(421,658)
Other income received		73,461	199,583
Realised losses less gains from dealing in foreign currencies		(1,985,526)	(2,136,759)
Cash flows from operating activities before changes in operating assets and liabilities		2,619,380	2,671,273
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(6,174,119)	5,453,251
Derivative financial assets		(762,736)	(662,810)
Loans to customers		(2,157,110)	53,679
Financee lease receivables		(13,185,488)	(8,609,495)
Property held for finance leases		(416,831)	(2,261,006)
VAT and other taxes receivable		8,483	(228,028)
Advances paid		(2,512,928)	930,002
Other assets		(31,319)	(23,197)
Net increase/(decrease) in operating liabilities			
Advances received		294,852	(1,116,811)
Other liabilities		1,896,541	986,243
Net cash flows used in operating activities before income tax		(20,421,275)	(2,806,899)
Income tax paid		(79,780)	(38,133)
Net cash used in operating activities		(20,501,055)	(2,845,032)
Cash flows from investing activities			
Purchase of investment securities available-for-sale		–	(3,023,502)
Proceeds from redemption of investment securities available-for-sale		3,023,502	–
Purchase of property and equipment and intangible assets		(110,914)	(85,187)
Proceeds from sale of property and equipment		105,154	5,412
Net cash from/(used in) investing activities		3,017,742	(3,103,277)
Cash flows from financing activities			
Redemption of amounts due to the Government of the Republic of Kazakhstan		(142,858)	(658,684)
Proceeds from amounts due to the shareholder		11,341,032	11,590,625
Redemption of amounts due to credit institutions		(10,152,912)	(6,272,485)
Proceeds from issue of share capital	22	19,900,000	6,000,000
Dividends paid to the shareholder of the Company	22	(1,203,357)	(863,058)
Redemption of debt securities issued		–	(2,558,395)
Coupon paid on debt securities issued		–	(383,917)
Net cash from financing activities		19,741,905	6,854,086
Effect of exchange rates changes on cash and cash equivalents		221,403	(55,191)
Net increase in cash and cash equivalents		2,479,995	850,586
Cash and cash equivalents, beginning	5	8,398,782	7,548,196
Cash and cash equivalents, ending	5	10,878,777	8,398,782

Signed and authorised for release on behalf of the Management Board of the Company

Nurlibek Tulebaevich Malelov — Chairman of the Board

Gulnara Takishevna Shodanova — Chief Accountant

The accompanying notes on pages 6 to 42 are an integral part of these financial statements.

1. Principal activities

KazAgroFinance JSC (the "Company") was established by the Decree of the Government of the Republic of Kazakhstan No. 1777 dated 24 November 1999 "On certain agricultural issues" in accordance with Kazakhstan legislation. The Company performs its activities on the basis of a license issued by the Committee on Regulation and Supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan (hereinafter - the "FMSC") for conducting operations specified by the banking legislation of the RK No. 16 dated 31 March 2006. Additionally, the Company has a status of financial agency assigned by the resolution of the FMSA Management Board No. 195 dated 23 September 2006.

The main activities of the Company comprise:

- participation in development and implementation of state programs of crediting and providing financial support to agricultural producers;
- to lease facilities and technological equipment to agricultural organizations involved in production and processing of agricultural products;
- issue guarantees to second tier banks against agricultural producers property in order to provide lending for agricultural producers;
- providing support to agricultural sector from its own funds, and against attracted investments by lending.

The address of the Company's registered office is: 51 Kenesary street, Astana, Republic of Kazakhstan.

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

The Company has 10 registered branches and 4 representatives throughout the 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 on a historical cost basis, except for derivative financial instruments and investment securities available for sale which are carried at fair value.

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

3. Summary of significant accounting policies

Changes in accounting policies

The Company has adopted the following amended IFRS and new IFRIC Interpretations in 2011. The principal effects of these changes are as follows:

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, 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. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Company has decided to early adopt the revised IAS 24 from 1 January 2010. The revised standards did not have any impact on the Company'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 revised standards did not have any impact on the Company's financial statements.

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. The revised standards did not have any impact on the Company'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 Company, as described below.

- 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 Company.

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

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
- "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 Company 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 Company 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss represent embedded derivative financial instruments. Derivative financial instruments embedded into other financial instruments or other host contracts as separate derivative instruments, when their risks and characteristics are not related to those of the host contracts, and host contracts are not at fair value though profit or loss. Embedded derivative instrument is a component of hybrid (combined) financial instrument, which includes both derivative and host contract, with the result that a portion of cash flows on combined instrument varies similar to derivative instrument. The Company enters into contracts with derivatives in order to manage currency risks.

3. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss (continued)

The Company determines fair value using valuation method, usually applied by market participants. As for embedded derivative instruments assumptions are made on the basis of market rates adjusted by specific characteristics of the instrument. The Company uses Black-Scholes model to evaluate its financial instruments and assumptions used in valuation model (such as risk free rates and volatility coefficients), are determined on the basis of financial instruments with similar characteristics quoted at Bloomberg.

Loans and receivables

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 Company are initially recorded at fair value plus transaction costs. When the Company 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 obligation was adopted by the Company'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 amortised cost, using effective interest rate. Loans to customers are recorded net of any allowances for impairment.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

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 current and term deposit accounts that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company 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 of the Republic of Kazakhstan, amounts due to credit institutions, amounts due to the shareholder. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

3. Summary of significant accounting policies (continued)

Leases

Finance – Company as lessee

The Company recognises finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Subsequently, lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Contingent rental payable are recognised as an expense in the period in which they are incurred. Depreciation of leasing assets is charged in accordance with depreciation policy, which is applied to assets owned by the Company.

Finance – Company as lessor

The Company recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Company 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.

Operating – Company as lessor

The Company presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

Impairment of financial assets

Amounts due from credit institutions, loans to customers and finance lease receivables

For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Company 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. 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 and finance lease receivables 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 Company. 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/finance lease receivable 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 Company'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.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions, loans to customers and finance lease receivables (continued)

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.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans and finance lease receivables

Where possible, the Company seeks to restructure loans and finance lease receivables 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/finance lease receivable has been changed the old loan/finance lease receivable is derecognised and the new loan/finance lease receivable is recognised.
- If the loan and finance lease receivable restructuring is not caused by the financial difficulties of the borrower/lessee the Company uses the same approach as for financial liabilities described below.
- If the loan/finance lease receivable restructuring is due to the financial difficulties of the borrower/lessee and the loan/finance lease receivable is impaired after restructuring, the Company 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/finance lease receivable is not impaired after restructuring the Company recalculates the effective interest rate.

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

3. Summary of significant accounting policies (continued)

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 Company 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 Company 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 Company 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 Company'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 Company 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.

Taxation

The current income tax charge 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 laws that have been enacted or substantively enacted at the reporting date.

The Company performs offsetting of deferred tax assets and deferred tax liabilities and records them in the statement of financial position on a net basis, when:

- The Company 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 Company's activities. These taxes are recorded in the statement of income within operating expenses.

Property and equipment

Property and equipment are carried at cost excluding costs of day-to-day maintenance less accumulated depreciation and any accumulated impairment in value. 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.

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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

	Depreciation rates
Buildings	2-4%
Motor vehicles	10-14%
Computers and office equipment	20%
Other	10-20%

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.

Property held for finance lease

Property held for finance lease is stated at the lower of cost and net realisable value. Cost comprises charges incurred in bringing the property to its present location and condition.

Intangible assets

Intangible assets include computer software and licenses.
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Assets classified as held for sale

The Company 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.

The sale qualifies as highly probable if the Company'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 Company measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Company recognises 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.

Provisions

Provisions are recognised when the Company 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.

Share capital

Share capital

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

Additional paid-in capital

When the Company 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.

3. Summary of significant accounting policies (continued)

Share capital (continued)

Reserve capital

Reserve capital can be increased by transfers from retained earnings, based on the Shareholder's decision.

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 Company 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 the shareholder.

Segment reporting

Business and geographical segments of the Company have not been reported separately in these financial statements as the management of the Company considers the principal operating segment to be providing loans and finance leases to agricultural entities in the Republic of Kazakhstan of which the risks of and returns are considered to be similar throughout the country.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, 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 Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

The Company 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.

(In thousands of Kazakh tenge)

3. Summary of significant accounting policies (continued)

Foreign currency translation

The financial statements are presented in Kazakhstani Tenge, which is the Company'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 recognised 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 Kazakhstan Stock Exchange official exchange rate on the date of the transaction are included in gains less losses from dealing in foreign. Below are the exchange rates used by the Company in preparation of these financial statements:

	31 December	
	2011	*2010*
Tenge/ USD	**148.4**	147.5
Tenge / Euro	**191.7**	196.9
Tenge / Russian Ruble	**4.6**	4.8

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 Company 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. The Company expects that these amendments will have no impact on the Company's financial position.

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 Company expects that adoption of IFRS 11 will have no effect on its financial position and performance.

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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. The Company expects that these amendments will have no impact on the Company's financial position.

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 Company's assets and liabilities accounted for at fair value. Currently the Company 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 Company expects that these amendments will have no impact on the Company's financial position.

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 Company expects that these amendments will have no impact on the Company's financial position.

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 Company'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 Company 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 Company now evaluates the impact of the adoption of these amendments.

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (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 Company expects that these amendments will have no impact on the Company'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 Company expects that these amendments will have no impact on the Company's financial position.

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognised 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 and finance lease receivable impairment

The Company regularly reviews its loans and finance lease receivables to assess impairment. The Company 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 Company 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 Company 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.

(In thousands of Kazakh tenge)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty

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 Company 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 and 2010 its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	*2010*
Current accounts in tenge	**10,120,088**	7,820,831
Current accounts in foreign currencies	**758,689**	577,951
Cash and cash equivalents	**10,878,777**	8,398,782

As of 31 December 2011, the Company had concentration of cash balances represented by KZT 8,514,527 thousand due from one bank or 78% of total balance (2010: KZT 4,722,128 thousand or 56%).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2011	*2010*
Cash in banks to cover letters of credit	**8,426,990**	2,882,995
Time deposits for more than 90 days	**2,500,000**	–
Amounts due from credit institutions	**10,926,990**	2,882,995

Due from credit institutions represents by cash in bank to letter of credit that is restricted cash. These accounts are used as a pledge for letters of credit for the purchase of equipment for leases.

During 2011, the Company placed KZT 2,500,000 thousand on time deposit with Kazakhstani bank with an interest rate 0.02% p.a.

7. Derivative financial assets

The table below shows the fair values of derivatives recorded in the financial statements as assets or liabilities, together with their notional amounts:

	2011			*2010*		
	Notional amount	*Fair values*		*Notional amount*	*Fair values*	
		Asset	*Liability*		*Asset*	*Liability*
Options in Euro	**6,434,456**	**1,498,712**	**–**	8,651,156	2,616,054	–
Options in US Dollars	**24,288,561**	**5,057,801**	**–**	27,243,267	6,829,577	–
	30,723,017	**6,556,513**	**–**	35,894,423	9,445,631	–

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.

(In thousands of Kazakh tenge)

7. Derivative financial assets (continued)

As at 31 December 2011 and 2010, the Company had certain loans to customers and finance lease receivables 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 Company 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 Company believes that the above feature comprises an embedded foreign currency option, 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 losses on derivative financial assets comprise:

	2011	*2010*
Realised gains on derivative financial assets	**1,239,553**	1,208,273
Unrealised losses on derivative financial assets	**(3,651,853)**	(4,107,447)
Net losses on derivative financial assets	**(2,412,300)**	(2,899,174)

8. Loans to customers

Loans to customers comprise:

	2011	*2010*
Loans to legal entities	**29,185,508**	26,682,502
Loans to individuals	**8,963**	15,901
Gross loans to customers	**29,194,471**	26,698,403
Less: allowance for impairment	**(3,874,493)**	(3,506,919)
Loans to customers	**25,319,978**	23,191,484

Allowance for impairment of loans to customers and finance lease receivables

A reconciliation of the allowance for impairment of loans to customers and finance lease receivables is as follows:

	Loans to customers 2011	***Finance lease receivables 2011***	***Total 2011***
At 1 January 2011	**3,506,919**	**2,468,620**	**5,975,539**
Charge	**367,574**	**2,028,421**	**2,395,995**
At 31 December 2011	**3,874,493**	**4,497,041**	**8,371,534**
Individual impairment	**3,289,202**	**2,695,237**	**5,984,439**
Collective impairment	**585,291**	**1,801,804**	**2,387,095**
	3,874,493	**4,497,041**	**8,371,534**
Gross amount of loans and finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**9,859,836**	**19,818,969**	**29,678,805**

	Loans to customers 2010	***Finance lease receivables 2010***	***Total 2010***
At 1 January 2010	2,718,397	1,556,358	4,274,755
Charge for the year	788,528	913,886	1,702,414
Amounts written off	(6)	(1,624)	(1,630)
At 31 December 2010	3,506,919	2,468,620	5,975,539
Individual impairment	3,066,455	1,174,039	4,240,494
Collective impairment	440,464	1,294,581	1,735,045
	3,506,919	2,468,620	5,975,539
Gross amount of loans and finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	6,751,850	9,342,267	16,094,117

(In thousands of Kazakh tenge)

8. Loans to customers (continued)

Loans and finance lease receivables individually determined to be impaired

Interest income accrued on loans and finance lease receivables , for which individual impairment allowances have been recognized, for the year ended 31 December 2011, comprised KZT 923,334 thousand and KZT 976,894 thousand (2010: KZT 396,504 thousand and KZT 272,645 thousand), respectively.

The fair value of collateral that the Company holds relating to loans and finance lease receivables individually determined to be impaired at 31 December 2011 amounts to KZT 17,427,669 thousand and KZT 313,400 thousand (2010: KZT 9,415,899 thousand and KZT 123,412 thousand), respectively.

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 and trade receivables, guarantees;
- For loans to individuals - mortgages over residential properties.

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 of 31 December 2011, the Company had a concentration of loans represented by KZT 11,400,770 thousand due from the ten largest third party entities (39.05% of gross loan portfolio) (2010: KZT 12,839,429 thousand (48.09% of gross loan portfolio)). An allowance of KZT 2,181,434 thousand was recognised against these loans (2010: KZT 2,012,831 thousand).

Loans were issued within the Republic of Kazakhstan in the following industries:

	2011	*2010*
Agriculture	**29,185,508**	26,682,502
Construction	**8,963**	15,901
	29,194,471	26,698,403

9. Finance lease receivables

The analysis of finance lease receivables at 31 December 2011 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	20,896,798	52,845,788	13,921,536	87,664,122
Unearned future finance income on finance leases	(3,690,674)	(10,394,018)	(2,738,169)	(16,822,861)
Net investment in finance leases	17,206,124	42,451,770	11,183,367	70,841,261
Less allowance for impairment (Note 8)	(986,582)	(2,778,499)	(731,960)	(4,497,041)
Finance lease receivables	16,219,542	39,673,271	10,451,407	66,344,220

(In thousands of Kazakh tenge)

9. Finance lease receivables (continued)

The analysis of finance lease receivables at 31 December 2010 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	15,790,237	41,996,582	9,330,842	67,117,661
Unearned future finance income on finance leases	(2,506,573)	(7,295,110)	(1,620,835)	(11,422,518)
Net investment in finance leases	13,283,664	34,701,472	7,710,007	55,695,143
Less allowance for impairment (Note 8)	(588,782)	(1,538,102)	(341,736)	(2,468,620)
Finance lease receivables	12,694,882	33,163,370	7,368,271	53,226,523

Concentration of finance lease receivables

As of 31 December 2011, the Company had a concentration of finance lease receivables represented by KZT 15,435,582 thousand due from the ten largest third party entities (21.79% of gross lease portfolio) (2010: KZT 13,394,368 thousand (24.05% of gross lease portfolio)). An allowance of KZT 1,231,281 thousand was recognised against these finance lease receivables (2010: KZT 194,947 thousand).

10. Assets held for sale

	2011	*2010*
Repossessed assets	**463,109**	463,109
Office building held for sale (Note 13)	**28,468**	–
Assets held for sale	**491,577**	463,109

During 2009 the Company took possession over an industrial building and land with an estimated value of KZT 274,870 million and KZT 188,239 million, respectively.

11. Property held for finance leases

	2011	*2010*
Property and equipment held for finance lease	**6,503,694**	6,085,615
Other materials	**11,797**	13,045
	6,515,491	6,098,660
Less: allowance for impairment of property held for finance lease (Note 26)	**(47,719)**	–
Property held for finance leases	**6,467,772**	6,098,660

12. Investment securities available-for-sale

As of 31 December 2010 investment securities available-for-sale represented by corporate bonds in the amount of KZT 3,028,722 thousand and a coupon rate of 12% per annum which matured during 2011.

(In thousands of Kazakh tenge)

13. Property and equipment

	Land	*Buildings*	*Vehicles*	*Computers and office equipment*	*Others*	*Total*
Cost						
At 31 December 2009	34,627	992,231	85,542	131,471	79,509	1,323,380
Additions	–	3,128	38,408	24,674	3,569	69,779
Disposals	–	(4,839)	(12,987)	–	(1,071)	(18,897)
At 31 December 2010	34,627	990,520	110,963	156,145	82,007	1,374,262
Additions	**–**	**–**	**14,066**	**10,633**	**2,906**	**27,605**
Disposals	**(2,705)**	**(97,188)**	**(18,386)**	**(9,909)**	**(192)**	**(128,380)**
Transfer to assets held for sale (Note 10)	**–**	**(50,025)**	**–**	**–**	**–**	**(50,025)**
At 31 December 2011	**31,922**	**843,307**	**106,643**	**156,869**	**84,721**	**1,223,462**
Accumulated depreciation						
At 31 December 2009	–	83,507	30,422	63,263	23,083	200,275
Charge for the year	–	34,926	11,511	24,690	11,822	82,949
Disposals	–	(4,081)	(8,627)	(301)	(842)	(13,851)
At 31 December 2010	–	114,352	33,306	87,652	34,063	269,373
Charge for the year	**–**	**28,765**	**11,393**	**26,155**	**11,933**	**78,246**
Disposals	**–**	**(33,223)**	**(12,185)**	**(9,783)**	**(155)**	**(55,346)**
Transfer to assets held for sale (Note 10)	**–**	**(21,557)**	**–**	**–**	**–**	**(21,557)**
At 31 December 2011	**–**	**88,337**	**32,514**	**104,024**	**45,841**	**270,716**
Net Book Value:						
At 31 December 2009	34,627	908,724	55,120	68,208	56,426	1,123,105
At 31 December 2010	34,627	876,168	77,657	68,493	47,944	1,104,889
At 31 December 2011	**31,922**	**754,970**	**74,129**	**52,845**	**38,880**	**952,746**

14. VAT and other taxes recoverable

	2011	*2010*
VAT recoverable	**521,960**	451,986
Other taxes	**2,557**	81,014
VAT and other taxes recoverable	**524,517**	533,000

(In thousands of Kazakh tenge)

15. Advances paid

	2011	*2010*
Rostelmash LLC	**1,433,726**	185,688
Buhler AG	**646,296**	–
Kyffhauser Service & Anlagentechnik GmbH	**399,561**	–
Eurasia Group AG	**366,963**	202,047
Lorenz Handels GmbH	**304,481**	66,772
Hunland Trade KFt	**169,437**	–
Fabromo GmbH	**162,078**	–
Atyrau Agro Onimderi	**155,769**	–
TT-62 Vehiculos S.L.	**126,708**	–
Man Truck & Bus AG	**125,989**	–
Trailer Engineering Niederhauser&co	**93,038**	–
Cherkassyplemservis SOOO	**44,472**	–
Jiangsu Muyang Group CO., LTD	**35,694**	–
Elif Makina Mobilya Cida Kirtasiye Sanayi Ve Dis Ticaret Limited Sirketi	**32,778**	–
Company Xports International Inc	**31,112**	–
PSS Svidnik a.s	**22,276**	–
Yamco Yadpaz Industries L.T.D	**369**	1,007,736
Voronezhselmash JSC	**–**	50,403
Hartmann Lebensmitteltechnik Anlagenbau GmbH	**–**	47,807
Genc Degirmen Makinalari Sanayi	**–**	41,055
Tekhna PO LLC	**–**	32,035
Uni-Tech EU Spo.z.o.o	**–**	22,050
Agrotec International AG	**–**	21,270
Other	**85,746**	46,702
	4,236,493	1,723,565
Less: allowances for impairment (Note 26)	**(71,178)**	(76,636)
Advances paid	**4,165,315**	1,646,929

Advances paid represent cash prepayments for delivery of agricultural equipment, vehicles and cattle for leases.

16. Amounts due to the shareholder

	2011	*2010*
Loans from the shareholder	**28,849,609**	18,139,823
Interest payable on loans from the shareholder	**91,789**	43,253
Amounts due to the shareholder	**28,941,398**	18,183,076

Investment loan

On 18 May 2009, the Company entered into Master Lending Agreement No. 35 ("Agreement") with the Parent, National Management Holding "KazAgro" JSC. Under the terms of the Agreement, the Company obtains long term funding to implement action plan to develop, expand and upgrade production in agricultural sphere. Proceeds from the loan are used by the Company to finance long term investment projects. The funding provided by the Parent is carried out from the National Fund under bond program through "National Bank of the Republic of Kazakhstan" JSC. The loan matures on 30 December 2023. According to additional agreement #6 dated 1 August 2011 the limit of financing was increased to KZT 94,000,000 thousand from KZT 57,128,000 thousand.. The total amount that can be drawn down is KZT 58,983,047 thousand, interest is accrued at nominal rate of 1.02% per annum (effective interest rate is 6.0%).

On 18 July 2011, the Company entered into General Agreement No. 66 with Parent to borrow KZT 2,000,000 thousand with maturity date 1 February 2012 and an interest of rate 1.02% per annum.

As at 31 December 2011 and 2010, the Company had no covenants under amounts due to the shareholder and the facilities are unsecured.

(In thousands of Kazakh tenge)

17. Amounts due to credit institutions

	2011	2010
Foreign currency denominated loans from banks	**15,595,694**	25,846,586
Accrued interest on loans obtained in foreign currencies	**186,612**	239,273
Amounts due to credit institutions	**15,782,306**	26,085,859

Amounts due to credit institutions comprise:

Bank	*Currency*	*Maturity*	*Interest rate*	*2011*	*2010*
Islamic Development Bank	USD	20.09.2020	6%	**4,310,115**	2,148,060
Societe General Bank (France)	USD	18.01.2014	3.995%	**1,760,742**	2,444,893
Societe General Bank (Canada)	USD	22.09.2014	6 month LIBOR+ 1.5%	**1,426,681**	1,888,810
HSBC Bank (Kazakhstan)	Euro	25.01.2012	6 month EURIBOR +3.5%	**1,454,996**	2,238,607
HSBC Bank (Kazakhstan)	Euro	25.01.2012	6 month. EURIBOR +1.75%	**1,044,920**	1,782,255
HSBC Bank (Kazakhstan)	Euro	25.01.2012	6 month EURIBOR +1.25%	**362,374**	1,116,078
Deere Credit, Inc.	USD	05.08.2014	LIBOR+ 2.5%	**1,622,561**	2,211,841
Deere Credit, Inc.	USD	05.08.2014	LIBOR+ 0.4%	**210,205**	444,388
Landensbank Berlin A.G	Euro	16.05.2015	6 month EURIBOR +0.35%	**429,960**	567,800
Landensbank Berlin A.G	Euro	28.08.2016	6 month EURIBOR + 1%+ Funding spread	**403,335**	502,683
Landensbank Berlin A.G	Euro	15.07.2013	6 month EURIBOR +0.35%	**396,403**	607,115
Landensbank Berlin A.G	USD	24.07.2013	6 month LIBOR + 0.9%+ Funding spread	**125,005**	185,448
Landensbank Berlin A.G	Euro	05.08.2012	6 month EURIBOR +0.35%	**113,441**	227,586
Landensbank Berlin A.G	Euro	28.07.2014	6 month EURIBOR +1%+ Funding spread	**90,771**	123,874
Landensbank Berlin A.G	Euro	17.04.2014	6 month EURIBOR +1%+ Funding spread	**65,409**	94,553
Landensbank Berlin A.G	Euro	30.07.2013	6 month EURIBOR + 0.9%+ Funding spread	**60,195**	92,036
Landensbank Berlin A.G	Euro	15.07.2013	6 month ЕВРИБОР+ 0.9%+ Funding spread	**11,210**	17,210
Landensbank Berlin A.G	Euro	28.07.2011	6 month EURIBOR +0.5%	**–**	37,685
HSBC Bank (Germany)	Euro	21.07.2014	6 month EURIBOR +0.15%	**602,824**	822,294
HSBC Bank (Germany)	Euro	20.07.2015	6 month EURIBOR +0.17%	**539,289**	688,473
HSBC Bank (Germany)	Euro	30.05.2014	6 month EURIBOR +0.15%	**402,928**	579,824
PEFCO	USD	25.04.2013	LIBOR +0.4%	**348,942**	577,874
The Royal Bank of Scotland N.V.	USD	31.10.2012	6 month LIBOR +1.9%	**–**	4,411,840
The Royal Bank of Scotland N.V.	Euro	10.01.2012	6 month EURIBOR +1.4%	**–**	968,210
The Royal Bank of Scotland N.V.	Euro	26.07.2011	6 month EURIBOR +2.0%	**–**	735,899
The Royal Bank of Scotland N.V.	USD	28.02.2013	6 month EURIBOR +1.9%	**–**	521,810
Natexis Banques Populaires	Euro	05.05.2011	3.62%	**–**	48,713
Amounts due to credit institutions				**15,782,306**	26,085,859

Financial covenants

In accordance with the terms of the loan agreements with foreign banks, the Company is required to comply with certain financial covenants. Particularly with regard to agreements with Societe Generale, the Company is required to maintain certain level of debt to equity and interest coverage ratios. As at 31 December 2011 and 2010, the Company complied with these ratios.

Credit lines

On 17 May 2010, the Company concluded a 10 year, 6% p.a. USD 30,000 thousand term loan facility with a grace period of 3 years with the Islamic Development Bank. The principal and interest should be paid quarterly in equal instalments, starting from March 2014. According to agreement with LandesBank Berlin AG in 2009, the lender is committed to lend up to 12,524 thousand Euro. On 22 August 2011, General Credit Line Agreement was concluded with Bank Positive Kazakhstan JSC. According to this agreement revolving credit line in the amount of KZT 730,000 thousand was issued. Credit facilities from Islamic Development Bank, LandesBank Berlin AG and Bank Positive Kazakhstan JSC remain undrawn as of 31 December 2011 in the amount of USD 88 thousand (2010: USD 14,063 thousand), EUR 8,869 thousand (2010: EUR 8,869 thousand) and KZT 730,000 thousand (2010: nil), respectively.

(In thousands of Kazakh tenge)

18. Taxation

The corporate income tax benefit comprises:

	2011	*2010*
Current tax charge	**103,204**	60,425
Deferred tax: origination and reversal of temporary differences	**(415,003)**	(90,010)
Less: deferred tax recognized in other comprehensive income	**(236,143)**	(393,570)
Income tax benefit	**(547,942)**	(423,155)

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2011	*2010*
On assets (Note 22)	**194,611**	169,661
On liabilities (Note 22)	**(430,754)**	(563,231)
Income tax charged to other comprehensive income	**(236,143)**	(393,570)

Kazakhstani legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate comprised 20% for 2011 and 2010. The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2011	*2010*
Profit before income tax	**602,921**	1,983,559
Statutory tax rate	**20%**	20%
Theoretical income tax expense at the statutory rate	**120,584**	396,712
Non-taxable interest income on finance lease receivables	**(927,841)**	(919,160)
Non-deductible expenditures:		
-allowance for loan and finance lease receivables impairment charges	**211,406**	361,347
-expenses not related to entrepreneurship activities	**9,753**	7,066
-non-deductible VAT	**5,579**	2,889
-tax related penalties	**5,245**	1,557
-other	**27,332**	31,010
Effect of tax rate change	**–**	66,754
Changes in unrecognized deferred tax	**–**	(371,330)
Income tax benefit	**(547,942)**	(423,155)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2009	*In the income statement*	*In other comprehensive income*	*2010*	*In the income statement*	*In other comprehensive income*	*2011*
Tax effect of deductible temporary differences liabilities / (asset):							
Derivative financial assets	–	–	–	–	**730,370**	–	**730,370**
Accrual for unused vacations	19,251	1,374	–	20,625	**2,820**	–	**23,445**
Tax losses carried forward	371,330	(371,330)	–	–	**–**	–	**–**
Gross deferred tax asset	390,581	(369,956)	–	20,625	**733,190**	–	**753,815**
Unrecognised deferred tax asset	(371,330)	371,330	–	–	**–**	–	**–**
Deferred tax asset	19,251	1,374	–	20,625	**733,190**	–	**753,815**
Derivative financial assets	(758,001)	618,828	–	(139,173)	**–**	–	**(139,173)**
Loans to customers	(115,837)	(111,982)	169,661	(58,158)	**(198,406)**	**194,611**	**(61,953)**
Finance lease receivables	(287,692)	(102,786)	–	(390,478)	**(108,960)**	–	**(499,438)**
Amounts due to the Government	(5,090)	4,414	–	(676)	**676**	–	**–**
Amounts due to credit institutions	–	(47,643)	–	(47,643)	**(19,125)**	–	**(66,768)**
Amounts due to the shareholder	(521,361)	129,226	(563,231)	(955,366)	**226,247**	**(430,754)**	**(1,159,873)**
Property and equipment and intangible assets	(35,336)	(7,851)	–	(43,187)	**17,524**	–	**(25,663)**
Deferred tax liability	(1,723,317)	482,206	(393,570)	(1,634,681)	**(82,044)**	**(236,143)**	**(1,952,868)**
Deferred tax (liabilities)/ assets	(1,704,066)	483,580	(393,570)	(1,614,056)	**651,146**	**(236,143)**	**(1,199,053)**

(In thousands of Kazakh tenge)

18. Taxation (continued)

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 2009, in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred. In accordance with current tax legislation tax loss recognized for the year 2009 was carried forward for the purpose of offset of the taxable income for the period ended 31 December 2010.

19. Advances received

Advances received in the amount of KZT 2,302,050 thousand (2010: KZT 2,007,198 thousand) comprise prepayment from clients for property held for finance lease, which was purchased in accordance with loan or finance lease agreements, but not transferred to the lessee.

20. Other assets and liabilities

Other assets comprise:

	2011	*2010*
Accounts receivable	**173,586**	153,770
Deferred expenses	**17,618**	6,154
Other assets	**91**	951
	191,295	160,875
Less: allowance for impairment of other assets (Note 26)	**(169,581)**	(151,238)
Other assets	**21,714**	9,637

Other liabilities comprise:

	2011	*2010*
Accounts payable to vendors	**2,321,646**	928,636
Payables to employees	**145,320**	137,678
Taxes payable	**85,306**	36,868
Other current liabilities	**116,734**	33,824
Other liabilities	**2,669,006**	1,137,006

Accounts payable to vendors comprise:

	2011	*2010*
Lorenz Handels GmbH	**504,709**	203,078
Eurasia Group AG	**504,086**	–
VDL Agrotech B.V	**151,993**	–
SemAz LLP	**117,584**	5,488
Dalsem Horticultural Projects B.V.	**114,910**	–
Association pour la Promotion et l Expansion de la race Salers	**106,189**	–
Xports International Inc	**86,612**	–
Techna LLC	**51,897**	53,294
Jiangsu Muyang Group CO., LTD	**50,945**	50,636
Hartmann Lebensmitteltechnik Anlagenbau GmbH	**47,738**	28,892
Farwick Maschinen-Muhlenbau GmbH	**47,330**	–
Genc Degirmen MakinalariSanayi ve TIA	**41,359**	4,823
TT-62 VEHICULOS S.L.	**39,544**	–
Delaval Export Service AB	**29,598**	30,395
Oztoprak LTD Sti	**29,184**	29,970
Hunland Trade KFt	**28,871**	–
MAS AGRO	**27,230**	35,443
M.A.D.Developing Agricultural Projects Ltd	**–**	248,360
Other	**341,867**	238,257
Accounts payable to vendors	**2,321,646**	928,636

(In thousands of Kazakh tenge)

21. Commitments and contingencies

Operating environment

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

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within the Republic of Kazakhstan. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could affect the Company's financial position, results of operations and business prospects.

Borrowers could also be affected by deterioration in liquidity and weather conditions that, in turn, affects their ability to settle their debt to the Company. The management of the Company believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, nevertheless unexpected further deterioration in the areas described above could negatively affect the Company's results and financial position in a manner not currently determinable.

Legal

On 31 December 2011 and 2010, the Company had outstanding loan receivable due from Vita JSC of KZT 860,016 thousand. On 28 October 2010 specialized inter-district economic court of Almaty instituted a civil case for bankruptcy procedures against JSC «Vita». On 26 January 2011 JSC "Vita", according to the court decision, was declared bankrupt. KazAgroFinance JSC representative chairs the committee of creditors which was formed during 2011. As at 31 December 2011 the bankruptcy proceeding has not been completed, however the Company's management is confident that as a result of the ongoing bankruptcy proceedings, the carrying amount of loans receivable will be fully recovered through administration and sale of the bankruptcy estate. The management's opinion is supported by the fact that the proceedings conducted in accordance with the Law on Grain (rather that a Law on bankruptcy) result in Company' claims to the bankruptcy estate being senior in terms of ranking to claims of other financial institutions in Kazakhstan.

As of 31 December 2011 and 2010, the Company had property held for finance leases with carrying value of KZT 131,474 thousand. The property was acquired in 2008 to provide it under finance lease agreement to the farm household "Atyrau Agro Onimderi". The Company could not transfer the equipment to the lessee as it was not fully assembled due to the fact that the vendor of the equipment - "Oztoprak" LLP failed to perform required assembly works. In April 2011, "Atyrau Agro Onimderi" filed a lawsuit against the Company for compensation of damages. The Court of Atyrau ruled in favor of "Atirau Agro Onimderi", therefore the Company was charged KZT 155,768 thousand to compensate aforementioned damages. The Company filed an appeal to the Supreme court in 2011 and won the case on 25 January 2012 in the Supreme Court of the Republic of Kazakhstan, which cancelled the decision of Atyrau court. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

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, Company's management's interpretation of the legislation may differ from that of tax authorities, and in the result transactions carried out by the Company could be estimated by tax authorities in other way, and this could result in additional charge of taxes, fines and penalties. Company'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 Company's commitments and contingencies comprise:

Credit related commitments	***2011***	***2010***
Undrawn credit lines	**8,856,512**	8,069,917
Total	**8,856,512**	8,069,917

As of 16 June 2011 the Company issued a financial guarantee in the amount of 6,661,130 Islamic Dinar (equivalent to USD 10,408,016 or KZT 1,516,864 thousand) on behalf of associated company JSC Fund of financial support of agriculture to the Islamic Development Bank under loan facility. The guarantee is secured by the counter guarantee from KazAgro JSC. As at 31 December 2011 loan facility remains fully undrawn.

In August 2011 Customs Committee performed revision over proper accrual of VAT and customs duties by the Company. As a result of the revision the Committee assessed additional payment of 1,504 MKZT including VAT, customs duties and related penalties.

(In thousands of Kazakh tenge)

21. Commitments and contingencies (continued)

Undrawn credit lines (continued)

The assessed amount arose due to the fact that during 2006 – 2011 the Company purchased agricultural machinery and equipment from overseas vendors through third party authorized distributors/dealers acting on behalf of the manufacturer of the underlying equipment. The dealers were responsible for customs clearance procedures. In their capacity of dealers they imported the equipment and therefore applied a VAT exemption for imported agricultural machinery and equipment. As the equipment was imported and customs cleared by a dealer, the Customs Committee claimed that the preferential VAT treatment is applicable only to the dealer, but not the Company and therefore made an assessment of the aforementioned amount. The Company did not agree with conclusions of Custom Committee and filed a complaint to the Ministry of Finance of the RK and to General Prosecutor's Office. Then the Company filed a joint complaint to Advisory Board on taxation of the RK together with other leasing companies that also imported equipment through dealers and applied VAT exemption. According to the Minutes of the meeting of the Advisory Board on taxation it was concluded that the Ministry of Agriculture in cooperation with the Ministries of Economic Development and Trade and Finance should develop regulations allowing the preferential VAT treatment with respect to goods previously imported into the territory of the Republic of Kazakhstan under the special customs clearance regime, with retrospective application of such provisions from 1 January 2009. In November 2011 the decision of Advisory Board was approved by the lower chamber of the Parliament and it was sent to Senate for further approval. Management of the Company is confident that the Senate will approve decision of the Advisory Board. The management concluded the probability of outflow of the resources arising under the claim from the Customs Committee as remote, and therefore no provision was recorded against this contingency.

22. Equity

Information on movements in issued, fully paid and outstanding shares is given below:

	Placement value per share (tenge)	*Number of common shares issued*	*Total (000' tenge)*
At 31 December 2009	1,000	48,450,191	48,450,191
Increase in share capital	1,000	6,000,000	6,000,000
At 31 December 2010		54,450,191	54,450,191
Increase in share capital	**1,000**	**19,900,000**	**19,900,000**
At 31 December 2011		**74,350,191**	**74,350,191**

At the General shareholder's meetings held on 14 February, 19 May and 26 October 2011, the Company increased number of authorised common shares by 4,500,000, 8,400,000 and 7,000,000, respectively. As at 31 December 2011, total amount of authorized, issued and fully paid common shares is 74,350,191 (2010: 54,450,191) at placement value of KZT 1,000 per one common share. On the basis of the Order of the Government of the Republic of Kazakhstan the Company received KZT 19,900,000 thousand from existing sole shareholder as a contribution to share capital during 2011 (2010: KZT 6,000,000 thousand).

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

At the General shareholder's meeting held on 29 April 2011, the Company declared dividends in respect of the year ended 31 December 2010, in the amount of KZT 1,203,357 thousand on common shares or KZT 22.1 per share. Dividends for the year ended 31 December 2010 were fully paid in the total amount of KZT 1,203,357 thousand in 2011. At the General shareholder's meeting held on 28 May 2010, the Company declared dividends in respect of the year ended 31 December 2009, in the amount of KZT 543,945 thousand on ordinary shares or KZT 11.22 per share. Dividends for the year ended 31 December 2009 and 31 December 2008 were fully paid in the total amount of KZT 863,058 thousand in 2010.

For the year ended 31 December 2011 the Company has not declared yet any dividends in respect of the current reporting year.

In accordance with Company's regulations, reserve capital is formed for general risks, including deferred losses and other contingent risks and liabilities. Reserve capital is subject to distribution on the basis of decision of general shareholder's meeting. During 2011 the shareholder of the Company approved no transfer to the reserves (2010: KZT 54,395 thousand).

The difference between the cost at initial recognition of loans from the shareholder, and fair value of loans received in 2011 of KZT 2,153,774 thousand, net of tax effect KZT 430,754 thousand (2010: KZT 2,822,136 thousand, net of tax effect KZT 563,231 thousand) is recognized as the shareholder's contribution as a part of additional paid in capital.

(In thousands of Kazakh tenge)

22. Equity (continued)

As at 31 December 2011 the losses in the amount KZT 973,053 thousand, net of tax effect KZT 194,611 thousand (2010: KZT 843,573 thousand, net of tax effect KZT 169,661 thousand), being the difference between the fair value of loans granted to clients at below market rates funded by the Government of the Republic of Kazakhstan and their nominal amount, is recognized as deemed distribution reserve.

As at 31 December 2011 the Company's book value per common share calculated in accordance with Kazakh Stock Exchange methodology is KZT 1,090 (2010: KZT 1,108).

With effect from 1 July 2011, based on requirements of the NBRK the Company calculates a reserve representing the difference in allowance for impairment of loans to customers, finance lease receivables and advances paid calculated in accordance with IFRS and calculated in accordance with the requirements of the regulator. As at 31 December 2011, such unaudited reserve amounted to KZT 12,838,881 thousand, including KZT 4,837,096 thousand on loans to customers, KZT 7,766,194 thousand on finance lease receivables, KZT 234,526 thousand on advances paid and KZT 1,065 thousand on other assets, and is only required for reporting to the NBRK.

23. Other income

Other income comprises:

	2011	*2010*
Fines and penalties received	**67,757**	178,355
Gain on sale of property and equipment and intangible assets	**29,362**	379
Rent	**5,020**	11,751
Other income	**683**	9,463
Total	**102,822**	199,948

Fines and penalty received represents penalties received from suppliers for late delivery of equipment.

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2011	*2010*
Salaries and bonuses	**(1,219,384)**	(1,127,854)
Social security costs	**(119,147)**	(111,087)
Personnel expenses	**(1,338,531)**	(1,238,941)
Taxes except for income tax	**(73,335)**	(21,730)
Repair and maintenance	**(52,209)**	(16,257)
Bank commissions	**(47,097)**	(42,480)
Sponsorship	**(46,095)**	(34,148)
Travel expenses	**(42,125)**	(33,087)
Communication	**(34,066)**	(27,564)
Rent	**(33,584)**	(31,116)
Professional services	**(32,197)**	(30,659)
Advertisement	**(30,462)**	(55,724)
Materials	**(28,101)**	(23,560)
Insurance	**(14,021)**	(14,223)
Trainings	**(5,545)**	(6,025)
Stationary	**(5,503)**	(4,866)
Other	**(66,350)**	(80,601)
Other operating expenses	**(510,690)**	(422,040)

(In thousands of Kazakh tenge)

25. Initial recognition of losses on loans to customers, adjusted for gain on changes of future cash flows

In the ordinary course of business, the Company extends loans to its customers at below market rates. These loans are initially recorded at their fair value determined as a present value of discounted future cash flows from the instrument. The discount rate used is a market interest rate for instruments with similar credit characteristics and risks. When these loans are not funded by the Shareholder, the Company recognises the difference between the fair value of the loans and their notional amount in income statement as a loss on initial recognition. During 2011, the Company recorded losses of KZT 262,797 thousand on such loans (2010: KZT 305,665 thousand).

26. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Property held for finance lease	*Advances paid*	*Other assets*	*Total*
At 31 December 2009	–	16,424	128,902	145,326
Charge	–	60,212	44,108	104,320
Write-offs	–	–	(21,772)	(21,772)
At 31 December 2010	–	76,636	151,238	227,874
Charge/(Reversal)	**47,719**	**(5,458)**	**19,242**	**61,503**
Write-offs	**–**	**–**	**(899)**	**(899)**
At 31 December 2011	**47,719**	**71,178**	**169,581**	**288,478**

Impairment provision amounts are deducted from respective assets.

27. Earnings per share

Basic earnings per share are calculated by dividing the net income for the year attributable to common shareholder 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:

	2011	*2010*
Net income attributable to common shareholder for basic and diluted earnings per share (thousands tenge)	**1,150,863**	2,406,714
Weighted average number of common shares for basic and diluted earnings per share	**58,125,304**	51,344,040
Basic earnings per share (tenge)	**19.80**	46.87

No dilutive instruments were outstanding as of 31 December 2011 (2010: none).

28. Risk management

Introduction

Risk is inherent in the Company'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 Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company 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 Company'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.

28. Risk management (continued)

Introduction (continued)

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 Company.

Risk Management

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

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Company. The Company's structure comprises independent unit under the direct supervision of the Board of Directors, 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 also ensures the complete capture of the risks in risk measurement and reporting systems.

Company Treasury

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

Internal audit

Internal audit function provides the Board of Directors with independent, unbiased and objective information based on annual audit of both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

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

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

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

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

A daily briefing is given to the Management Board and all other relevant employees of the Company on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Company uses derivatives to manage exposures resulting from changes foreign currencies. The Company actively uses collateral to reduce its credit risks (see below for more detail).

(In thousands of Kazakh tenge)

28. Risk management (continued)

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company 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 Company 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 Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position

Credit-related commitments risks

The Company makes available to its customers guarantees which may require that the Company make payments on their behalf. Such payments are collected from customers based on the terms of the guarantees. They expose the Company to similar risks to loans and these are mitigated by the same control processes and policies.

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

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Notes 8 and 9.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Company 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 Company's credit rating system. Borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade and collectively determined to be impaired.

2011	*Standard grade 2011*	*Sub-standard grade 2011*	*Past due but not impaired loans*	*Individually impaired 2011*	*Total 2011*
Cash and cash equivalents	10,878,777	–	–	–	10,878,777
Amounts due from credit institutions	10,926,990	–	–	–	10,926,990
Derivative financial assets	6,556,513	–	–	–	6,556,513
Loans to customers	12,690,020	2,879,488	3,765,127	9,859,836	29,194,471
Finance lease receivables	10,852,457	37,961,966	2,207,869	19,818,969	70,841,261
Total	51,904,757	40,841,454	5,972,996	29,678,805	128,398,012
2010	*Standard grade 2010*	*Sub-standard grade 2010*	*Past due but not impaired loans*	*Individually impaired 2010*	*Total 2010*
Cash and cash equivalents	8,398,782	–	–	–	8,398,782
Amounts due from credit institutions	2,882,995	–	–	–	2,882,995
Derivative financial assets	9,445,631	–	–	–	9,445,631
Loans to customers	10,451,180	4,796,832	4,698,541	6,751,850	26,698,403
Finance lease receivables	9,172,034	32,729,087	4,451,755	9,342,267	55,695,143
Investment securities available-for-sale	3,028,722	–	–	–	3,028,722
Total	43,379,344	37,525,919	9,150,296	16,094,117	106,149,676

(In thousands of Kazakh tenge)

28. Risk management (continued)

Credit risk (continued)

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

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

31 December 2011	*Less than 30 days 2011*	*31 to 60 days 2011*	*61 to 90 days 2011*	*Over 90 days 2011*	*Total 2011*
Loans to customers	439,564	891,712	884,562	1,549,289	3,765,127
Finance lease receivables	335,403	239,129	442,631	1,190,706	2,207,869
Total	774,967	1,130,841	1,327,193	2,739,995	5,972,996
31 December 2010	*Less than 30 days 2010*	*31 to 60 days 2010*	*61 to 90 days 2010*	*Over 90 days 2010*	*Total 2010*
Loans to customers	1,404,784	1,017,478	557,768	1,718,511	4,698,541
Finance lease receivables	1,251,536	617,316	187,438	2,395,465	4,451,755
Total	2,656,320	1,634,794	745,206	4,113,976	9,150,296

See Notes 8 and 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment 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 Company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan and finance lease receivable on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers and finance lease receivables that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no 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 time 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 Company's overall policy.

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

(In thousands of Kazakh tenge)

28. Risk management (continued)

Credit risk (continued)

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

	2011				*2010*			
	Kazakhstan	*OECD*	*CIS*	*Total*	*Kazakhstan*	*OECD*	*CIS*	*Total*
Assets:								
Cash and cash equivalents	10,878,777	–	–	10,878,777	8,398,782	–	–	8,398,782
Amounts due from credit institutions	10,926,990	–	–	10,926,990	2,882,995	–	–	2,882,995
Derivative financial assets	6,556,513	–	–	6,556,513	9,445,631	–	–	9,445,631
Loans to customers	25,319,978	–	–	25,319,978	23,191,484	–	–	23,191,484
Finance lease receivable	66,344,220	–	–	66,344,220	53,226,523	–	–	53,226,523
Investment securities available-for-sale	–	–	–	–	3,028,722	–	–	3,028,722
Other assets	4,005	–	–	4,005	2,532	–	–	2,532
	120,030,483	–	–	120,030,483	100,176,669	–	–	100,176,669
Liabilities:								
Amounts due to the shareholder	28,941,398	–	–	28,941,398	18,183,076	–	–	18,183,076
Amount due to credit institutions	2,862,290	12,920,016	–	15,782,306	5,136,939	20,948,920	–	26,085,859
Amounts due to the Government	–	–	–	–	139,473	–	–	139,473
Other liabilities	338,217	2,040,815	59,348	2,438,380	68,922	812,389	81,149	962,460
	32,141,905	14,960,831	59,348	47,162,084	23,528,410	21,761,309	81,149	45,370,868
Net assets / (liabilities)	87,888,578	(14,960,831)	(59,348)	72,868,399	76,648,259	(21,761,309)	(81,149)	54,805,801

(In thousands of Kazakh tenge)

28. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Company 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. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many counterparties will not request repayment on the earliest date the Company could be required to pay.

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 the shareholder	2,119,005	3,600,510	19,609,605	10,880,223	36,209,343
Amounts due to credit institutions	4,327,831	2,369,124	8,159,790	4,167,881	19,024,626
Other liabilities	2,438,380	–	–	–	2,438,380
Total undiscounted financial liabilities	8,885,216	5,969,634	27,769,395	15,048,104	57,672,349

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 the Government of the Republic of Kazakhstan	–	142,857	–	–	142,857
Amounts due to the shareholder	38,452	2,040,780	12,976,238	8,968,412	24,023,882
Amounts due to credit institutions	2,663,685	7,713,484	16,749,288	2,444,747	29,571,204
Other liabilities	962,460	–	–	–	962,460
Total undiscounted financial liabilities	3,664,597	9,897,121	29,725,526	11,413,159	54,700,403

The table below shows the contractual expiry by maturity of the Company's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2011 (Note 21)	1,017,737	7,838,775	–	–	8,856,512
2010 (Note 21)	2,088,422	5,981,495	–	–	8,069,917

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

The Company's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

The Company has received significant funds from parent and credit institutions. Any significant withdrawal of these funds would have an adverse impact on the operations of the Company. Management believes that this level of funding will remain with the Company for the foreseeable future and that in the event of withdrawal of funds, the Company would be given sufficient notice so as to realise its liquid assets to enable repayment.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges. The Company classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology, which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analysis.

(In thousands of Kazakh tenge)

28. Risk management (continued)

Liquidity risk and funding management (continued)

Market risk – Trading

The Management Board has set limits on the level of risk that may be accepted. The Company applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Company uses a full non-linear VaR model for interest rate, spread, equity index and volatility risk. These calculations are based on Monte-Carlo simulations derived from a variance / covariance matrix. For the VaR in relation to foreign exchange rates, the Bank uses a variance / covariance model. The equity-specific risk is captured by using a single factor model.

Objectives and limitations of the VaR Methodology

The Company uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from the past five years. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Company would withstand an extreme market event.

VaR assumptions

The VaR that the Company measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Company's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management.

	Foreign exchange	*Interest rate*	*Effects of correlation*	*Total*
31 December 2011	229,588	60,590	380,072	670,250
31 December 2010	648,662	316,733	1,527,888	2,493,283

Market risk – Non -trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's income statement.

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

Currency	*Increase in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of equity 2011*
EUR	100	(40,493)	(40,493)
USD	100	(20,097)	(20,097)

(In thousands of Kazakh tenge)

28. Risk management (continued)

Market risk – Non -trading (continued)

Interest rate risk (continued)

Currency	Increase in basis points 2010	Sensitivity of net interest income 2010	Sensitivity of equity 2010
EUR	100	(72,896)	(72,896)
USD	100	(75,217)	(75,217)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the FMSC recommendations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Company 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 KZT, 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.

Currency	Change in currency rate in % 2011	Effect on profit before tax 2011	Change in currency rate in % 2010	Effect on profit before tax 2010
USD	**(10.72)**	**(2,039,245)**	10.0	1,293,770
USD	**10.72**	**2,068,577**	(15.0)	346,692
EUR	**(16.33)**	**(325,022)**	(8.7)	(906,309)
EUR	**16.33**	**497,469**	3.3	(45,502)
RUR	**(16.01)**	**(27,586)**	(16.01)	(9,676)
RUR	**16.01**	**27,586**	16.01	9,676

Prepayment risk

Prepayment risk is the risk that the Company will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected when interest rates fall.

If 10% of loan portfolio were to prepay at the beginning of the year, with all other variables held constant, the profit before tax for the year would be reduced by KZT 162,016 thousand (2010: KZT 127,095 thousand)

If 10% of debt portfolio were to prepay at the beginning of the year, with all other variables held constant, the profit before tax for the year would be increased by KZT 114,493 thousand (2010: KZT 51,109 thousand).

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(In thousands of Kazakh tenge)

29. Fair values of financial instruments

The Company 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:

31 December 2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Derivative financial assets	–	6,566,513	–	6,566,513
Total financial assets	**–**	**6,566,513**	**–**	**6,566,513**

31 December 2010	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Derivative financial assets	–	9,445,631	–	9,445,631
Investment securities available-for-sale	3,028,722	–	–	3,028,722
Total financial assets	3,028,722	9,445,631	–	12,474,353

In 2011 and 2010 there were no transfers between level 1 and level 2.

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 Company's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

The Company determines fair value using valuation method, usually applied by market participants. As for embedded derivative instruments assumptions are made on the basis of market rates adjusted by specific characteristics of the instrument. The Company uses Black-Scholes model to evaluate its financial instruments and assumptions used in valuation model (such as risk free rates and volatility coefficients), are determined on the basis of financial instruments with similar characteristics quoted at Bloomberg.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(In thousands of Kazakh tenge)

29. Fair values of financial instruments (continued)

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 Company'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.

	Carrying value 2011	*Fair value 2011*	*Unrecognised gain/(loss) 2011*	*Carrying value 2010*	*Fair value 2010*	*Unrecognised gain/(loss) 2010*
Financial assets						
Cash and cash equivalents	10,878,777	10,878,777	–	8,398,782	8,398,782	–
Amounts due from credit institutions	10,926,990	10,926,990	–	2,882,995	2,882,995	–
Loans to customers	25,319,978	23,893,654	(1,426,324)	23,191,484	22,517,844	(673,640)
Finance lease receivables	66,344,220	58,444,677	(7,899,543)	53,226,523	48,926,859	(4,299,664)
Other assets	4,005	4,005	–	2,532	2,532	–
	113,473,970	104,148,103	(9,325,867)	87,702,316	82,729,012	(4,973,304)
Financial liabilities						
Amounts due to the shareholder	28,941,398	26,157,387	2,784,011	18,183,076	17,928,657	254,419
Amounts due to credit institutions	15,782,306	16,199,905	(417,599)	26,085,859	27,078,896	(993,037)
Amounts due to the Government of the Republic of Kazakhstan	–	–	–	139,473	134,060	5,413
Other liabilities	2,438,380	2,438,380	–	962,460	962,460	–
	47,162,084	44,795,672	2,366,412	45,370,868	46,104,073	(733,205)
Total unrecognized change in unrealized fair value			(6,959,455)			(5,706,509)

30.

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

(In thousands of Kazakh tenge)

30. 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 28 "Risk management" for the Company's contractual undiscounted repayment obligations.

	2011			*2010*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**10,878,777**	–	**10,878,777**	8,398,782	–	8,398,782
Amounts due from credit institutions	**10,926,990**	–	**10,926,990**	2,882,995	–	2,882,995
Derivative financial assets	**2,376,785**	**4,179,728**	**6,556,513**	2,566,604	6,879,027	9,445,631
Loans to customers	**9,339,607**	**15,980,371**	**25,319,978**	8,707,395	14,484,089	23,191,484
Finance lease receivables	**16,219,542**	**50,124,678**	**66,344,220**	12,694,882	40,531,641	53,226,523
Assets held for sale	**491,577**	–	**491,577**	463,109	–	463,109
Property held for finance leases	**6,467,772**	–	**6,467,772**	6,098,660	–	6,098,660
Investment securities available-for-sale	–	–	–	3,028,722	–	3,028,722
Property and equipment	–	**952,746**	**952,746**	–	1,104,889	1,104,889
Intangible assets	–	**163,456**	**163,456**	–	102,207	102,207
Prepayment for income taxes	**50,812**	–	**50,812**	74,238	–	74,238
VAT and other taxes recoverable	**524,517**	–	**524,517**	533,000	–	533,000
Advances paid	**4,165,315**	–	**4,165,315**	1,646,929	–	1,646,929
Other assets	**21,714**	–	**21,714**	9,637	–	9,637
Total	**61,463,408**	**71,400,979**	**132,864,387**	47,104,953	63,101,853	110,206,806
Amounts due to the Government	–	–	–	139,473	–	139,473
Amounts due to the shareholder	**5,630,584**	**23,310,814**	**28,941,398**	1,452,628	16,730,448	18,183,076
Amounts due to credit institutions	**5,470,561**	**10,311,745**	**15,782,306**	9,235,703	16,850,156	26,085,859
Deferred income tax liabilities	–	**1,199,053**	**1,199,053**	–	1,614,056	1,614,056
Advances received	**2,302,050**		**2,302,050**	2,007,198	–	2,007,198
Deferred VAT	**87,772**	**643,276**	**731,048**	81,650	505,826	587,476
Other liabilities	**2,669,006**	–	**2,669,006**	1,107,036	29,970	1,137,006
Total	**16,159,973**	**35,464,888**	**51,624,861**	14,023,688	35,730,456	49,754,144
Net position	**45,303,435**	**35,936,091**	**81,239,526**	33,081,265	27,371,397	60,452,662

31. 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.

Transactions with government-related entities (excluding the shareholder)

Republic of Kazakhstan, acting through the State Property Committee within the Ministry of Finance, controls the Company.

Republic of Kazakhstan directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as "government-related entities"). The Company enters into banking transactions with these entities such as attracting of loans and placement of cash and letter of credits.

(In thousands of Kazakh tenge)

31. Related party disclosures (continued)

Transactions with government-related entities (excluding the shareholder) (continued)

The company's outstanding balances with government-related second tier banks:

	2011	*2010*
Cash and cash equivalents	**2,323,687**	6,999,270
Amounts due from credit institutions	**3,725,287**	2,196,406
Total	**6,048,974**	9,195,676

Interest income for the period on current accounts with government-related second tier banks:

	2011	*2010*
Cash and cash equivalents	**2,394**	285,617
Total	**2,394**	285,617

The outstanding balances of the operation with parties related to the Government of the Republic of Kazakhstan as Ministry of Finance of Republic of Kazakhstan.

	2011	*2010*
Loans outstanding at 1 January	**139,324**	799,941
Loan repayments during the year	**(139,324)**	(660,617)
Loans outstanding at 31 December	**–**	139,324
Interest accrued at 1 January	**149**	6,605
Accrued interest expense on loans during the year	**4,103**	23,124
Interest repaid during the year	**(4,252)**	(29,580)
Interest accrued on loans as at 31 December	**–**	149

Transactions with non government-related entities (including the shareholder)

The outstanding balances of the operation with the shareholder and other related parties comprise:

	2011				*2010*			
	Parent	*Entities under common control*	*Other related parties*	*Key management personnel*	*Parent*	*Entities under common control*	*Other related parties*	*Key management personnel*
Loans to customers outstanding at 1 January, gross	**–**	**–**	**1,913,502**	**–**	–	–	2,607,546	2,287
Loans issued during the year	**–**	**75,860**	**355,028**	**–**	–	98,781	400,000	–
Loan repayments during the year	**–**	**–**	**(1,514,498)**	**–**	–	(98,781)	(1,094,044)	(2,287)
Loans to customers outstanding at 31 December, gross	**–**	**75,860**	**754,032**	**–**	–	–	1,913,502	–
Accrued interest on loans to customers at 31 December	**–**	**1,860**	**19,105**	**–**	–	–	37,049	–
Less: allowance for impairment at 31 December	**–**	**(9,910)**	**(2,711)**	**–**	–	–	(40,574)	–
Loans to customers outstanding at 31 December, net	**–**	**67,810**	**770,426**	**–**	–	–	1,909,977	–
Finance lease receivables outstanding at 1 January, gross	**–**	**298,808**	**848,272**	**–**	–	350,031	877,139	–
Finance lease receivables issued during the year	**–**	**84,763**	**189,369**	**–**	–	–	136,730	–
Finance lease receivables repayment during the year	**–**	**(23,439)**	**(284,898)**	**–**	–	(50,746)	(166,074)	–
Finance lease receivables outstanding at 31 December, gross	**–**	**360,132**	**752,743**	**–**	–	299,285	847,795	–
Accrued interest on FL receivables at 31 December	**–**	**3,017**	**8,762**	**–**	–	2,832	11,359	–
Less: allowance for impairment at 31 December	**–**	**(16,607)**	**(12,451)**	**–**	–	(10,664)	(5,117)	–
Finance lease receivables outstanding at 31 December, net	**–**	**346,542**	**749,054**	**–**	–	291,453	854,037	–

(In thousands of Kazakh tenge)

31. Related party disclosures (continued)

Transactions with non government-related entities (including the shareholder)

	2011				2010			
	Parent	*common control*	*related parties*	*ment personnel*	*Parent*	*common control*	*related parties*	*ment personnel*
Loans received principal outstanding at 1 January	18,139,823	–	–	–	8,723,823	–	–	–
Loans received during the year	12,332,514	–	–	–	9,556,288	–	–	–
Loans repaid during the year	(1,622,728)	–	–	–	(140,288)	–	–	–
Loans received principal outstanding at 31 December	28,849,609	–	–	–	18,139,823	–	–	–
Interest accrued on loans received	91,789	–	–	–	43,253	–	–	–
Dividends outstanding as at 1 January	–	–	–	–	319,113	–	–	–
Dividends declared during the year	1,203,357	–	–	–	543,945	–	–	–
Dividends paid during the year	(1,203,357)	–	–	–	(863,058)	–	–	–
Dividends outstanding as at 31 December	–	–	–	–	–	–	–	–

The income and expense arising from related party transactions are as follows:

	2011				2010			
	Parent	*Entities under common control*	*Other related parties*	*Key management personnel*	*Parent*	*Entities under common control*	*Other related parties*	*Key management personnel*
Interest income on loans to customers	–	1,860	208,382	–	–	26,962	312,365	–
Impairment charge for loans	–	9,910	(37,863)	–	–	–	(4,122)	(78)
Interest income on finance lease receivables	–	10,712	56,936	–	–	12,157	44,892	–
Impairment charge for FL receivable	–	5,943	7,334	–	–	6,947	(6,604)	–
Interest expense	(1,381,549)	–	–	–	(781,997)	–	–	–
Other income	–	–	–	–	–	–	5	–
Other expenses	–	(12,753)	–	(46,906)	–	(1,537)	–	(43,531)

Loans and finance lease receivables were issued to other related parties at rates ranging from 4% to 13% with term from 4 to 7 years.

Compensation of key management personnel was comprised of the following:

	2011	2010
Salaries and other short-term benefits	42,650	39,583
Social security costs	4,256	3,948
Total key management personnel compensation	46,906	43,531

32. Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the ratios established by the FMSC in supervising the Company.

During 2011 and 2010 the Company had complied in full with all its capital requirements imposed by the legislation.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholder's value.

(In thousands of Kazakh tenge)

32. Capital adequacy (continued)

Capital adequacy ratio established by FMSC

The FMSC requires companies engaged in certain types of banking activities to maintain a minimum Tier 1 capital adequacy ratio (k1) of 6% of total assets and minimum total capital adequacy ratio (k1-3) of 12% of risk-weighted assets and contingent liabilities and operational risk. In 2011 and 2010, the total assets and the risk-weighted assets, calculated under FMSC requirements, were obtained on the basis of Company's financial statements prepared in accordance with Kazakhstani Accounting Standards. As of 31 December, the Company's capital adequacy ratio on this basis was as follows:

	2011	*2010*
Tier 1 capital	**68,398,068**	58,045,949
Tier 2 capital	**–**	2,406,713
Total capital	**68,398,068**	60,452,662
Total assets	**120,025,506**	110,206,806
Risk-weighted assets; contingent liabilities	**114,644,568**	110,218,231
Operational risk	**3,847,888**	2,863,409
Capital adequacy ratio (kl) –not less than 6%	**57.0%**	52.7%
Capital adequacy ratio (kl-3) – not less than 12%	**57.7%**	53.5%

Capital adequacy ratio under Basel Capital Accord 1988

The Company's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2011 and 2010, comprised:

	2011	*2010*
Tier 1 capital	**68,398,068**	58,045,949
Tier 2 capital	**–**	2,406,713
Total capital	**68,398,068**	60,452,662
Risk-weighted assets; contingent liabilities	**104,127,921**	99,371,809
Tier 1 capital ratio	**65.7%**	58.4%
Total capital ratio	**65.7%**	60.8%

33. Subsequent Events

In January 2012 the Company fully repaid amounts due to JSC HSBC Bank Kazakhstan as of 31 December 2011 amounted to KZT 2,862,290 thousand.

On 6 February 2012, in accordance with the decision of the General shareholder's meeting of the Company number of authorized shares was increased to 75,653,191, through additional issue of 1,303,000 shares at placement value of KZT 1,000.