Mortgage Organisation
Kazakhstan Mortgage Company JSC

Financial Statements

for the year ended 31 December 2011

Contents

KPMG

KPMG Audit LLC
Koktem Business Centre
180 Dostyk Avenue
050051 Almaty, Kazakhstan

Telephone +7 (727) 298 08 98
Fax +7 (727) 298 07 08
E-mail company@kpmg.kz

Independent Auditors' Report

To the Board of Directors and Management Board of Mortgage Organisation Kazakhstan Mortgage Company JSC

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As at 31 December 2011 and 31 December 2010, the Company has not separated and measured at fair value a foreign currency written option feature embedded in a loan payable, which is required by International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The effect of this departure from International Financial Reporting Standards on derivative liability, other borrowed funds, accumulated losses, net loss on financial instruments at fair value through profit or loss, income tax (expense) benefit, (loss) profit for the year and (loss) earnings per share as at and for the years ended 31 December 2011 and 31 December 2010 have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

KPMG Audit LLC

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

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

28 February 2012

	Note	2011 KZT'000	2010 KZT'000
Interest income	4	7,982,104	7,929,631
Interest expense	4	(9,223,968)	(7,680,399)
Net interest (expense) income		**(1,241,864)**	**249,232**
Fee and commission income		3,864	19,218
Fee and commission expense		(12,784)	(23,341)
Net fee and commission expense		**(8,920)**	**(4,123)**
Net gain on available-for-sale financial assets		20,713	-
Net loss on financial instruments at fair value through profit or loss		-	(339)
Net foreign exchange (loss) gain		(48,960)	92,430
Other operating income		120,282	35,440
Operating (loss) income		**(1,158,749)**	**372,640**
Impairment (losses) recoveries	5	(3,761,697)	1,013,448
General administrative expenses	6	(1,240,356)	(1,222,961)
(Loss) profit before income tax		**(6,160,802)**	**163,127**
Income tax (expense) benefit	7	(45,348)	13,187
(Loss) profit for the year		**(6,206,150)**	**176,314**
Basic and diluted (loss) earnings per share, in KZT	19(e)	(2,349)	66

The financial statements as set out on pages 5 to 57 were approved by Management on 28 February 2012 and were signed on its behalf by:

Ibadullayev A.A.
Chairman of the Management Board

Sagimkulova B.D.
Chief Accountant

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

	2011 KZT'000	2010 KZT'000
(Loss) profit for the year	**(6,206,150)**	**176,314**
Other comprehensive income, net of income tax		
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	622,058	(73,693)
- Net change in fair value transferred to profit or loss	(20,713)	-
Other comprehensive income for the year, net of income tax	**601,345**	**(73,693)**
Total comprehensive (loss) income for the year	**(5,604,805)**	**102,621**

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

	Note	2011 KZT'000	2010 KZT'000
ASSETS			
Cash and cash equivalents	8	3,453,838	13,664,083
Placements with banks and other financial institutions	9	10,574,941	5,624,025
Available-for-sale financial assets	10	8,587,968	6,878,845
Loans to customers	11	55,535,523	62,610,240
Held-to-maturity investments	12	13,473,205	14,733,129
Current tax asset		505,111	390,998
Property and equipment	13	2,313,793	2,481,524
Investment property	14	605,082	-
Deferred tax asset	7	-	21,827
Other assets	15	327,737	898,398
Total assets		**95,377,198**	**107,303,069**
LIABILITIES			
Debt securities issued	16	55,523,652	61,958,989
Other borrowed funds	17	23,827,227	23,723,295
Deferred tax liability	7	23,521	-
Other liabilities	18	126,536	107,274
Total liabilities		**79,500,936**	**85,789,558**
EQUITY	19		
Share capital		28,920,000	28,920,000
Share premium		12,661	12,661
Treasury shares		(2,597,422)	(2,597,422)
Reserve capital		2,630,820	2,598,418
Revaluation reserve for available-for-sale financial assets		(94,228)	(695,573)
Accumulated losses		(12,995,569)	(6,724,573)
Total equity		**15,876,262**	**21,513,511**
Total equity and liabilities		**95,377,198**	**107,303,069**

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

	2011 KZT'000	2010 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before income tax	**(6,160,802)**	**163,127**
Adjustments for non-cash items:		
Net loss on financial instrument at fair value through profit or loss	-	339
Depreciation and amortisation	190,585	239,788
Impairment losses (recoveries)	3,761,697	(1,013,448)
Interest income	(7,982,104)	(7,929,631)
Interest expense	9,223,968	7,680,399
Net foreign exchange loss (gain)	48,960	(92,430)
Loss on disposal of investment property	3,877	-
	(913,819)	**(951,856)**
(Increase) decrease in operating assets		
Placements with banks and other financial institutions	(4,793,894)	1,944,142
Financial instruments at fair value through profit or loss	-	20,001
Loans to customers	3,513,679	6,591,891
Other assets	25,161	(691,494)
(Decrease) increase in operating liabilities		
Other liabilities	(79,596)	(57,305)
Net cash (used in) from operating activities before interest and income tax paid	**(2,248,469)**	**6,855,379**
Income tax paid	(114,113)	(1,702)
Interest received	7,607,458	7,860,999
Interest paid	(7,978,408)	(6,623,784)
Cash flows (used in) from operations	**(2,733,532)**	**8,090,892**

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

	2011 KZT'000	2010 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(1,645,347)	(1,142,438)
Sales of available-for-sale financial assets	1,277,879	-
Acquisition of held-to maturity investments	(480,000)	(6,433,560)
Redemption of held-to-maturity investments	1,023,460	-
Purchases of property and equipment	(4,268)	(41,379)
Sales of investment property	24,972	-
Purchases of intangible assets	-	(9,267)
Cash flows from (used in) investing activities	**196,696**	**(7,626,644)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Treasury shares acquired	-	(1,507,500)
Proceeds from debt securities issued	2,301,575	10,462,421
Repurchase/redemption of debt securities issued	(9,942,540)	(5,890,490)
Dividends paid	(32,444)	-
Cash flows (used in) from financing activities	**(7,673,409)**	**3,064,431**
Net (decrease) increase in cash and cash equivalents	**(10,210,245)**	**3,528,679**
Cash and cash equivalents as at the beginning of the year	13,664,083	10,135,404
Cash and cash equivalents as at the end of the year (Note 8)	**3,453,838**	**13,664,083**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 57.

KZT'000	Share capital	Share premium	Treasury shares	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2010	28,920,000	12,661	(1,089,922)	2,598,418	(621,880)	(6,900,887)	22,918,390
Total comprehensive income							
Profit for the year	-	-	-	-	-	176,314	176,314
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	-	(73,693)	-	(73,693)
Total other comprehensive income	-	-	-	-	(73,693)	-	(73,693)
Total comprehensive income for the year	-	-	-	-	(73,693)	176,314	**102,621**
Treasury shares acquired	-	-	(1,507,500)	-	-	-	(1,507,500)
Balance as at 31 December 2010	**28,920,000**	**12,661**	**(2,597,422)**	**2,598,418**	**(695,573)**	**(6,724,573)**	**21,513,511**
Total comprehensive income							
Loss for the year	-	-	-	-	-	(6,206,150)	(6,206,150)
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	-	622,058	-	622,058
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	-	-	(20,713)	-	(20,713)
Total other comprehensive income	-	-	-	-	601,345	-	601,345
Total comprehensive loss for the year	-	-	-	-	601,345	(6,206,150)	(5,604,805)
Dividends declared	-	-	-	-	-	(32,444)	(32,444)
Transfer to reserve capital	-	-	-	32,402	-	(32,402)	-
Balance as at 31 December 2011	**28,920,000**	**12,661**	**(2,597,422)**	**2,630,820**	**(94,228)**	**(12,995,569)**	**15,876,262**

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

1 Background

(a) Principal activities

Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") was established on 29 December 2000 in accordance with resolution number 469 of the National Bank of the Republic of Kazakhstan (the "NBRK") dated 20 December 2000. The principal activities of the Company are the issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license #5.1.69 on banking lending transactions.

The activities of the Company are regulated by the Committee for the control and supervision of the financial market and financial organisations of the NBRK (the "FMSC") and the NBRK.

The Company's official address is 98, Karasay Batyr st., 050012, Almaty, Kazakhstan. The Company has a representative office in Astana.

On 29 September 2011 Moody's Investors Service downgraded the Company's long-term local currency issuer rating to B2 (31 December 2010: B1). On 11 December 2011 Rating Agency Regional Financial Centre of Almaty City JSC assigned to debt securities of the Company issued on Kazakhstan Stock Exchange credit ratings between BBB2 and BBB3, and to the Company itself credit rating P2.

(b) Shareholders

As at 31 December 2011 the Committee of the State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan owned 99.99% (31 December 2010: 99.99%) of the Company's voting shares.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

2 Basis of preparation, continued

(c) Functional and presentation currency

The functional currency of the Company is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Income tax expense (benefit) – Note 7;
- Available-for-sale financial assets – Note 10;
- Loans to customers - Note 11;
- Held-to-maturity investments – Note 12.

3 Significant accounting policies

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

(a) Foreign currency

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

3 Significant accounting policies, continued

(b) Cash and cash equivalents

Cash and cash equivalents include cash, the Company's current accounts in the commercial banks and the NBRK and short-term deposits with an original maturity of less than 3 months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

- the Company upon initial recognition designates as at fair value through profit or loss

- the Company designates as available-for-sale or,

- meet the definition of loans and receivables.

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

(ii) Recognition

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

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

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

- loans and receivables which are measured at amortised cost using the effective interest method

- held-to-maturity investments which are measured at amortised cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

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

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

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

(vi) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition

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

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

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

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

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

The Company writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Derivative financial instruments

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ix) Derivative financial instruments, continued

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

(x) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

Building	40 years
Computer equipment	3 years
Vehicles	7 years
Other	5-10 years

(e) Intangible assets

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

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

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

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3 Significant accounting policies, continued

(g) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(h) Impairment

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(h) Impairment, continued

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

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

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

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

(iv) Non financial assets

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

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

3 Significant accounting policies, continued

(i) Provisions

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

(j) Credit related commitments

In the normal course of business, the Company enters into credit related commitments, comprising undrawn loan commitments and letters of credit.

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

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

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

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(i) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(ii) Dividends

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

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

3 Significant accounting policies, continued

(l) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(m) Income and expense recognition

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

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) Segment reporting

An operating segment is a component of a Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted

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

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

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

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

- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designed to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

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

4 Net interest (expense) income

	2011 KZT'000	2010 KZT'000
Interest income		
Loans to customers	5,492,838	5,830,632
Placements with banks and other financial institutions	928,673	651,891
Available-for-sale financial assets	801,197	732,072
Held-to-maturity investments	759,396	713,892
Financial instruments at fair value through profit or loss	-	1,144
	7,982,104	**7,929,631**
Interest expense		
Debt securities issued	(7,311,611)	(6,026,950)
Other borrowed funds	(1,912,357)	(1,653,449)
	(9,223,968)	**(7,680,399)**
Net interest (expense)/income	**(1,241,864)**	**249,232**

Included within various line items under interest income for the year ended 31 December 2011 is a total of KZT 274,578 thousand (2010: KZT 205,811 thousand) accrued on impaired financial assets.

5 Net impairment (losses) recoveries

	2011 KZT'000	2010 KZT'000
Loans to customers (Note 11)	(3,687,658)	1,116,053
Available-for-sale financial assets (Note 10)	189,935	244,059
Held-to-maturity investments (Note 12)	(247,903)	(346,130)
Other assets (Note 15)	(16,071)	(534)
	(3,761,697)	**1,013,448**

6 General administrative expenses

	2011 KZT'000	2010 KZT'000
Employee compensation	597,760	561,572
Payroll related taxes	59,310	55,113
Personnel expenses	**657,070**	**616,685**
Depreciation and amortisation	190,585	239,789
Professional services	69,778	71,034
Insurance of mortgage loans	47,064	47,055
Technical services for software	46,689	34,708
Taxes other than on income	45,550	37,743
Advertising and marketing	26,479	50,000
Utilities	25,889	16,157
Technical maintenance	23,407	13,850
Communications and information services	22,192	21,971
Security	18,474	18,720
State duties	17,671	9,154
Occupancy	12,681	11,642
Travel	5,208	5,132
Other	31,619	29,321
	1,240,356	**1,222,961**

7 Income tax expense (benefit)

	2011 KZT'000	2010 KZT'000
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	45,348	(13,187)
Total income tax expense (benefit)	**45,348**	**(13,187)**

In 2011, the applicable tax rate for current and deferred tax is 20% (2010: 20%).

Reconciliation of effective tax rate:

	2011 KZT'000	%	2010 KZT'000	%
(Loss) profit before income tax	**(6,160,802)**	**100**	**163,127**	**100**
Income tax at the applicable tax rate	(1,232,160)	20	32,625	(20)
Non-taxable income	(24,877)	-	(138,044)	85
Change in unrecognised deferred tax assets	1,302,385	(21)	95,030	(58)
Tax effect of changes in tax rates	-	-	(2,798)	2
	45,348	**(1)**	**(13,187)**	**9**

7 Income tax expense (benefit), continued

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax (liabilities) assets as at 31 December 2011 and 2010. These deferred tax liabilities are recognised in these financial statements apart from the deferred tax assets in respect of tax loss carry-forwards. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Company's ability to claim the deductions in future periods.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2012-2021.

Deferred tax assets of KZT 2,090,549 thousand relating to tax loss carry-forwards (2010: KZT 787,222 thousand) and nil related to other liabilities (2010: KZT 942 thousand) are not recognised due to uncertainties concerning their realisation.

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

KZT'000	Balance 1 January 2011	Recognised in profit or loss	Balance 31 December 2011
Property and equipment	21,827	(736)	21,091
Loans to customers	-	(44,612)	(44,612)
	21,827	**(45,348)**	**(23,521)**

KZT'000	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010
Property and equipment	8,394	13,433	21,827
Other liabilities	246	(246)	-
	8,640	**13,187**	**21,827**

8 Cash and cash equivalents

	2011 KZT'000	2010 KZT'000
Current account with the NBRK	-	11,576,870
Current accounts with other banks		
- rated BB	1,724,369	-
- rated B+	488,371	
- rated B	1,236,630	14
- rated B-	4,468	2,087,199
Total current accounts with other banks	3,453,838	2,087,213
	3,453,838	13,664,083

Ratings of the following agencies were used: Moody's, S&P and Fitch.

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

As at 31 December 2011 the Company has one bank (2010: one bank) whose balances exceed 10% of equity. The gross value of these balances as at December 2011 is KZT 1,724,369 thousand (2010: KZT 11,576,870 thousand).

9 Placement with banks and other financial institutions

	2011 KZT'000	2010 KZT'000
- rated B+	1,021,040	-
- rated B	6,074,239	-
- rated B-	3,479,662	5,624,025
	10,574,941	**5,624,025**

None of the balances are impaired or past due.

As at 31 December 2011 the Company placed term deposits with interest rates ranging from 2% to 8.5% per annum (2010: from 8.2% to 10%) and which have maturities from January 2012 to March 2014 (2010: April 2011 to January 2012).

As at 31 December 2011 the Company has two banks (2010: nil) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is KZT 6,984,312 thousand (2010: nil).

10 Available-for-sale financial assets

	2011 '000 KZT	2010 '000 KZT
Government bonds - rated at BBB+	523,747	-
Corporate bonds - rated from B+ to B	4,405,029	3,633,523
Corporate bonds - not rated	4,480,986	4,257,051
	9,409,762	**7,890,574**
Impairment allowance	(821,794)	(1,011,729)
	8,587,968	**6,878,845**

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable in the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Rosa JSC ("Rosa"). Rosa bonds were excluded from trading at KASE on 2 October 2009. The bonds of Doszhan Temir Zholy JSC ("DTZ") are currently referred to as being in the "buffer category" according to the KASE, due to non-conformance with the listing requirements of the Kazakhstan Stock Exchange's official list.

During the year ended 31 December 2011 the Company decreased the impairment allowance for DTZ bonds to 56% or KZT 384,051 thousand based on management's revised estimate of expected future cash flows (31 December 2010: 76% and KZT 562,406 thousand, respectively). The Company applied a discount rate of 19% (2010: 19%) to arrive at the recoverable amount of DTZ bonds.

As at 31 December 2011 and 2010 the Company considers Rosa bonds fully impaired as based on its understanding of the issuer's financial position it does not expect probable future cash flows from the asset.

10 Available-for-sale financial assets, continued

Analysis of movements in the impairment allowance:

	2011 KZT'000	2010 KZT'000
Balance at the beginning of the year	1,011,729	1,255,788
Net recovery for the year	(189,935)	(244,059)
Balance at the end of the year	**821,794**	**1,011,729**

11 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise only KZT denominated mortgage loans due from individuals located in the Republic of Kazakhstan.

All loans are secured by the underlying housing real estate.

	2011 KZT'000	2010 KZT'000
Mortgage loans with recourse	20,027,848	24,757,157
Mortgage loans without recourse		
- with guarantee	20,891,250	34,217,610
- without guarantee	18,118,791	3,774,462
Accrued interest	714,514	563,982
	59,752,403	63,313,211
Impairment allowance	(4,216,880)	(702,971)
	55,535,523	62,610,240

Loans to customers carry interest at rates ranging from 7% to 18% per annum (2010: 7% to 16% per annum).

11 Loans to customers, continued

(a) Credit quality of mortgage loans

The following table provides information on credit quality of mortgage loans as at 31 December 2011:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Mortgage loans with recourse to the seller				
- not overdue	19,878,603	-	19,878,603	-
- overdue less than 30 days	233,368	-	233,368	-
- overdue 30-89 days	57,772	-	57,772	-
Mortgage loans without recourse to the seller guaranteed by the Kazakhstan Fund of Guaranteeing Mortgage Loans JSC				
- not overdue	16,803,433	413,647	16,389,786	2
- overdue less than 30 days	632,872	109,374	523,498	17
- overdue 30-89 days	402,072	201,858	200,214	50
- overdue 90-179 days	82,853	66,131	16,722	80
- overdue 180-360 days	617,556	455,496	162,060	74
- overdue more than 360 days	2,742,031	2,032,733	709,298	74
Mortgage loans without recourse to the seller and without guarantee of Kazakhstan Fund of Guaranteeing Mortgage Loans JSC				
- not overdue	15,777,520	64,720	15,712,800	-
- overdue less than 30 days	1,615,362	265,926	1,349,436	16
- overdue 30-89 days	172,743	73,461	99,282	43
- overdue 90-179 days	120,168	87,903	32,265	73
- overdue 180-360 days	176,690	121,638	55,052	69
- overdue more than 360 days	439,360	323,993	115,367	74
	59,752,403	4,216,880	55,535,523	7

11 Loans to customers, continued

(a) Credit quality of mortgage loans, continued

The following table provides information on credit quality of mortgage loans as at 31 December 2010:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Mortgage loans with recourse to the seller				
- not overdue	24,417,989	-	24,417,989	-
- overdue less than 30 days	387,095	-	387,095	-
- overdue 30-89 days	116,392	-	116,392	-
Mortgage loans without recourse to the seller guaranteed by the JSC Kazakhstan Fund of Guaranteeing Mortgage Loans				
- not overdue	28,985,823	333,546	28,652,277	1
- overdue less than 30 days	933,930	11,307	922,623	1
- overdue 30-89 days	635,266	11,645	623,621	2
- overdue 90-179 days	296,584	15,970	280,614	5
- overdue 180-360 days	2,789,891	201,813	2,588,078	7
- overdue more than 360 days	931,351	74,086	857,265	8
Mortgage loans without recourse to the seller and without guarantee of JSC Kazakhstan Fund of Guaranteeing Mortgage				
- not overdue	3,302,679	36,962	3,265,717	1
- overdue less than 30 days	67,959	762	67,197	1
- overdue 30-89 days	57,832	1,335	56,497	2
- overdue 90-179 days	56,797	1,872	54,925	3
- overdue 180-360 days	48,293	1,962	46,331	4
- overdue more than 360 days	285,330	11,711	273,619	4
	63,313,211	**702,971**	**62,610,240**	**1**

(b) Analysis of impairment

As described in Note 2, the Company uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

The significant assumption used in determining impairment losses for mortgage loans include:

- Mortgage loans with recourse overdue more than 60 days can be sold back by the Company at any time at their gross amount. Management believes that recourse counterparties are institutions of good reputation, with good credit standing.

11 Loans to customers, continued

(b) Analysis of impairment, continued

- Mortgage loans guaranteed by the State Fund Kazakhstan Fund of Guaranteeing Mortgage Loans JSC ("KFGML") can be recovered from the guarantor if the sale of the collateral is not sufficient to repay the loan in full and some other conditions are met by the Company to the maximum of 40% of the outstanding amount. In 2011 the Company revised its assumptions of recoverability of certain loans through the insurance guarantees as identified that these loans would not meet the KFGML conditions (in 2011 KFGML recovered KZT 4,716 thousand).
- Other mortgage loans are subject to collective impairment assessment based on their past loss experience.
- Loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past 12 months.
- A delay of two years in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of up to eighty per cent to the originally appraised value if the property pledged is sold through court procedures.

Movements in the loan impairment allowance for the year ended 31 December 2011 are as follows:

	2011 KZT'000	**2010 KZT'000**
Balance at the beginning of the year	702,971	2,268,301
Net charge/(recovery) for the year	3,687,658	(1,116,053)
Write-offs	(173,749)	(449,277)
Balance at the end of the year	**4,216,880**	**702,971**

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to customers as at 31 December 2011 would be KZT 1,666,066 thousand lower/higher (2010: KZT 1,878,307 thousand).

11 Loans to customers, continued

(c) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate.

Included in mortgage loans are loans with a net carrying amount of KZT 4,595,329 thousand (2010: KZT 9,175,593 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 4,096,939 thousand (2010: KZT 5,653,644 thousand).

For remaining mortgage loans, including those purchased from commercial banks, with a net carrying amount of KZT 50,940,194 thousand (2010: KZT 53,434,647 thousand) the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date.For loans with recourse to the seller, the commercial banks-partners are responsible for the monitoring of collateral on a periodic basis according to requirements of the FMSC. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers and commercial banks-partners rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The Company updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Company obtains specific individual valuation of collateral in case there are indications of impairment.

Collateral obtained

During the year ended 31 December 2011, the Company obtained certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2011, the carrying amount of such assets was KZT 728,170 thousand (2010: KZT 633,789 thousand), which consisted of investment property of KZT 605,082 thousand (2010: nil) and other assets of KZT 123,088 thousand (2010: 633,789 thousand).

(d) Asset securitisation

Loans to customers in the amount of KZT 52,480,783 thousand (2010: KZT 62,882,687 thousand) serve as collateral for debt securities issued by the Company. As at 31 December 2011, the carrying amount of these debt securities is KZT 55,523,652 thousand (31 December 2010: KZT 61,958,989 thousand). Refer to Note 16.

(e) Significant credit exposures

As at 31 December 2011 and 2010, there are five banks to whom the Company has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of these loans as at 31 December 2011 is KZT 12,851,855 thousand (2010: KZT 17,160,162 thousand).

12 Held-to-maturity investments

	2011 KZT'000	2010 KZT'000
Governments bonds		
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	2,113,823	2,145,319
Corporate bonds		
- rated A	3,485,068	3,470,001
- rated from BBB	-	217,079
- rated from BB- to BB+	575,818	-
- rated from B+ to B-	6,150,198	8,089,486
- not rated	2,212,198	1,627,241
Total corporate bonds	**12,423,282**	**13,403,807**
Impairment allowance	(1,063,900)	(815,997)
Total net corporate bonds	**11,359,382**	**12,587,810**
	13,473,205	**14,733,129**

As at 31 December 2011 the Company holds bonds of one issuer, Astana Finance JSC ("Astana Finance"), who is in the restructuring process and another issuer, Kazakhstan Kagazy JSC ("Kazakhstan Kagazy"), who is in early stage of implementation of restructuring program incepted in 2011.

As at 31 December 2010 the Company made a 100% or KZT 526,732 thousand (2010: 95%) impairment allowance on Astana-Finance bonds as based on its analysis of the financial position of the issuer and the uncertainties regarding the overall success of the restructuring process it did not expect any recoveries from the asset.

As at 31 December 2011 the Company made a 65% or KZT 537,168 thousand (2010: 43%) impairment allowance on Kazakhstan Kagazy bonds following the announcement of the amended payment schedule on its new debts issued according to restructuring terms. The Company applied a discount rate of 19% (2010: 19%) to arrive at the recoverable amount of Kazakhstan Kagazy bonds.

Analysis of movements in the impairment allowance

	2011 KZT'000	2010 KZT'000
Balance at the beginning of the year	815,997	633,000
Net charge for the year	247,903	346,130
Write-offs	-	(163,133)
Balance at the end of the year	**1,063,900**	**815,997**

13 Property and equipment

KZT'000	Land	Building	Computer equipment	Vehicles	Other	Construction in progress	Total
Cost							
At 1 January 2011	121,958	2,296,499	376,303	6,706	224,245	-	3,025,711
Additions	-	-	1,740	-	2,528	-	4,268
Transfer	-	-	(29)	-	29	-	-
At 31 December 2011	**121,958**	**2,296,499**	**378,014**	**6,706**	**226,802**	**-**	**3,029,979**
Depreciation							
At 1 January 2011	-	120,799	276,105	2,812	144,471	-	544,187
Depreciation charge	-	57,412	78,970	959	34,658	-	171,999
At 31 December 2011	**-**	**178,211**	**355,075**	**3,771**	**179,129**	**-**	**716,186**
Carrying value							
At 31 December 2010	121,958	2,175,700	100,198	3,894	79,774	-	2,481,524
At 31 December 2011	**121,958**	**2,118,288**	**22,939**	**2,935**	**47,673**	**-**	**2,313,793**
Cost							
At 1 January 2010	121,958	2,296,499	400,342	6,706	221,305	145,227	3,192,037
Additions	-	-	34,696	-	6,683	-	41,379
Disposals	-	-	(58,735)	-	(3,743)	(145,227)	(207,705)
At 31 December 2010	**121,958**	**2,296,499**	**376,303**	**6,706**	**224,245**	**-**	**3,025,711**
Depreciation and impairment losses							
At 1 January 2010	-	63,387	248,881	1,853	107,415	145,227	566,763
Depreciation charge	-	57,412	85,959	959	40,799	-	185,129
Impairment losses	-	-	-	-	-	(145,227)	(145,227)
Disposals	-	-	(58,735)	-	(3,743)	-	(62,478)
At 31 December 2010	**-**	**120,799**	**276,105**	**2,812**	**144,471**	**-**	**544,187**
Carrying value							
At 1 January 2010	121,958	2,233,112	151,461	4,853	113,890	-	2,625,274
At 31 December 2010	**121,958**	**2,175,700**	**100,198**	**3,894**	**79,774**	**-**	**2,481,524**

14 Investment property

	2011 KZT'000	2010 KZT'000
Balance at 1 January	-	-
Transfer from other assets	633,931	-
Disposals	(28,849)	-
Balance at 31 December	**605,082**	**-**

Investment property is represented by collateral on loans to customers that the Company obtained control of as a result of normal operating activity. Repossessed collateral is mainly in the form of real estate and is located in Kazakhstan. The Company leases premises to third parties under operating leases.

During the year ended 31 December 2010 all repossessed collateral was presented as other assets due to unclear management intention. During the year ended 31 December 2011 management decided to use this real estate to earn rentals or to hold for appreciation or both, so the Company presented them as investment property as this better reflects revised management's intentions.

The total amount of rental income recognised in profit or loss is KZT 29,244 thousand (2010: nil); no direct operating expenses arise, except for property tax expense, as in accordance with the rental agreements all maintenance costs are borne by tenants.

Fair value determination

The Company commissioned an independent appraiser to perform a valuation of investment property as at 31 December 2011.

The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar properties.

15 Other assets

	2011 KZT'000	2010 KZT'000
Financial instruments at fair value through profit or loss	7	8
Total other financial assets	**7**	**8**
Prepayments for insurance of mortgage loans to KFGML	155,778	202,824
Foreclosed property	123,088	633,789
Inventory	13,993	14,030
Other prepayments	12,679	1,930
Intangible assets	4,156	22,742
Other	49,863	23,609
Impairment allowance	(31,827)	(534)
Total other non-financial assets	**327,730**	**898,390**
Total other assets	**327,737**	**898,398**

Foreclosed property comprises real estate collateral accepted by the Company in exchange for its rights and obligations under impaired mortgage loans.

Analysis of movements in the impairment allowance

	2011 KZT'000	2010 KZT'000
Balance at the beginning of the year	534	-
Net charge for the year	16,071	534
Recoveries	15,222	-
Balance at the end of the year	**31,827**	**534**

16 Debt securities issued

Debt securities issued as at 31 December 2011 and 2010 comprised KZT denominated bonds.

Emission	Maturity date	Coupon rate	Effective rate	2011 KZT'000	2010 KZT'000
KZP02Y09C495	10.06.2016	0.7%+floating inflation index (limited to 12.0%)	15.85%	7,754,805	7,447,660
KZ2C0Y07B307	01.10.2011	0.10%+floating inflation index	6.00%	-	5,093,146
KZPC2Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	6.80%	5,103,835	5,097,883
KZPC1Y10B543	10.04.2015	6.90%	7.25%	5,027,157	5,013,991
KZ2C0Y10B319	01.10.2014	0.1%+floating inflation	9.84%	4,978,993	4,914,664
KZP03Y05C491	01.12.2012	11.00%	13.08%	4,958,650	4,874,370
KZ2C0Y07B224	01.04.2011	0.39%+floating inflation index	6.56%	-	4,212,951
KZP04Y04C492	15.07.2013	4%+floating inflation index (limited to 11%)	20.59%	4,653,119	4,341,499
KZPC4Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	13.42%	4,045,688	3,883,817
KZ2C0Y10B079	01.04.2012 -2014	0.50%+floating inflation index	7.68%	2,447,456	2,706,383
KZ2C0Y10A980	01.04.2012 -2014	1.00%+floating inflation index	8.38%	2,433,382	2,686,053
KZ2C0Y10A857	01.10.2012 -2013	0.80%+floating inflation index	8.00%	614,256	916,884
KZ2C0Y08D913	23.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%)	13.34%	7,189,152	4,778,138
KZP05Y06C494	10.06.2015	3.7%+floating rate	19.69%	6,317,159	5,991,550
				55,523,652	61,958,989

These obligations are secured by loan agreements with customers and the related real estate supporting these loans (Note 11) in the amount of KZT 52,480,783 thousand (2010: KZT 62,882,687 thousand).

The floating inflation rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

17 Other borrowed funds

	2011 KZT'000	2010 KZT'000
Loan from foreign financial institutions	14,807,281	14,703,349
Due to the Government of the Republic of Kazakhstan	9,019,946	9,019,946
	23,827,227	23,723,295

Due to the Government of the Republic of Kazakhstan consists of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second tier banks. The loan carries an interest rate of 0.1% per annum, repayable on demand but not later than in December 2027.

17 Other borrowed funds, continued

In December 2007 the Company received a USD denominated loan from Credit Suisse International in the amount of USD 85 million at an interest rate of 7.4% per annum that was arranged by Credit Suisse London branch. In February 2008 the Company received an additional USD 15 million under the same loan agreement. The loan matures in December 2014 and was originally repayable in 9 equal semi-annual instalments starting from 21 December 2010.

In accordance with an amendment signed on 21 July 2008 the above USD denominated loan was transferred from USD to JPY currency at an initial exchange rate of JPY: USD 107.15:1 with a corresponding change in interest rate from 7.4% to 6.4% p.a. Interest expenses are calculated on the loan principal amount of JPY 10,715,000 thousand and are payable in USD at the current exchange rate between JPY and USD. The amendment specifies a Knockout exchange rate of JPY: USD 84.95:1. Loan repayments should be made in USD applying the initial exchange rate of JPY: USD 107.15:1 to the JPY repayment amounts if the exchange rate remains above the Knockout rate for the duration of the tenor of the loan. If the exchange rate falls below the Knockout rate at any point during the life of the loan, then loan repayments should be made in USD applying the current JPY: USD exchange rate to the JPY repayment amounts.

According to amendment signed on 15 December 2009 the interest rate increased from 6.4% to 7.7% p.a. and a knockout exchange rate of JPY: USD changed to 79.75:1.

According to the latest amendment signed on 21 October 2010 the interest rate increased from 7.7% to 8.3% per annum and a Knockout exchange rate of JPY: USD changed to 69.75:1. The principal is to be paid by 9 equal semi-annual instalments, starting from 21 December 2012.

18 Other liabilities

	2011 KZT'000	2010 KZT'000
Prepaid loans	98,858	-
Professional services	8,875	9,240
Dividends payable	-	85,684
Other liabilities	11,235	1,673
Total other financial liabilities	**118,968**	**96,597**
Other taxes payable	7,413	10,643
Payables to employees	155	34
Total other non-financial liabilities	**7,568**	**10,677**
Total other liabilities	**126,536**	**107,274**

19 Share capital

(a) Issued capital and share premium

As at 31 December 2011 and 2010 authorised share capital comprises 2,906,200 ordinary shares, issued and outstanding share capital comprises 2,892,000 shares. All shares have a nominal value of KZT 10,000.

19 Share capital, continued

(b) Dividends

In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRSs or profit for the period if there is an accumulated loss brought forward. As at 31 December 2011 the Company had accumulated losses, including the loss for the current year, of KZT 12,995,569 thousand (31 December 2010: KZT 6,724,573 thousand).

During 2011 dividends of KZT 32,444 thousand relating to the 2010 results of the Company were declared and paid by the Company.

(c) Treasury shares

As at 31 December 2011 the Company held 249,990 of its own shares (31 December 2010: 249,990).

(d) Reserve capital

The Company has been established a capital reserve in accordance with the decision of shareholders. At 31 December 2011 the capital reserve amounted to KZT 2,630,820 thousand (31 December 2010: KZT 2,598,418 thousand). This statutory reserve is available for distribution.

During 2011, the shareholders approved to transfer KZT 32,402 thousand from retained earnings to this statutory reserve capital (2010: nil).

(e) (Loss) earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to common shareholders by the weighted average number of ordinary shares outstanding during the year.

	2011	2010
(Loss) profit for the year, in thousand of KZT	(6,206,150)	176,314
Weighted average number of ordinary shares	2,642,010	2,673,741
Basic and diluted (loss) earnings per share, in KZT	**(2,349)**	**66**

(f) Book value per share

Under the listing rules of the Kazakh Stock Exchange the Company should present book value per share in its financial statements. The book value per share is calculated dividing net assets less intangible assets by number of outstanding ordinary shares. As at 31 December 2011 the book value per share was KZT 6,007.59 (2010: KZT 8,134.25).

20 Risk management

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

(a) Risk management policies and procedures

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

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

The Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Head of Risk Department of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. She reports directly to the Deputy Chairman of the Management Board of the Company.

The Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board.

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

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the Risk Management Committee.

The Company manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

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

20 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2011						
ASSETS						
Cash and cash equivalents	3,453,838	-	-	-	-	3,453,838
Placements with banks and other financial institutions	5,395,850	3,159,783	1,000,000	1,019,308	-	10,574,941
Available-for-sale financial assets	2,804,742	1,900,570	356,625	1,109,325	2,416,706	8,587,968
Loans to customers	15,636,554	438,572	906,192	8,592,056	29,962,149	55,535,523
Held-to-maturity investments	42,502	2,610,013	3,111,599	3,971,220	3,737,871	13,473,205
Other financial assets	-	-	-	7	-	7
Total assets	**27,333,486**	**8,108,938**	**5,374,416**	**14,691,916**	**36,116,726**	**91,625,482**
LIABILITIES						
Debt securities issued	8,698,807	29,792,233	12,083,080	4,949,532	-	55,523,652
Other borrowed funds	9,019,821	61,340	1,645,014	13,101,052	-	23,827,227
Other financial liabilities	118,717	18	70	163	-	118,968
Total liabilities	**17,837,345**	**29,853,591**	**13,728,164**	**18,050,747**	**-**	**79,469,847**
Net position	**9,496,141**	**(21,744,653)**	**(8,353,748)**	**(3,358,831)**	**36,116,726**	**12,155,635**

20 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Cash and cash equivalents	13,664,083	-	-	-	-	13,664,083
Placements with banks and other financial institutions	7,500	2,591,570	1,024,500	2,000,455	-	5,624,025
Available-for-sale financial assets	2,575,645	2,281,428	176,333	984,261	861,178	6,878,845
Loans to customers	564,957	15,970,000	11,734	738,696	45,324,853	62,610,240
Held-to-maturity investments	28,483	6,652,579	6,102	2,497,704	5,548,261	14,733,129
Other financial assets	-	-	-	8		8
Total assets	**16,840,668**	**27,495,577**	**1,218,669**	**6,221,124**	**51,734,292**	**103,510,330**
LIABILITIES						
Debt securities issued	8,225,317	39,190,632	4,778,138	9,764,902	-	61,958,989
Other borrowed funds	9,019,946	61,562	125	11,464,446	3,177,216	23,723,295
Other financial liabilities	19,500	6,858	35	70,204	-	96,597
Total liabilities	**17,264,763**	**39,259,052**	**4,778,298**	**21,299,552**	**3,177,216**	**85,778,881**
Net position	**(424,095)**	**(11,763,475)**	**(3,559,629)**	**(15,078,428)**	**48,557,076**	**17,731,449**

20 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2011 Average effective interest rate, %		2010 Average effective interest rate, %	
	KZT	USD	KZT	USD
Interest bearing assets				
Cash and cash equivalents	-	-	9.00	-
Placement with banks and other financial institutions	7.06	-	9.6	-
Financial instruments at fair value through profit or loss	5.2	-	5.78	-
Available-for-sale financial assets	9.76	-	10.06	-
Loans to customers	9.9	-	9.28	-
Held-to-maturity investments	8.9	0.22	8.04	0.22
Interest bearing liabilities				
Debt securities issued	13	-	11.22	-
Other borrowed funds	0.13	12.16	0.13	14.38

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rates sensitivity analysis

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

	2011 KZT'000		2010 KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	(58,958)	(58,958)	(68,905)	(68,905)
100 bp parallel fall	58,958	58,958	68,905	68,905

20 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rates sensitivity analysis, continued

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

	2011 KZT'000		2010 KZT'000	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	-	(446,377)	-	(440,957)
100 bp parallel fall	-	487,979	-	459,767

(c) Currency risk

The Company has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hedge its exposure to currency risk.

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

KZT'000	KZT	USD	JPY	Total
Assets				
Cash and cash equivalents	3,453,838	-	-	3,453,838
Placements with banks and other financial institutions	10,574,941	-	-	10,574,941
Available-for-sale financial assets	8,587,968	-	-	8,587,968
Loans to customers	55,535,523	-	-	55,535,523
Held-to-maturity investments	9,988,137	3,485,068	-	13,473,205
Other financial assets	7	-	-	7
Total financial assets	**88,140,414**	**3,485,068**	**-**	**91,625,482**
Liabilities				
Debt securities issued	55,523,652	-	-	55,523,652
Other borrowed funds	9,019,946	14,745,941	61,340	23,827,227
Other financial liabilities	118,968	-	-	118,968
Total financial liabilities	**64,662,566**	**14,745,941**	**61,340**	**79,469,847**
Net on and off balance sheet position as at 31 December 2011	**23,477,848**	**(11,260,873)**	**(61,340)**	**12,155,635**
Net on and off balance sheet position as at 31 December 2010	28,964,797	(11,171,786)	(61,562)	17,731,449

20 Risk management, continued

(c) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2010:

KZT'000	KZT	USD	JPY	Total
Assets				
Cash and cash equivalents	13,664,083	-	-	13,664,083
Placements with banks and other financial institutions	5,624,025	-	-	5,624,025
Available-for-sale financial assets	6,878,845	-	-	6,878,845
Loans to customers	62,610,240	-	-	62,610,240
Held-to-maturity investments	11,263,128	3,470,001	-	14,733,129
Other financial assets	8	-	-	8
Total financial assets	**100,040,329**	**3,470,001**	**-**	**103,510,330**
Liabilities				
Debt securities issued	61,958,989	-	-	61,958,989
Other borrowed funds	9,019,946	14,641,787	61,562	23,723,295
Other financial liabilities	96,597	-	-	96,597
Total financial liabilities	**71,075,532**	**14,641,787**	**61,562**	**85,778,881**
Net on and off balance sheet position as at 31 December 2010	**28,964,797**	**(11,171,786)**	**(61,562)**	**17,731,449**
Net on and off balance sheet position as at 31 December 2009	34,436,862	(14,742,847)	(51,658)	19,642,357

A strengthening of the KZT, as indicated below, against the following currencies at 31 December 2011 and 2010 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2011 KZT'000		2010 KZT'000	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
5% appreciation of USD against KZT	(450,435)	(450,435)	(446,871)	(446,871)
5% depreciation of USD against KZT	450,435	450,435	446,871	446,871
5% appreciation of JPY against KZT	(2,454)	(2,454)	(2,462)	(2,462)
5% depreciation of JPY against KZT	2,454	2,454	2,462	2,462

The Company also has a knockout rate option (refer to Note 17). Management has not determined the impact on the above sensitivity analysis to foreign exchange risk.

20 Risk management, continued

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The Company's credit policy establishes:

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

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Company's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

	2011 KZT'000	2010 KZT'000
ASSETS		
Cash and cash equivalents	3,453,838	13,664,083
Placements with banks and other financial institutions	10,574,941	5,624,025
Available-for-sale financial assets	8,587,968	6,878,845
Loans to customers	55,535,523	62,610,240
Held-to-maturity investments	13,473,205	14,733,129
Other financial assets	7	8
Total maximum exposure to on balance sheet credit risk	**91,625,482**	**103,510,330**

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 11.

20 Risk management, continued

(e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

The Company seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Company requires:

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

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

20 Risk management, continued

(e) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities								
Debt securities issued	462,500	-	2,400,537	8,550,859	47,594,533	18,135,245	77,143,674	55,523,652
Other borrowed funds	9,110,019	-	849,324	2,503,233	15,935,910	-	28,398,486	23,827,227
Other financial liabilities	109,954	8,763	18	70	163	-	118,968	118,968
Total	**9,682,473**	**8,763**	**3,249,879**	**11,054,162**	**63,530,606**	**18,135,245**	**105,661,128**	**79,469,847**

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities								
Debt securities issued	410,250	-	7,503,840	7,736,840	50,126,302	29,783,059	95,560,291	61,958,989
Other borrowed funds	9,019,946	-	885,343	885,343	16,489,166	3,572,892	30,852,690	23,723,295
Other financial liabilities	9,628	9,872	6,858	35	70,204	-	96,597	96,597
Total	**9,439,824**	**9,872**	**8,396,041**	**8,622,218**	**66,685,672**	**33,355,951**	**126,509,578**	**85,778,881**

20 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

Assets	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Cash and cash equivalents	3,453,838	-	-	-	-	-	3,453,838
Placements with banks and other financial institutions	1,940,853	3,454,997	4,159,783	1,019,308	-	-	10,574,941
Available-for-sale financial assets	61,034	42,365	107,636	2,315,114	6,061,819	-	8,587,968
Loans to customers	1,086,957	400,182	1,878,806	11,931,444	40,238,134	-	55,535,523
Held-to-maturity investments	17,650	24,852	1,152,575	6,129,702	6,148,426	-	13,473,205
Current tax asset	-	-	-	10,983	494,128	-	505,111
Property and equipment	-	-	-	-	-	2,313,793	2,313,793
Investment property	-	-	-	-	-	605,082	605,082
Other assets	8,782	15,307	51,139	106,322	4,951	141,236	327,737
Total assets	**6,569,114**	**3,937,703**	**7,349,939**	**21,512,873**	**52,947,458**	**3,060,111**	**95,377,198**
Liabilities							
Debt securities issued	426,528	-	5,477,704	33,556,925	16,062,495	-	55,523,652
Other borrowed funds	9,019,821	-	1,706,354	13,101,052	-	-	23,827,227
Deferred tax liability	-	-	-	-	-	23,521	23,521
Other liabilities	110,111	9,359	6,903	163	-	-	126,536
Total liabilities	**9,556,460**	**9,359**	**7,190,961**	**46,658,140**	**16,062,495**	**23,521**	**79,500,936**
Net position as at 31 December 2011	**(2,987,346)**	**3,928,344**	**158,978**	**(25,145,267)**	**36,884,963**	**3,036,590**	**15,876,262**
Net position as at 31 December 2010	4,866,763	60,213	(4,331,292)	(31,618,386)	49,376,331	3,159,882	21,513,511

20 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2010:

Assets	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Cash and cash equivalents	13,664,083	-	-	-	-	-	13,664,083
Placements with banks and other financial institutions	7,500	-	3,616,070	2,000,455	-	-	5,624,025
Available-for-sale financial assets	51,644	35,154	105,559	2,131,405	4,555,083	-	6,878,845
Loans to customers	564,537	1,342	36,359	1,474,373	60,533,629	-	62,610,240
Held-to-maturity investments	7,250	21,233	1,730,082	4,979,758	7,994,806	-	14,733,129
Current tax asset	-	-	4,106	8,511	378,381	-	390,998
Property and equipment	-	-	-	-	-	2,481,524	2,481,524
Deferred tax assets	-	-	-	-	-	21,827	21,827
Other assets	7,331	12,356	63,772	153,185	5,223	656,531	898,398
Total assets	**14,302,345**	**70,085**	**5,555,948**	**10,747,687**	**73,467,122**	**3,159,882**	**107,303,069**
Liabilities							
Debt securities issued	406,008	-	9,818,660	30,820,746	20,913,575	-	61,958,989
Other borrowed funds	9,019,946	-	61,687	11,464,446	3,177,216	-	23,723,295
Other liabilities	9,628	9,872	6,893	80,881	-	-	107,274
Total liabilities	**9,435,582**	**9,872**	**9,887,240**	**42,366,073**	**24,090,791**	**-**	**85,789,558**
Net position as at 31 December 2010	**4,866,763**	**60,213**	**(4,331,292)**	**(31,618,386)**	**49,376,331**	**3,159,882**	**21,513,511**
Net position as at 31 December 2009	(2,284,653)	(688,999)	6,460,188	(24,543,635)	41,137,945	2,837,544	22,918,390

21 Capital management

The Decree of the NBRK #254 of 25 July 2003 establishes the Company's status as a financial agency, for which the NBRK determines statutory capital ratios.

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings/accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital) less investments into equity or subordinated debt.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

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

Under the current capital requirements set by the NBRK mortgage companies have to maintain:

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).

	2011 KZT'000	2010 KZT'000
Tier 1 capital		
Share capital	26,335,239	26,335,239
General reserves	2,630,820	2,598,418
Intangible assets	(4,156)	(12,592)
Statutory accumulated losses	(14,329,361)	(7,797,690)
Total tier 1 capital	**14,632,542**	**21,123,375**
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	(94,228)	(632,179)
Total tier 2 capital	**(94,228)**	**(632,179)**
Total capital	**14,538,314**	**20,491,196**
Total statutory assets	94,077,945	106,373,716
Credit risk weighted assets and contingent liabilities	80,256,192	82,961,466
Operational risk	344,580	671,249
k1 ratio	15%	**20%**
k1-2 ratio	18%	**25%**
k1-3 ratio	18%	**25%**

21 Capital management, continued

As at 31 December 2011 and 2010 the minimum level of ratios as applicable to the Company are as follows:

- k1 – 6%
- k1-2 – 6%
- k1-3 – 12%.

The Company also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the Company's capital position calculated in accordance with the requirement of the Basle Accord, as at 31 December 2011 and 2010:

	2011 KZT'000	2010 KZT'000
Tier 1 capital		
Share capital	26,335,239	26,335,239
General reserves	2,630,820	2,598,418
Accumulated losses	(12,995,569)	(6,724,573)
Total tier 1 capital	**15,970,490**	**22,209,084**
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	(94,228)	(695,573)
Total tier 2 capital	**(94,228)**	**(695,573)**
Total capital	**15,876,262**	**21,513,511**
Risk-weighted assets		
Banking book	95,377,198	90,215,821
Trading book	11,322,214	11,171,786
Total risk weighted assets	**106,699,412**	**101,387,607**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**15%**	**21%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**15%**	**22%**

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

The Company is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord imposed by covenants under certain liabilities incurred by the Company. The Capital Adequacy Ratio shall at all times be no less than the higher of (i) 8%; (ii) the equivalent minimum ratio as set out in the Basle Paper; or (iii) such higher figure as is required by law. The Company has complied with these capital requirements as at 31 December 2011 and 2010.

22 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

23 Related party transactions

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

Total remuneration included in employee compensation (refer Note 6):

	2011 KZT'000	2010 KZT'000
Members of the Board of Directors	8,112	6,838
Members of the Management Board	44,907	53,745
	53,019	**60,583**

The above amounts include non-cash benefits in respect of the members of the Management Board and Board of Directors. The outstanding balances and average interest rates as of 31 December 2011 with the members of the Management Board are as follows:

	2011 KZT'000	Average interest rate	2010 KZT'000	Average interest rate
Statement of financial position				
Loans to customers	17,002	8.5%	-	-

23 Related party transactions, continued

(a) Transactions with the members of the Management Board and Board of Directors, continued

Amounts included in profit or loss in relation to transactions with the members of the Management Board are as follows:

	2011 KZT'000	2010 KZT'000
Income Statement		
Interest income	447	1,168

(b) Transaction with other related parties

Other related parties include the Ministry of Finance of the Republic of Kazakhstan and State organisations. The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as of 31 December 2011 and 2010:

	2011 KZT'000	2011 KZT'000	2010 KZT'000	2010 KZT'000
	Ministry of Finance	State organisations	Ministry of Finance	State organisations
Income Statement:				
Interest income	73,168	346,401	75,163	107,157
Interest expense	(9,020)	(2,544,931)	(9,020)	(1,664,840)
Net loss on financial instruments at fair value through profit or loss	-	-	(339)	-
Impairment recoveries	-	178,355	-	242,443
General administrative expenses	(108,109)	(37,655)	(88,517)	(35,004)
Income tax (expense) benefit	(45,348)	-	13,187	-
Statement of Comprehensive Income:				
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	(131,820)	-	-	-

The balances with related parties as of 31 December 2011 include:

	Ministry of Finance		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Placements with banks	-	-	3,479,662	7.0
Available-for-sale financial assets	523,747	3.0	306,478	8.8
Held-to maturity investments	2,113,823	3.5	-	-
Current tax asset	505,111	-	-	-
Other assets	1,321	-	167,709	-
Debt securities issued	-	-	20,638,171	8.1
Other borrowed funds	9,019,946	0.1	-	-
Deferred tax liability	23,521	-	-	-
Other liabilities	7,413	-	1,220	-
Revaluation reserve for available-for-sale financial assets	(131,820)	-	-	-

24 Related party transactions, continued

(b) Transaction with other related parties, continued

The balances with related parties as of 31 December 2010 include:

	Ministry of Finance		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Placements with banks	-	-	11,576,870	-
Available-for-sale financial assets	-	-	686,029	12.6
Held-to maturity investments	2,145,319	3.5	-	-
Deferred tax asset	21,827	-	-	-
Current tax asset	390,998	-	-	-
Other assets	-	-	210,839	-
Debt securities issued	-	-	20,787,173	8.2
Other borrowed funds	9,019,946	0.1	-	-
Other liabilities	10,643	-	1,485	-

24 Financial assets and liabilities: fair values and accounting classification

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	3,453,838	-	-	3,453,838	3,453,838
Placements with banks and other financial institutions	-	-	10,574,941	-	-	10,574,941	10,574,941
Available-for-sale financial assets	-	-	-	8,587,968	-	8,587,968	8,587,968
Loans customers	-	-	55,535,523	-	-	55,535,523	59,754,270
Held-to-maturity investments:							
Government bonds	-	2,113,823	-	-	-	2,113,823	2,074,000
Corporate bonds	-	11,359,382	-	-	-	11,359,382	10,658,143
Other financial assets	7	-	-	-	-	7	7
	7	13,473,205	69,564,302	8,587,968	-	91,625,482	95,103,167
Debt securities issued	-	-	-	-	55,523,652	55,523,652	60,899,151
Other borrowed funds	-	-	-	-	23,827,227	23,827,227	23,827,227
Other financial liabilities	-	-	-	-	118,968	118,968	118,968
	-	-	-	-	79,469,847	79,469,847	84,845,346

24 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	13,664,083	-	-	13,664,083	13,664,083
Placements with banks and other financial institutions	-	-	5,624,025	-	-	5,624,025	5,624,025
Available-for-sale financial assets	-	-	-	6,878,845	-	6,878,845	6,878,845
Loans customers	-	-	62,610,240	-	-	62,610,240	64,070,283
Held-to-maturity investments:							
Government bonds	-	2,145,319	-	-	-	2,145,319	1,890,620
Corporate bonds	-	12,587,810	-	-	-	12,587,810	10,452,160
Other financial assets	8	-	-	-	-	8	8
	8	**14,733,129**	**81,898,348**	**6,878,845**	**-**	**103,510,330**	**102,580,024**
Debt securities issued	-	-	-	-	61,958,989	61,958,989	64,000,163
Other borrowed funds	-	-	-	-	23,723,295	23,723,295	23,852,746
Other financial liabilities	-	-	-	-	96,597	96,597	96,597
	-	**-**	**-**	**-**	**85,778,881**	**85,778,881**	**87,949,506**

24 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

For more complex instruments, the Company uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and securities for which there is no active market.

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

(b) Fair value hierarchy

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

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

24 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

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

	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
Financial assets			
Financial instruments at fair value through profit or loss	7	-	7
Available-for-sale financial assets	8,281,490	306,478	8,587,968
	8,281,497	**306,478**	**8,587,975**

As at 31 December 2011 and 31 December 2010, the Company does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

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

	Level 2 KZT'000	Total KZT'000
Financial assets		
Financial instruments at fair value through profit or loss	8	8
Available-for-sale financial assets	6,878,845	6,878,845
	6,878,853	**6,878,853**

The following table shows a reconciliation for the year ended 31 December 2011 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3 Year ended 31 December 2011
Available for sale financial assets - debt instruments	
Balance at beginning of the year	-
Transfers into level 3	176,333
Total gains or losses recognised in profit or loss:	
Interest income	42,127
impairment recovery	178,355
Settlements	(90,337)
Balance at end of the year	**306,478**

As at 31 December 2011 the Company applies Discounted Cash Flow valuation technique to identify the fair value of DTZ bonds using the discount rate of 19%. Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing the assumption on the discount rate used to plus/minus 1% would decrease/increase the fair value by KZT 14,495 thousand and KZT 15,991 thousand, respectively.

25 Segment reporting

The Company's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Segment Reporting*. The Company's assets are concentrated in the Republic of Kazakhstan, and the Company's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Company, the Chairman of the Management Board, only receives and reviews the information on the Company as a whole.