

**“Al Hilal” Islamic Bank” JSC  
Financial Statements**

*Year ended 31 December 2011  
Together with Independent Auditors’ Report*

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## Independent auditors' report

To the Shareholder and Board of Directors of "Al Hilal" Islamic Bank" JSC

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

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

**Opinion**

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

*Ernst & Young LLP*



Zhemaletdinov Evgeny  
Auditor/General Director  
Ernst & Young LLP

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

26 March 2012



Auditor Qualification Certificate No. 0000553  
dated 24 December 2003



STATEMENT OF FINANCIAL POSITION

As of 31 December 2011

(Thousands of tenge)

	<i>Notes</i>	<i>2011</i>	<i>2010</i>
<b>Assets</b>			
Cash and cash equivalents	6	6,231,459	5,835,055
Receivables under commodity murabaha agreements	7	2,472,844	437,204
Ijara financing	8	1,668,810	-
Property and equipment	9	287,522	96,571
Intangible assets	10	9,396	5,577
Deferred income tax assets	11	128,909	93,677
Other assets	12	68,181	70,996
<b>Total assets</b>		<b>10,867,121</b>	<b>6,539,080</b>
<b>Liabilities</b>			
Wakala deposits from shareholder	13,16	-	54,751
Amounts due to customers	14	553,566	256,616
Unamortized commission income		28,670	8,893
Other liabilities	12	78,847	101,757
<b>Total liabilities</b>		<b>661,083</b>	<b>422,017</b>
<b>Equity</b>			
Share capital	15	10,732,338	6,500,000
Accumulated deficit		(526,300)	(382,937)
<b>Total equity</b>		<b>10,206,038</b>	<b>6,117,063</b>
<b>Total liabilities and equity</b>		<b>10,867,121</b>	<b>6,539,080</b>

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

Prasad Abraham



*[Handwritten signature of Prasad Abraham]*

Chairman of the Management Board

Aidyn Tairov

*[Handwritten signature of Aidyn Tairov]*

Chief Accountant

26 March 2012

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

*(Thousands of tenge)*

	<i>Notes</i>	<i>2011</i>	<i>For the period from 22 January 2010 (inception date) to 31 December 2010</i>
<b>Revenue from Islamic finance activities</b>	17	170,831	13,002
Net fee and commission income	18	266,659	47,028
Net gains from foreign currencies:			
- dealing		24,610	2,718
- translation differences		3,461	1,524
<b>Non-finance income</b>		294,730	51,270
Personnel expenses	19	(411,959)	(320,473)
Other operating expenses	19	(232,197)	(220,413)
<b>Non-finance expenses</b>		(644,156)	(540,886)
<b>Loss before corporate income tax benefit</b>		(178,595)	(476,614)
Corporate income tax benefit	11	35,232	93,677
<b>Loss for the year/period</b>		(143,363)	(382,937)
Other comprehensive income for the year/period		-	-
<b>Total comprehensive loss for the year/period</b>		(143,363)	(382,937)

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

*(Thousands of tenge)*

	<i>Share capital</i>	<i>Accumulated deficit</i>	<i>Total</i>
<b>22 January 2010 (inception date)</b>	–	–	–
Initial share capital contribution (Note 15)	5,000,000	–	5,000,000
Additional share issuance (Note 15)	1,500,000	–	1,500,000
Comprehensive loss for the period	–	(382,937)	(382,937)
<b>31 December 2010</b>	6,500,000	(382,937)	6,117,063
Additional share issuance (Note 15)	4,232,338	–	4,232,338
Comprehensive loss for the year	–	(143,363)	(143,363)
<b>31 December 2011</b>	<b>10,732,338</b>	<b>(526,300)</b>	<b>10,206,038</b>

**STATEMENT OF CASH FLOWS**

**For the year ended 31 December 2011**

*(Thousands of tenge)*

	<i>Notes</i>	<i>2011</i>	<i>For the period from 22 January 2010 (inception date) to 31 December 2010</i>
<b>Cash flows from operating activities</b>			
Revenue received from islamic finance activities		145,306	10,186
Fees and commissions received		298,369	47,282
Fees and commissions paid		(2,101)	(1,507)
Net realised gains from dealing in foreign currencies		24,610	2,718
Personnel expenses paid		(376,730)	(311,184)
Other operating expenses paid		(162,250)	(144,366)
<b>Cash flows used in operating activities before changes in operating assets and liabilities</b>		<b>(72,796)</b>	<b>(396,871)</b>
<i>Net increase in operating assets</i>			
Receivables under commodity murabaha agreements		(2,022,864)	(432,787)
Ijara financing		(1,656,060)	-
Other assets		9,197	(48,778)
<i>Net increase in operating liabilities</i>			
Wakala deposits from shareholder		(54,751)	54,550
Amounts due to customers		298,290	256,616
Other liabilities		(126,374)	8,275
Unamortised commission income		-	-
<b>Net cash used in operating activities before corporate income tax</b>		<b>(3,625,358)</b>	<b>(558,995)</b>
Corporate income tax paid		-	-
<b>Net cash used in operating activities</b>		<b>(3,625,358)</b>	<b>(558,995)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	9	(206,924)	(99,867)
Purchase of intangible assets	10	(5,772)	(6,207)
<b>Net cash used in investing activities</b>		<b>(212,696)</b>	<b>(106,074)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital	15	4,232,338	6,500,000
<b>Net cash flows from financing activities</b>		<b>4,232,338</b>	<b>6,500,000</b>
Effect of exchange rates changes on cash and cash equivalents		2,120	124
<b>Net increase in cash and cash equivalents</b>		<b>396,404</b>	<b>5,835,055</b>
<b>Cash and cash equivalents at beginning of the year/period</b>		<b>5,835,055</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year/period</b>	<b>6</b>	<b>6,231,459</b>	<b>5,835,055</b>



(Thousands of tenge)

## 1. Principal activities

“Al Hilal” Islamic Bank” JSC (the “Bank”) was formed on 22 January 2010 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license №1.1.261 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations (the “FMSA”) on 17 March 2010.

In accordance with the Decree of the President № 61 dated 18 April 2011 FMSA was reorganised to the Committee for Regulation and Supervision of Financial Markets and Financial Organizations of the National Bank of Kazakhstan (hereinafter - FMSC ").

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Almaty and branches in Astana and Shymkent. The Bank accepts deposits from the public and extends finance transactions based on Sharia principles and rules, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial customers.

As at 31 December 2011 and 2010, the sole shareholder of the bank is Al Hilal Bank PJSC (Abu Dhabi, United Arab Emirates). The ultimate shareholder of the Bank is the Government of the Abu Dhabi, represented by Abu Dhabi Investment Council.

The registered and actual address of the Bank is Almaty Financial District, Building B, Al-Farabi Ave 36., Almaty, 050059, Republic of Kazakhstan.

## 2. Basis of preparation

### General

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

The financial statements have been prepared under the historical cost convention. These financial statements are presented in thousands of Kazakhstani tenge (“tenge” or “KZT”) unless otherwise indicated.

## 3. Definition of significant terms

### *Sharia*

Sharia is the Body of Islamic law and is derived from the Holy Quran and the Sunna’h of Holy Prophet (PBUH). The Bank being an Islamic Financial Institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

### *Commodity Murabaha or Tawarruq*

A method where the Bank purchases commodities from a Broker and takes ownership and constructive possession of commodity and then sells it to a customer on a deferred payment basis. The customer then sells the same asset to a third party for immediate delivery and payment, the end result being that the customer receives a cash amount and has a deferred payment obligation for the marked-up price to the Bank. The asset is typically a freely tradeable commodity such as platinum or copper. Gold and silver are treated by Sharia as currency and cannot be used.

### *Ijara*

Leasing of identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek) is an agreement whereby the Bank buys an asset according to the customer’s intention, presented in intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for the specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in lease agreement. The Bank possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of its obligation during or at the end lease term.

### *Mudaraba*

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

(Thousands of tenge)

### 3. Definition of significant terms (continued)

#### *Wakala*

An agreement whereby the Investor provides a certain sum of money to an agent (the Bank), who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent (the Bank) may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The agent (the Bank) is obliged to return the invested amount in case of the Bank's negligence or violation of the terms and conditions of the Wakala.

#### *Zakab*

It is a right which becomes due in certain types of wealth and disbursable to specific categories of recipients. It is an in rem duty when its conditions are satisfied.

#### *Sukuk*

Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the sukuk, the closing of subscription and the employment of funds received for the purpose for which the sukuk were issued.

### 4. Summary of accounting policies

#### Changes in accounting policies

##### *Date of recognition*

The Bank has changed its accounting policy in respect of the date of recognition of its financial instruments from settlement date to trade date, in order to bring the Bank's accounting policy in line with the group accounting policy of its shareholder Al Hilal Bank PJSC. The change had no impact on the Bank's financial statements.

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

##### *IAS 24 “Related party disclosures” (Revised)*

The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The disclosure of the transactions with related parties in accordance with the revised Standard is presented in the Note 23.

##### *Amendments to IAS 32 “Financial instruments: Presentation”: Classification of Rights Issues”*

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

##### *IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”*

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



*(Thousands of tenge)***4. Summary of accounting policies (continued)****Changes in accounting policies (continued)***Improvements to IFRSs*

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

- ▶ IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- ▶ Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

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

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

**Financial assets***Initial recognition*

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

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Receivables from Islamic financing activities are subsequently carried at amortized cost using the effective profit rate method.

*Date of recognition*

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

*Receivables from Islamic finance activities*

Receivables from Islamic finance activities, which include receivables under commodity murabaha agreements, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank’s receivable from Islamic finance activities consisted of Murabaha receivables. Murabaha receivables are stated at amortised cost less any provision for impairment.

*Determination of fair value*

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.



*(Thousands of tenge)***4. Summary of accounting policies (continued)****Financial assets (continued)***Offsetting*

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

*Reclassification of financial assets*

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of receivables from Islamic finance activities above may be reclassified to receivables from Islamic finance activities category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of receivables from Islamic finance activities may be reclassified to receivables from Islamic finance activities category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, obligatory reserves, amounts due from the National Bank of the Republic of Kazakhstan (the “NBRK”) and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

**Leases***Operating - Bank as lessee*

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

*Ijara Muntahia Bitamleek (Finance lease) – Bank as lessor*

A form of leasing contract which includes an undertaking by a lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the ijara or by stage during the term of the lease agreement. The Bank recognises ijara assets at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Rental income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the financing under ijara agreements.

**Impairment of financial assets**

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



*(Thousands of tenge)***4. Summary of accounting policies (continued)****Impairment of financial assets (continued)***Receivables from Islamic finance activities*

For receivables from Islamic finance activities carried at amortised cost, including receivables under Commodity Murbaha agreements, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a receivables from Islamic finance activities has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

**Derecognition of financial assets and liabilities***Financial assets*

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

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

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



(Thousands of tenge)

#### 4. Summary of accounting policies (continued)

##### Derecognition of financial assets and liabilities (continued)

###### *Financial liabilities*

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

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

###### **Taxation**

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

###### **Property and equipment**

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

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

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

	<u>Years</u>
Buildings	20
Leasehold improvements	7
Motor vehicles	4
Furniture and fixtures	4
Computers and office equipment	4

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Assets under construction represents property and equipment under construction and equipment awaiting installation and is stated at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. Once completed or when the equipment are ready for their intended use, construction-in-process is transferred into the appropriate category and depreciation commenced accordingly.

###### **Intangible assets**

Intangible assets include computer software and licenses.

Intangible assets include computer software. Intangible assets are carried at cost less any accumulated amortization. Intangible assets are amortised on a straight –line basis over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

###### **Provisions**

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

(Thousands of tenge)

#### 4. Summary of accounting policies (continued)

##### Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

##### Share capital

###### *Share capital*

Ordinary shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

##### Fiduciary assets

Assets held in a fiduciary capacity under Wakala and Mudaraba agreements are not reported in the financial statements, as they are not the assets of the Bank.

Since the Bank carries no risk and is not responsible for any losses incurred during normal investment activity for Mudaraba and Wakala products, unless this happened due to the Bank's gross negligence or willful misconduct, both Wakala and Mudaraba deposits are accounted as off balance sheet items in the Bank's financial statements.

##### Contingencies

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

##### Recognition of income and expenses

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

###### *Income and expense on Islamic finance*

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

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

###### *Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income comprises the following:

###### *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and agency fee under Wakala agreements.



(Thousands of tenge)

#### 4. Summary of accounting policies (continued)

##### Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by the Kazakhstan Stock Exchange (the “KASE”) and reported by the NBRK at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The market exchange rates at 31 December 2011 and 31 December 2010 were KZT 148.4 and KZT 147.5 to USD 1, respectively.

##### Future changes in accounting policies

*Standards and interpretations issued but not yet effective*

###### *IFRS 9 “Financial Instruments”*

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

###### *IFRS 10 Consolidated Financial Statements*

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

###### *IFRS 11 Joint Arrangements*

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

###### *IFRS 12 Disclosure of Interests in Other Entities*

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



*(Thousands of tenge)***4. Summary of accounting policies (continued)****Future changes in accounting policies (continued)***Standards and interpretations issued but not yet effective (continued)**IFRS 13 Fair Value Measurement*

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

*IAS 27 Separate Financial Statements (as revised in 2011)*

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

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

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

*Amendments to IFRS 7 “Financial Instruments: Disclosures”*

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

*Amendments to IAS 12 “Income Taxes” – Deferred tax: Recovery of underlying assets*

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

*Amendments to IAS 19 Employee Benefits*

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

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

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



(Thousands of tenge)

#### 4. Summary of accounting policies (continued)

##### Future changes in accounting policies (continued)

*Standards and interpretations issued but not yet effective (continued)*

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

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

#### 5. Significant accounting judgments and estimates

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

*Impairment losses on ijara financing and receivables under commodity murabaha*

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

*Deferred tax assets*

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

#### 6. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2011</i>	<i>2010</i>
Cash on hand	58,130	55,247
Current account with the NBRK	5,778,009	5,652,124
Current accounts with other credit institutions	395,320	127,684
<b>Cash and cash equivalents</b>	<b>6,231,459</b>	<b>5,835,055</b>

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. However, the Bank is not restricted from using these funds to finance its day-to-day operations.

As at 31 December 2011, obligatory reserves amounted to KZT 14,185 thousand (31 December 2010: KZT 7,352 thousand).

#### 7. Receivables under commodity murabaha agreements

	<i>2011</i>	<i>2010</i>
Gross receivables under commodity murabaha agreements	2,751,850	464,360
Less: deferred profit	(279,006)	(27,156)
<b>Net receivables under commodity murabaha agreements</b>	<b>2,472,844</b>	<b>437,204</b>

As at 31 December 2011 receivables under commodity murabaha agreements bear profit rate of 8%-12%per annum and mature in 2011-2017.

(Thousands of tenge)

## 7. Receivables under commodity murabaha agreements (continued)

### Collateral and other credit enhancements

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

As at 31 December 2011 and 2010, receivables arising from commodity murabaha agreements are secured by real estate, movable property, inventory, corporate guarantees and cash deposits. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment on receivables from commodity murabaha agreements. No allowance for losses is established as the receivables are unimpaired as at 31 December 2011 and 2010.

### Concentration of receivables under commodity murabaha agreements

Receivables under commodity murabaha agreements are made principally within Kazakhstan in the following industry sectors:

	<i>2011</i>	<i>2010</i>
Food trading	1,397,080	370,860
Real estate construction	1,075,764	9,005
Transportation services	–	57,339
	<u>2,472,844</u>	<u>437,204</u>

## 8. Ijara financing

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation for ijara financing includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease:

	<i>Not later than 1 year</i>	<i>Later than 1 year and not later than 5 years</i>	<i>Total</i>
Ijara financing to be received upon the maturity of the ijara	504,187	1,487,204	1,991,391
Less: future variable rental (deferred income)	(136,796)	(185,785)	(322,581)
Net present value of minimum ijara	<u>367,391</u>	<u>1,301,419</u>	<u>1,668,810</u>

The Bank started ijara transactions in 2011. As at 31 December 2011 ijara financing bear profit rate of 9% per annum and mature in 2015-2016.

## 9. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Leashold improvements</i>	<i>Motor Vehicles</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Total</i>
<b>Cost</b>						
22 January 2010 (inception date)	–	–	–	–	–	–
Additions	75,995	11,904	–	7,389	4,579	99,867
31 December 2010	75,995	11,904	–	7,389	4,579	99,867
Additions	159,467	105	22,557	20,025	4,770	206,924
31 December 2011	<u>235,462</u>	<u>12,009</u>	<u>22,557</u>	<u>27,414</u>	<u>9,349</u>	<u>306,791</u>
<b>Accumulated depreciation</b>						
22 January 2010 (inception date)	–	–	–	–	–	–
Depreciation charge	(932)	(722)	–	(1,055)	(587)	(3,296)
31 December 2010	(932)	(722)	–	(1,055)	(587)	(3,296)
Depreciation charge	(5,534)	(1,706)	(2,820)	(4,634)	(1,279)	(15,973)
31 December 2011	<u>(6,466)</u>	<u>(2,428)</u>	<u>(2,820)</u>	<u>(5,689)</u>	<u>(1,866)</u>	<u>(19,269)</u>
<b>Net book value:</b>						
22 January 2010 (inception date)	–	–	–	–	–	–
31 December 2010	75,063	11,182	–	6,334	3,992	96,571
31 December 2011	<u>228,996</u>	<u>9,581</u>	<u>19,737</u>	<u>21,725</u>	<u>7,483</u>	<u>287,522</u>



(Thousands of tenge)

## 10. Intangible assets

The movements in intangible assets were as follows:

	<i>Computer software</i>
<b>Cost</b>	
22 January 2010 (inception date)	–
Additions	6,207
<b>31 December 2010</b>	<b>6,207</b>
Additions	5,772
<b>31 December 2011</b>	<b>11,979</b>
<b>Accumulated amortization</b>	
22 January 2010 (inception date)	–
Amortisation charge	(630)
<b>31 December 2010</b>	<b>(630)</b>
Amortisation charge	(1,953)
<b>31 December 2011</b>	<b>(2,583)</b>
<b>Net book value:</b>	
22 January 2010 (inception date)	–
31 December 2010	5,577
<b>31 December 2011</b>	<b>9,396</b>

## 11. Taxation

The corporate income tax expense comprises:

	<i>Period from 22 January 2010 (inception date) to 31 December</i>	
	<i>2011</i>	<i>2010</i>
Current tax charge	–	–
Deferred tax credit – origination and reversal of temporary differences	35,232	93,677
<b>Income tax benefit</b>	<b>35,232</b>	<b>93,677</b>

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank’s income is taxable. In accordance with Kazakhstan tax legislation, the corporate income tax rate is set at 20%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax benefit based on statutory corporate income rates with actual is as follows:

	<i>Period from 22 January 2010 (inception date) to 31 December</i>	
	<i>2011</i>	<i>2010</i>
<b>Loss before income tax benefit</b>	<b>(178,595)</b>	<b>(476,614)</b>
Statutory corporate income tax rate	20%	20%
<b>Theoretical income tax benefit at the statutory rate</b>	<b>(35,719)</b>	<b>(95,323)</b>
Non-deductible expenditures:		
- representation expenses	–	284
- Other expenses	487	1,362
<b>Income tax benefit</b>	<b>(35,232)</b>	<b>(93,677)</b>



(Thousands of tenge)

## 11. Taxation (continued)

Deferred tax assets and liability as of 31 December 2011 and their movements for the year/period comprise:

	<i>22 January 2010 (inception date)</i>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<i>31 December 2010</i>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<i>31 December 2011</i>
<b>Tax effect of deductible temporary differences:</b>					
Tax loss carried forward	–	93,698	93,698	32,342	126,040
Accrual for bonuses	–	–	–	8,059	8,059
Unused vacation reserves	–	1,858	1,858	(1,012)	846
<b>Deferred tax assets</b>	–	95,556	95,556	39,389	134,945
<b>Tax effect of taxable temporary differences:</b>					
Property and equipment	–	(1,879)	(1,879)	(4,157)	(6,036)
<b>Deferred tax liability</b>	–	(1,879)	(1,879)	(4,157)	(6,036)
<b>Deferred tax assets</b>	–	93,677	93,677	35,232	128,909

As at 31 December 2011 the Bank has available KZT 630,200 thousand of tax losses carried forward for a period of up to ten years. The Bank believes that tax losses will be utilized.

## 12. Other assets and liabilities

Other assets comprise:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Guarantee deposit	18,267	2,363
Rent prepayment	11,171	5,069
VAT recoverable and other prepaid taxes	11,161	–
Prepaid insurance premium	9,035	–
Agency commission and performance incentive receivable under Wakala agreements	5,797	10,146
Prepayments for the repair works	–	43,761
Other prepayments	12,750	9,657
<b>Other assets</b>	68,181	70,996

Other liabilities comprise:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Accrual of bonuses	40,292	–
Accounts payable	26,611	84,193
Taxes payable, other than income tax	7,718	8,275
Unused vacation accrual	4,226	9,289
<b>Other liabilities</b>	78,847	101,757

## 13. Wakala deposits from shareholder

As at 31 December 2010, Wakala deposits from shareholder of KZT 54,751 thousand comprised unutilized portion of Wakala deposits placed by the shareholder, which was fully utilized during 2011 through commodity murabaha agreements (see Note 16).

(Thousands of tenge)

## 14. Amounts due to customers

The amounts due to customers include the following:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Current accounts	552,715	245,193
Unutilised portion of Mudaraba deposits (Note 16)	851	11,423
<b>Amounts due to customers</b>	<b>553,566</b>	<b>256,616</b>

Amounts due to customers include accounts with the following types of customers:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Private enterprises	524,809	198,863
Individuals	26,807	57,055
Employees	1,950	698
<b>Amounts due to customers</b>	<b>553,566</b>	<b>256,616</b>

An analysis of customer accounts by economic sector follows:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Real estate constructions	392,261	148,459
Trade	48,112	13,336
Transport and communication	43,205	3,934
Individuals	26,807	57,055
Government	16,549	33,117
Industrial constructions	6,968	–
Employees	1,950	698
Other	17,714	17
<b>Amounts due to customers</b>	<b>553,566</b>	<b>256,616</b>

## 15. Equity

	<i>Number of shares</i>	<i>Placement value</i>
22 January 2010 (inception date)	–	–
Initial share capital contribution	5,000,000	5,000,000
Additional share issuance	1,500,000	1,500,000
<b>31 December 2010</b>	<b>6,500,000</b>	<b>6,500,000</b>
Additional share issuance	4,232,338	4,232,338
<b>31 December 2011</b>	<b>10,732,338</b>	<b>10,732,338</b>

As at 31 December 2010, 6,500,000 common shares have been issued and fully paid for the total amount of KZT 6,500,000 thousand. On 22 June 2011, the Bank has issued additional 3,500,000 common shares, which were fully paid in by the shareholder in the amount of KZT 3,500,000 thousand. Second share issuance of 732,338 common shares was held on 16 September 2011, which also were fully paid in by the shareholder in amount of KZT 732,338 thousand. Second issuance was made in order to comply with new minimal capital requirements set by Committee for Regulation and Supervision of Financial Markets (hereinafter the “FMSC”) starting from 1 July 2011, as described in Note 24. No dividends were declared or distributed during 2011.

## 16. Commitments and contingencies

### Operating environment

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

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Kazakhstan Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Bank’s future financial position, results of operations and business prospects.



(Thousands of tenge)

## 16. Commitments and contingencies (continued)

### Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. As at 31 December 2011, no provision has been made in these financial statements for any of the contingent liabilities.

### Taxation

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakh laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management’s best estimate. The Bank’s policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakh tax system, the ultimate amount of taxes, penalties and charges, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 31 December 2011. Although such amounts are possible and may be material, it is the opinion of the Bank’s management that these amounts are either not probable, not reasonably determinable, or both.

As of 31 December the Bank’s commitments and contingencies comprised the following:

	<u>2011</u>	<u>2010</u>
<b>Credit related commitments</b>		
Undrawn commitments on receivables from Islamic finance activities	1,244,554	587,296
Guarantees issued	982,158	–
<b>Commitments and contingencies</b>	<u>2,226,712</u>	<u>587,296</u>

### Agency activities

The Bank acts in agent capacity in investing amounts received under Wakala and act as a Mudareb in Mudaraba agreements for the year then ended to 31 December 2011 and 2010 are as follows:

	<i>Period from 22 January 2010 (inception date) to</i>	
	<u>2011</u>	<u>31 December 2010</u>
<i>Wakala</i>		
Wakala deposits from shareholder at the beginning of the year/period	54,751	–
Wakala deposits received	32,683,172	2,217,700
Amount utilised for issuance of murabaha receivables	(32,725,323)	(2,175,188)
Amount utilised for issuance of ijara financing	(12,600)	–
Unutilised portion of wakala deposits	–	42,512
Profit received on murabaha receivables payable to customers under wakala agreements	–	12,239
Wakala deposits from shareholder (Note 13)	–	54,751
<i>Mudaraba</i>		
Mudaraba deposits at the beginning of the year/period	11,423	–
Mudaraba deposits received	323,036	11,423
Amount utilised for issuance of murabaha receivables	(333,608)	–
Unutilised portion of mudaraba deposits (Note 14)	851	11,423
Profit accrued on receivable under murabaha agreements and ijara financing	305,953	54,793
Agency commission attributable to the Bank (Note 18)	(225,245)	(37,925)
Profit attributable to customers on the wakala and mudarba deposits	<u>80,708</u>	<u>16,868</u>

The Bank carries no risk for utilised portion of wakala and mudaraba deposits.

(Thousands of tenge)

### 17. Revenue from Islamic finance activities

Revenue from Islamic finance activities comprises:

	<i>Period from 22 January 2010 (inception date) to 31 December</i>	
	<i>2011</i>	<i>2010</i>
Revenue from ijara financing	100,359	–
Revenue from commodity murabaha	69,360	13,002
Revenue from interbank tawarruq	1,112	–
	<u>170,831</u>	<u>13,002</u>

### 18. Net fee and commission income

Net fee and commission income comprises:

	<i>Period from 22 January 2010 (inception date) to 31 December</i>	
	<i>2011</i>	<i>2010</i>
Agency commission and performance incentive under wakala and mudarib share of profit under mudaraba agreements (Note 16)	225,245	37,925
Letters of credit and guarantees	30,098	5,039
Non-capitalisable portion of study and documentation fee in relation to financing	9,172	4,935
Transfer operations	3,126	431
Settlement and cash operations	399	85
Other	720	120
<b>Fee and commission income</b>	<u>268,760</u>	<u>48,535</u>
Transfer operations	(1,688)	(1,330)
Other	(413)	(177)
<b>Fee and commission expense</b>	<u>(2,101)</u>	<u>(1,507)</u>
<b>Net fee and commission income</b>	<u>266,659</u>	<u>47,028</u>

### 19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<i>Period from 22 January 2010 (inception date) to 31 December</i>	
	<i>2011</i>	<i>2010</i>
Salaries and bonuses	(377,471)	(291,915)
Social security costs	(34,488)	(28,558)
<b>Personnel expenses</b>	<u>(411,959)</u>	<u>(320,473)</u>
Rent	(104,367)	(82,015)
Taxes other than income tax	(18,801)	(12,883)
Depreciation and amortization	(17,926)	(3,926)
Information technology services	(17,403)	(12,870)
Security	(16,908)	(14,448)
Professional services	(16,245)	(39,448)
Communication	(11,961)	(10,724)
Business trips	(8,713)	(8,081)
Transportation	(6,624)	(6,026)
Cleaning services	(4,369)	(4,002)
Utilities	(3,575)	(2,664)
Stationery	(1,685)	(2,955)
Trainings	(1,315)	(2,978)
Advertising	(751)	(4,457)
Entertainment	–	(5,283)
Other	(1,554)	(7,653)
<b>Other operating expenses</b>	<u>(232,197)</u>	<u>(220,413)</u>



(Thousands of tenge)

## 20. Risk management

### Introduction

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

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

### *Risk management structure*

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

### *Board of Directors*

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

### *Management Board*

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

### *Risk Controlling*

Risk Management Department is responsible for control over compliance with principles, policies on risk-management and risk limits of Bank, for independent risk control, including positions subject to risk in comparison with established limits, estimation of risk for new products and structured transactions and also performs collection of full information in risk estimation systems and risk-management reports. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The Department together with Business units is responsible for realisation of Credit Policy of the Bank and requirements of other internal documents and of state regulators. The Department takes part in making decisions on accepting different risks. The Department develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. Risk Management Department develops and implements methodology and analytical instruments, which allow evaluating risks, to control level of risk and organise procedures to mitigate risks is an essential part of work of the Department.

### *Islamic Finance Principles Board*

It is responsible to review the operational, financing and investing activities of the Bank ensuring their alignment and compliance with the principles and rules of Sharia. Being a supervisory Board they are also required to audit the business activities undertaken and present an independent Sharia report to the shareholders with regard to the implementation of the principles and rules of Sharia in the Bank’s overall activities.

The Sharia Coordinator is representing Islamic Finance Principles Board and also responsible to ensure compliance with instructions issued by the *Islamic Finance Principles Board* including reviewing all standard and non standard contracts, product parameters, financial statements and Sharia Audit, etc.

### *Bank Treasury*

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

### *Internal audit*

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



(Thousands of tenge)

## 20. Risk management (continued)

### Introduction (continued)

#### *Risk measurement and reporting systems*

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Asset and Liability Committee, and the Credit Committee as appropriate. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

The Bank actively uses collateral to reduce its credit risk.

#### *Excessive risk concentration*

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

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

### Credit risk

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

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

#### *Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for receivable-related lines in the statement of financial position, based on the Bank’s credit rating system.

		<i>Neither past due nor impaired</i>	
		<i>Standard</i>	
		<i>grade</i>	<i>Total</i>
	<i>Notes</i>	<i>2011</i>	<i>2011</i>
Cash and cash equivalents (excluding cash on hand)	6	6,173,329	6,173,329
Receivables under commodity murabaha agreements	7	2,472,844	2,472,844
Ijara financing	8	1,668,810	1,668,810
<b>Total</b>		<b>10,314,983</b>	<b>10,314,983</b>



(Thousands of tenge)

## 20. Risk management (continued)

### Credit risk (continued)

Credit quality per class of financial assets (continued)

		<i>Neither past due nor impaired Standard grade 2010</i>	<i>Total 2010</i>
	<i>Notes</i>		
Cash and cash equivalents (excluding cash on hand)	6	5,779,808	5,779,808
Receivables under commodity murabaha agreements	7	437,204	437,204
<b>Total</b>		<b>6,217,012</b>	<b>6,217,012</b>

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products, the rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank’s rating policy. The attributable risk ratings are assessed and updated regularly.

#### *Impairment assessment*

The main considerations for the impairment assessment of receivables from Islamic finance activities include whether any payments on those receivables are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

#### *Individually assessed allowances*

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

#### *Collectively assessed allowances*

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by risk management to ensure alignment with the Bank’s overall policy. No collective allowance on receivables from Islamic finance activities is established as at 31 December 2011 and 2010 due to absence of historical loss events.

The geographical concentration of Bank’s monetary assets and liabilities is set out below:

	<i>2011</i>		<i>Total</i>
	<i>Kazakhstan</i>	<i>UAE</i>	
<b>Assets:</b>			
Cash and cash equivalents	6,034,529	196,930	6,231,459
Receivables under commodity murabaha agreements	2,472,844	–	2,472,844
Ijara financing	1,668,810	–	1,668,810
Other assets	24,064	–	24,064
	<b>10,200,247</b>	<b>196,930</b>	<b>10,397,177</b>
<b>Liabilities:</b>			
Wakala deposits from shareholder	–	–	–
Amounts due to customers	553,566	–	553,566
Other liabilities	34,329	–	34,329
	<b>587,895</b>	<b>–</b>	<b>587,895</b>
<b>Net assets</b>	<b>9,612,352</b>	<b>196,930</b>	<b>9,809,282</b>



(Thousands of tenge)

## 20. Risk management (continued)

### Credit risk (continued)

	2010		
	Kazakhstan	UAE	Total
<b>Assets:</b>			
Cash and cash equivalents	5,707,371	127,684	5,835,055
Receivables under commodity murabaha agreements	437,204	–	437,204
Other assets	12,509	–	12,509
	6,157,084	127,684	6,284,768
<b>Liabilities:</b>			
Wakala deposits from shareholder	54,751	–	54,751
Amounts due to customers	256,616	–	256,616
Other liabilities	92,468	–	92,468
	403,835	–	403,835
<b>Net assets</b>	<b>5,753,249</b>	<b>127,684</b>	<b>5,880,933</b>

### Liquidity risk and funding management

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the FMSC. As at 31 December, these ratios were as follows:

	2011	2010
Quick ratio k4-1 (average amount of highly liquid assets) / (average liabilities with remaining maturities up to 7 days)	–	77,692
Minimum ratio: greater than 1		
Quick ratio k4-2 (average assets with remaining maturities up to 1 month, including highly liquid assets) / (average liabilities with remaining maturities up to 1 month)	–	77,692
Minimum ratio: greater than 0.9		
Quick ratio k4-3 (average assets with remaining maturities up to 3 months, including highly liquid assets) / (average liabilities with remaining maturities up to 3 months)	173,588	1,313
Minimum ratio: greater than 0.8		

As at 31 December 2011 the Bank had no liabilities with remaining maturities up to 7 days or 1 month.

#### Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>As at 31 December 2011</b>					
Amounts due to customers	552,715	851	–	–	553,566
Other liabilities	78,847	–	–	–	78,847
<b>Total undiscounted financial liabilities</b>	<b>631,562</b>	<b>851</b>	<b>–</b>	<b>–</b>	<b>632,413</b>
<b>As at 31 December 2010</b>					
Wakala deposits from shareholder	54,751	–	–	–	54,751
Amounts due to customers	251,225	5,391	–	–	256,616
Other liabilities	101,757	–	–	–	101,757
<b>Total undiscounted financial liabilities</b>	<b>407,733</b>	<b>5,391</b>	<b>–</b>	<b>–</b>	<b>413,124</b>

(Thousands of tenge)

## 20. Risk management (continued)

### Liquidity risk and funding management (continued)

*Analysis of financial liabilities by remaining contractual maturities (continued)*

The table below shows the contractual expiry by maturity of the Bank’s financial commitments and contingencies. Each undrawn commitment on receivable is included in the time band containing the earliest date it can be drawn down.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
<b>2011</b>					
Undrawn commitments on receivables under commodity murabaha agreements	504,560	469,856	270,138	–	1,244,554
<b>2010</b>					
Undrawn commitments on receivables under commodity murabaha agreements	–	98,333	488,963	–	587,296

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Kazakhstan legislation, the Bank is obliged to repay such deposits upon demand of a depositor. However, the Bank is not obliged to return a utilised portion of wakala and mudaraba deposits, except when the deposit is lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

### Market risk

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

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2011 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax 2011</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax 2011</i>
USD	+10.72%	130	-10.72%	(130)
EUR	+16.33%	15	-16.33%	(15)
<i>Currency</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax 2010</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax 2010</i>
USD	+11.56%	35,576	-11.56%	(35,576)
EUR	+16.65%	49	-16.65%	(49)



(Thousands of tenge)

## 20. Risk management (continued)

### Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal, Sharia and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank’s operations.

The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk assigned to senior management within cash business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with Sharia, regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational losses and proposed remedial action.
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards
- Risk mitigation;

Compliance with the Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit and Shaira Audit. The results of Internal Audit and Sharia Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors, Islamic Finance Principle Board and senior management of the Bank.

## 21. Fair values of financial instruments

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

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

	<i>Carrying value 2011</i>	<i>Fair value 2011</i>	<i>Unrecog- nised Gain / (loss) 2011</i>
<b><i>Financial assets</i></b>			
Cash and cash equivalents	6,231,459	6,231,459	–
Receivables under commodity murabaha agreements	2,472,844	2,472,844	–
Ijara financing	1,668,810	1,668,810	–
Other financial assets	24,064	24,064	–
<b><i>Financial liabilities</i></b>			
Amounts due to customers	553,566	553,566	–
Other financial liabilities	34,329	34,329	–
<b>Total unrecognised change in unrealised fair value</b>			<b>–</b>

(Thousands of tenge)

**21. Fair values of financial instruments (continued)**

*Fair value of financial assets and liabilities not carried at fair value (continued)*

	<i>Carrying value 2010</i>	<i>Fair value 2010</i>	<i>Unrecog- nised Gain / (loss) 2010</i>
<b>Financial assets</b>			
Cash and cash equivalents	5,835,055	5,835,055	–
Receivables under commodity murabaha agreements	437,204	437,204	–
Other financial assets	12,509	12,509	–
<b>Financial liabilities</b>			
Wakala deposits from shareholder	54,751	54,751	–
Amounts due to customers	256,616	256,616	–
Other financial liabilities	92,468	92,468	–
<b>Total unrecognised change in unrealised fair value</b>			<b>–</b>

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

*Assets for which fair value approximates carrying value*

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

**22. Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 20 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	<i>2011</i>		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	6,231,459	–	6,231,459
Receivables under commodity murabaha agreements	1,812,541	660,303	2,472,844
Ijara financing	448,948	1,219,862	1,668,810
Property and equipment	–	287,522	287,522
Intangible assets	–	9,396	9,396
Deferred income tax assets	31,800	97,109	128,909
Other assets	68,181	–	68,181
<b>Total</b>	<b>8,592,929</b>	<b>2,274,192</b>	<b>10,867,121</b>
Amounts due to customers	553,566	–	553,566
Unamortised commission income	21,116	7,554	28,670
Other liabilities	78,847	–	78,847
<b>Total</b>	<b>653,529</b>	<b>7,554</b>	<b>661,083</b>
<b>Net</b>	<b>7,939,400</b>	<b>2,266,638</b>	<b>10,206,038</b>
	<i>2010</i>		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	5,835,055	–	5,835,055
Receivables under commodity murabaha agreements	370,860	66,344	437,204
Property and equipment	–	96,571	96,571
Intangible assets	–	5,577	5,577
Deferred income tax assets	–	93,677	93,677
Other assets	70,996	–	70,996
<b>Total</b>	<b>6,276,911</b>	<b>262,169</b>	<b>6,539,080</b>
Wakala deposits from shareholder	54,751	–	54,751
Amounts due to customers	256,616	–	256,616
Unamortised commission income	3,614	5,279	8,893
Other liabilities	101,757	–	101,757
<b>Total</b>	<b>416,738</b>	<b>5,279</b>	<b>422,017</b>
<b>Net</b>	<b>5,860,173</b>	<b>256,890</b>	<b>6,117,063</b>



(Thousands of tenge)

### 23. Related party disclosures

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

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

The outstanding balances of related party transactions are as follows:

	<i>2011</i>	<i>2010</i>
	<i>Shareholder</i>	<i>Shareholder</i>
Cash and cash equivalents as at 31 December	196,930	127,684
Wakala deposits from shareholder as at 31 December	–	54,751
Other liabilities as at 31 December	–	65,998

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

	<i>2011</i>	<i>2011</i>	<i>Period from 22 January 2010 (Inception date) to 31 December 2010</i>
	<i>Shareholder</i>	<i>Entities under common control</i>	<i>Shareholder</i>
Fee and commission income	225,245	–	37,925
Rent expense	–	(9,250)	–

Compensation of key management personnel comprised the following:

	<i>2011</i>	<i>2010</i>
Salaries and other short-term benefits	82,739	82,739
Social security costs	9,107	9,107
<b>Total key management personnel compensation</b>	<b>91,846</b>	<b>91,846</b>

### 24. Capital adequacy

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

As at 31 December 2011, the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The FMSC requires banks to maintain a capital adequacy ratio (Tier 1) not less than 5% of the total assets and a capital adequacy ratio (Tier 2) not less than 10% if risk weighted assets, computed based on requirement. As at 31 December 2011, the Bank’s capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank’s capital adequacy ratio, computed in accordance with the FMSC requirements as at 31 December 2011, comprise:

	<i>2011</i>	<i>2010</i>
Tier 1 capital	10,732,338	6,500,000
Tier 2 capital	(593,551)	(382,937)
<b>Total capital</b>	<b>10,138,787</b>	<b>6,117,063</b>
<b>Risk weighted assets</b>	<b>6,774,353</b>	<b>1,435,620</b>
Tier 1 capital ratio	99%	99%
Total capital ratio	150%	426%

*(Thousands of tenge)***25. Zakah**

The Articles of Association of the Bank do not require management of the Bank to pay Zakah on behalf of the Shareholder. Consequently, the Zakah obligation is to be discharged by the Shareholder.

**26. Subsequent events**

In February 2012 the Bank has invested USD 20,000 thousand, or equivalent of KZT 2,968,000 thousand, in Sukuk securities of First Gulf Bank and Abu Dhabi Investment Bank with expected profit rate of 4.046% and 3.78% per annum, respectively, and maturing in 2017 and 2016, respectively.