

## IMPORTANT NOTICE

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## **JSC Development Bank of Kazakhstan**

(Registration Number: 4686-1900-AO)

(a joint stock company organised in the Republic of Kazakhstan)

### **INFORMATION MEMORANDUM**

IN CONNECTION WITH THE  
PROPOSED ISSUANCE OF RINGGIT-DENOMINATED  
ISLAMIC MEDIUM TERM NOTES BASED ON THE  
SHARIAH PRINCIPLE OF MURABAHAH  
PURSUANT TO  
A RINGGIT-DENOMINATED  
ISLAMIC MEDIUM TERM NOTE PROGRAMME OF UP TO  
RM1.5 BILLION IN NOMINAL VALUE

#### ***Joint Lead Arrangers***



**The Royal Bank of Scotland Berhad**  
(Company No. 301932-A)

**HSBC Amanah Malaysia Berhad**  
(Company No. 807705-X)

#### ***Joint Lead Managers and Bookrunners for the Offering in Malaysia***



**The Royal Bank of Scotland Berhad**  
(Company No. 301932-A)

**HSBC Amanah Malaysia Berhad**  
(Company No. 807705-X)

#### ***The Lead Manager and Bookrunner for the Offering in Kazakhstan***



**Halyk Finance**

(Registration No. 66715-1910-AO)

This Information Memorandum is dated 11 June 2012

## IMPORTANT NOTICE

### RESPONSIBILITY STATEMENT

JSC Development Bank of Kazakhstan, a company incorporated in Kazakhstan (Registration Number: 4686-1900-AO) ("**Issuer**" or "**DBK**") and the Issuer accepts responsibility for the accuracy of the information contained in this Information Memorandum. The Issuer after having made all enquiries as were reasonable in the circumstances, confirms that this Information Memorandum contains all information with respect to the Issuer and its subsidiaries taken as a whole at any given time ("**DBK Group**") which is material in the context of the issuance of Islamic medium term notes based on the Shariah principle of Murabahah ("**Sukuk Commodity Murabahah**") pursuant to a Ringgit-denominated Islamic medium term note programme of up to RM1.5 billion in nominal value ("**Sukuk Programme**"). The opinions and the intentions expressed in this Information Memorandum in relation to the Issuer are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumption(s) after having made enquiries as were reasonable in the circumstances and there are no false or misleading statements or other facts in relation to the Issuer or the Sukuk Programme, the omission of which would, in the context of the issue of the Sukuk Commodity Murabahah issued under the Sukuk Programme, make any statement in this Information Memorandum false or misleading in any material respect and all enquiries as were reasonable in the circumstances have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer accepts responsibility for the information contained in this Information Memorandum. Where the information has been sourced or extracted from third parties, the Issuer confirms that to the best of their knowledge and belief, and as far as they are able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER

This Information Memorandum is being furnished to prospective investors to consider the purchase of the Sukuk Commodity Murabahah pursuant to the Sukuk Programme falling within any one or more of the categories of persons specified in Schedule 6 or Section 229(1)(b), and Schedule 7 or Section 230(1)(b) and Schedule 9 or Section 257(3) of the Capital Markets and Services Act 2007 of Malaysia as amended from time to time ("**CMSA**") at issuance and Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA thereafter.

The Royal Bank of Scotland Berhad (Company No. 301932-A) and HSBC Amanah Malaysia Berhad (Company No. 807705-X), being the joint lead arrangers (the "**Joint Lead Arrangers**") of the Sukuk Programme and being the joint lead managers for the offering of the Sukuk Commodity Murabahah in Malaysia and Halyk Finance, being the lead manager for the offering of the Sukuk Commodity Murabahah in Kazakhstan (collectively, "**Joint Lead Managers**") of the Sukuk Programme have not independently verified any of the information or data contained in this Information Memorandum. In relation to the prospective investors, the Joint Lead Managers and the Joint Lead Arrangers of the Sukuk Programme state that no representation, warranty or undertaking, expressed or implied, is given or assumed by the Joint Lead Managers and/or the Joint Lead Arrangers as to the authenticity, origin, validity, accuracy or completeness of the information or data contained in this Information Memorandum or that such information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum. To the fullest extent permitted by law, none of the Joint Lead Managers or the Joint Lead Arrangers accepts any responsibility for the contents of this Information Memorandum or for any other statement, made or purported to be made by the Joint Lead Managers and/or the Joint Lead Arrangers or on their behalf in connection with the Issuer, the Sukuk Programme or the issue and offering of the Sukuk Commodity Murabahah. The Joint Lead Managers and the Joint Lead Arrangers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to herein) which any of them might otherwise have in respect of this Information Memorandum or any such statement.

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The information in this Information Memorandum supersedes all other information and material previously supplied (if any) to the recipients in relation to the Sukuk Programme, the Sukuk Commodity Murabahah, the Issuer or the DBK Group. By taking possession of this Information Memorandum, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied in relation to the Sukuk Programme, and the Sukuk Commodity Murabahah, the Issuer or the DBK Group. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by any of the Issuer, the DBK Group, the Joint Lead Managers, the Joint Lead Arrangers or any other person.

Neither the delivery of this Information Memorandum or any pricing supplement nor the offering, sale or delivery of any Sukuk Commodity Murabahah shall, in any circumstances, create any implication that the information contained in this Information Memorandum is true or correct at any time subsequent to the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the DBK Group since the date thereof or, if later, the date upon which this Information Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Sukuk Programme and the Sukuk Commodity Murabahah is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representations or warranty, expressed or implied, is made such that the information remains unchanged in any respect as of any date or dates after those stated herein, with respect to any matter concerning the Issuer, the DBK Group or any statement made in this Information Memorandum.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an issue, offer or sale of, or an invitation to subscribe or purchase the Sukuk Commodity Murabahah or any other securities of any kind by any party in any Foreign Jurisdiction except for obtaining required consents from the Committee for Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan and Kazakhstan Stock Exchange for the purposes of offering Sukuk Commodity Murabahah under Article 22-1 of the Law on the Securities Market of the Republic of Kazakhstan #461-II of July,02 2003 ("**Securities law of the Republic of Kazakhstan**").

This Information Memorandum is not and is not intended to be a prospectus. Unless otherwise specified in this Information Memorandum, the information contained in this Information Memorandum is current as at the date hereof.

The distribution or possession of this Information Memorandum in or from certain jurisdictions may be restricted or prohibited by law. Each recipient is required to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. None of the Issuer, the Joint Lead Arrangers or the Joint Lead Managers accepts any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in or from any such Foreign Jurisdiction.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to subscribe for or purchase the Sukuk Commodity Murabahah under all jurisdictions to which the recipient is subject, (c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Sukuk Commodity Murabahah, (d) the Issuer, the Joint Lead Managers, the Joint Lead Arrangers and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription or purchase of the Sukuk Commodity Murabahah, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Sukuk Commodity Murabahah is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Sukuk Commodity Murabahah can only be

offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Sukuk Commodity Murabahah, and is able and is prepared to bear the economic and financial risks of investing in or holding the Sukuk Commodity Murabahah, (g) it is subscribing or accepting the Sukuk Commodity Murabahah for its own account, and (h) it is a person to whom an issue, offer or invitation to subscribe or purchase the Sukuk Commodity Murabahah would constitute persons falling within any one or more of the categories of persons specified in Schedule 6 or Section 229(1)(b), and Schedule 7 or Section 230(1)(b) and Schedule 9 or Section 257(3) of the CMSA at issuance and Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA thereafter. Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase the Sukuk Commodity Murabahah in relation to any recipient who does not fall within item (h) above.

This Information Memorandum or any document delivered under or in relation to the issue, offer and sale of the Sukuk Commodity Murabahah is not, and should not be construed as, a recommendation by the Issuer, the Joint Lead Managers and/or the Joint Lead Arrangers to subscribe or purchase the Sukuk Commodity Murabahah. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, the DBK Group, the Sukuk Commodity Murabahah, the Sukuk Programme and all other relevant matters, and each recipient should consult its own professional advisers. All information and statements herein are subject to the detailed provisions of the respective agreements referred to herein and are qualified in their entirety by reference to such documents.

Each issuance of the Sukuk Commodity Murabahah will be issued on the terms contained herein, as amended and/or supplemented by the relevant pricing supplement. This Information Memorandum must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein, and in relation to each issuance of the Sukuk Commodity Murabahah, must be read and construed together with the pricing supplement thereto.

The Joint Lead Managers and the Joint Lead Arrangers expressly do not undertake to review the financial condition or affairs of the Issuer or the DBK Group during the tenor of the Sukuk Commodity Murabahah or to advise any investor of the Sukuk Commodity Murabahah of any information coming to its attention.

Certain statements, information, estimates and reports in this Information Memorandum are based on historical data, which may not be reflective of the future, and others are forward-looking in nature and are subject to risks and uncertainties, including, among others, the Issuer's and/or the DBK Group's business strategy and expectation concerning each of its position in the economy of its place of incorporation, future operations, growth prospects and industry prospects. While the Issuer believes that these forward-looking statements are reasonable, these statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward looking statements. In light of all this, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by the Issuer that the plans and objectives of the Issuer and/or the DBK Group will be achieved. Any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the DBK Group and the Issuer.

This Information Memorandum includes certain historical information, estimates, or reports thereon derived from sources mentioned in this Information Memorandum and other parties with respect to the economy of the place of incorporation of the Issuer and the DBK Group, the material businesses which the Issuer and the DBK Group operates and certain other matters. Such information, estimates, or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy or completeness of any information, estimates and/or reports thereon derived from such sources or from other third party sources.

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## **ACKNOWLEDGEMENT**

The Issuer has authorised the Joint Lead Managers to circulate or distribute this Information Memorandum on their behalf in respect of or in connection with the proposed offer or invitation to subscribe for and issue of, the Sukuk Commodity Murabahah to prospective investors and that no further evidence of authorisation is required.

## **CONFLICT OF INTEREST**

The Issuer confirms that after making enquiries as were reasonable in the circumstances, it is not aware of any circumstances that would give rise to a conflict of interest arising from or in relation to its role in the Sukuk Programme.

## **STATEMENTS OF DISCLAIMER BY THE SECURITIES COMMISSION OF MALAYSIA**

In accordance with the CMSA, a copy of this Information Memorandum will be deposited with the Securities Commission of Malaysia ("**SC**"), which takes no responsibility for its contents.

The issue, offer or invitation in relation to the Sukuk Commodity Murabahah in this Information Memorandum or otherwise are subject to the fulfilment of various conditions precedent including without limitation the applicable approval from the SC.

The SC's approval for the Sukuk Programme was obtained on 11 June 2012.

Please note that the approval of the SC shall not be taken to indicate that the SC recommends the subscription or purchase of the Sukuk Commodity Murabahah.

The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Information Memorandum.

## **STATEMENTS OF DISCLAIMER BY THE NATIONAL BANK OF THE REPUBLIC KAZAKHSTAN**

The Sukuk Commodity Murabahah and the Sukuk Programme are not registered with the National Bank of the Republic of Kazakhstan (the "**NBK**") and the NBK does not regulate the same. The NBK assumes no responsibility for the accuracy and completeness of the statements and information contained in this Information Memorandum and expressly disclaims any liability whatsoever for any loss whatsoever arising from reliance upon the whole or any part of the contents of this Information Memorandum.

A copy of the Information Memorandum will be submitted and filed with the NBK. Filing of this Information Memorandum with the NBK shall not imply that any Kazakhstan legal or regulatory requirements have been complied with. The NBK has not in any way considered the merits of the Sukuk Commodity Murabahah to be offered for investment whether in or outside of the Republic of Kazakhstan.

The NBK does not assume responsibility for the accuracy and completeness of the statements and information contained in this Information Memorandum and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Information Memorandum.

The Issuer accepts responsibility for the information contained in this Information Memorandum. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

## **PRESENTATION OF FINANCIAL INFORMATION**

Certain amounts (including percentages) included in this Information Memorandum may have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures to which they relate.

**EACH ISSUANCE OF SUKUK COMMODITY MURABAHAH UNDER THE SUKUK PROGRAMME MAY CARRY DIFFERENT RISKS AND ALL INVESTORS SHOULD EVALUATE EACH ISSUANCE ON THEIR RESPECTIVE MERITS. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT.**

**INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT.**

**INVESTORS SHOULD READ THIS ENTIRE INFORMATION MEMORANDUM CAREFULLY AND AS A WHOLE, INCLUDING THE APPENDICES AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF DBK AS AT AND FOR YEAR ENDED 31 DECEMBER 2011 AS ATTACHED TO THIS INFORMATION MEMORANDUM.**

**THE PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR SUBSCRIBING FOR THE SUKUK COMMODITY MURABAHAH.**

## **INFORMATION INCORPORATED BY REFERENCE**

The documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum including all supplements or amendments to this Information Memorandum circulated by the Issuer, if any, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

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In the event that there is any contravention of the confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, each of the Issuer, the DBK Group, the Joint Lead Arrangers and the Joint Lead Managers may, at its discretion, apply for any remedy available to the Issuer, the DBK Group, the Joint Lead Managers and the Joint Lead Arrangers (as the case may be) whether at law or equity, including without limitation, injunctions. Each of the Issuer, the DBK Group, the Joint Lead Arrangers and the Joint Lead Managers is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered in this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisers, directors, employees, agents and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.



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#### **APPENDIX 1**

#### **AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF JSC DEVELOPMENT BANK OF KAZAKHSTAN AS AT AND FOR YEAR ENDED 31 DECEMBER 2011**

#### **APPENDIX 2**

#### **THE PRINCIPAL TERMS AND CONDITIONS OF THE SUKUK PROGRAMME**

## GLOSSARY OF DEFINITIONS & ABBREVIATIONS

The following definitions (in addition to the definitions contained in the body herein) and abbreviations shall apply throughout this Information Memorandum unless the context otherwise requires:

"BNM"	:	Bank Negara Malaysia.
"CMSA"	:	Capital Markets and Services Act 2007 (as amended from time to time).
"DBK Group"	:	DBK and its subsidiaries taken as a whole at any given time.
"EUR" or "€"	:	Euro, being the official currency of eurozone.
"FMSC"	:	Committee for the control and supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan
"Halyk Finance"	:	JSC Halyk Finance (Registration No. 66715–1910-AO).
"HSBC"	:	HSBC Amanah Malaysia Berhad (Company No. 807705-X).
"Issuer" or "DBK" or "the Bank"	:	JSC Development Bank of Kazakhstan (Registration Number: 4686-1900-AO).
"Joint Lead Arrangers"	:	collectively, RBS Berhad and HSBC.
"Joint Lead Managers"	:	Means, in connection with the offering of the Sukuk Commodity Murabahah in Malaysia, RBS Berhad and HSBC, and in connection with of the offering of the Sukuk Commodity Murabahah in Kazakhstan, Halyk Finance.
"Joint Shariah Advisers"	:	Collectively, (i) HSBC Amanah Malaysia Berhad; and (ii) Amanie Advisors Sdn Bhd - Dr. Mohd Daud Bakar.
"JPY" or "¥"	:	Japanese yen, the lawful currency of Japan.
"KASE"	:	The Kazakhstan Stock Exchange.
"Kazakhstan"	:	The Republic of Kazakhstan.
"Kazakhstan Government" or "Government"	:	The Government of Kazakhstan.
"KZT" or "Tenge"	:	Kazakhstan Tenge, the lawful currency of the Republic of Kazakhstan.
"NBK"	:	National Bank of the Republic of Kazakhstan.
"RBS Berhad"	:	The Royal Bank of Scotland Berhad (Company No. 301932-A).
"Ringgit/RM and sen"	:	Ringgit Malaysia and sen respectively, being the lawful currency of Malaysia.

<b>"Samruk-Kazyna" or "Parent Company" or "Sole Shareholder"</b>	:	The sole shareholder of DBK, JSC Sovereign Wealth Fund "Samruk-Kazyna", which is, in turn, wholly-owned by the Government.
<b>"SC"</b>	:	Securities Commission of Malaysia.
<b>"Shariah Governing Manual"</b>	:	The Shariah governing manual prepared by the Joint Shariah Advisers.
<b>"Sukuk Commodity Murabahah"</b>	:	Ringgit-denominated Islamic medium term notes issued pursuant to the Sukuk Programme based on the Shariah principle of Murabahah.
<b>"Sukukholders"</b>	:	The holders of the Sukuk Commodity Murabahah.
<b>"Sukuk Programme"</b>	:	Ringgit-denominated Islamic medium term note programme of up to RM1.5 Billion to be established by the Issuer.
<b>"Sukuk Trust Deed"</b>	:	The trust deed constituting the Sukuk Commodity Murabahah issued pursuant to the Sukuk Programme to be executed between the Issuer and the Trustee.
<b>"Trustee"</b>	:	Deutsche Trustees Malaysia Berhad (Company No. 763590-H).
<b>"U.S.\$ " or "US\$" or "USD" or "U.S. dollar(s) "</b>	:	United States Dollar(s), being the lawful currency of the United States of America.

## SECTION 1.0 EXECUTIVE SUMMARY

*The following summary is qualified in its entirety by the more detailed information, the audited financial statements and notes thereto appearing elsewhere in this Information Memorandum. Prospective investors should read the full text of this Information Memorandum before deciding whether or not to invest in the Sukuk Commodity Murabahah.*

### 1.1 Brief Background of DBK

DBK was organised under the laws of Kazakhstan on 31 May 2001 for an unlimited duration as “Closed Joint Stock Company Development Bank of the Republic of Kazakhstan” On 18 August 2003, DBK was re-registered as Joint Stock Company Development Bank of the Republic of Kazakhstan in order to comply with the requirements of the Law on Joint Stock Companies adopted on 13 May 2003. A re-registration certificate (No. 4686-1900-AO) was issued in respect of DBK by the Registration Service and Legal Assistance Committee of the Ministry of Justice on 18 August 2003. DBK’s registered office is 10, Orynbor Street, “Kazyna Tower” Building, Yesil District, Astana, Republic of Kazakhstan and its telephone number is +7-7172-792652.

- (a) DBK is 100% owned by the Government of Kazakhstan (“**Government**”) through the JSC Sovereign Wealth Fund “Samruk-Kazyna”, which is the sole holder of all DBK’s shares. In accordance with the Edict of the President of the Republic of Kazakhstan signed on 10 August 2011 the entire amount of shares of DBK were transferred into the trust management of the Ministry of Industry and New Technologies of the Republic of Kazakhstan. The Board of Directors of DBK is chaired by the Minister of Industry and New Technologies of the Republic of Kazakhstan. Although the Government does not explicitly guarantee the fulfilment of DBK’s obligations, DBK is well capitalized as a result of continuous government injections. In October 2009, the Government increased DBK’s paid-in capital by \$1.1 billion which boosted the total BIS capital adequacy ratio to 16.4% (as of 1 January 2012). DBK obtains other support from the Government through budget loans, as well as loans and guarantees (including subordinated loans) on favourable terms from JSC Sovereign Wealth Fund “Samruk-Kazyna”.
- (b) DBK’s goals are to attract direct investments to the economy, in particular:
- Assist in the development of non-commodity manufacturing and infrastructure;
  - Enhance effectiveness of government investment policy
  - Facilitate foreign and domestic investments into the Kazakh economy
- (c) DBK’s current long-term foreign currency credit ratings are as follows:
- |                          |                 |
|--------------------------|-----------------|
| Moody’s:                 | Baa3 (stable)   |
| Standard & Poor’s (S&P): | BBB+ (stable)   |
| Fitch:                   | BBB- (positive) |
- (d) As a part its role under Kazakhstan’s industrial development programme and in furtherance of such purposes, DBK provides medium and long-term financing for investment projects and, through JSC DBK-Leasing, leasing transactions of U.S. \$5 million or more and export transactions of U.S. \$1 million or more to companies (whether or not resident in Kazakhstan) operating in priority sectors of the economy in Kazakhstan as set out in the Credit Policy Memorandum. In determining which projects or transactions to finance, DBK gives priority to projects and transactions related to the modernisation and establishment of competitive industries, in particular, non-extracting industries, and infrastructure in Kazakhstan. DBK’s lending activities are primarily funded through the issuance and placement of domestic and international debt securities and through borrowings from Samruk-Kazyna, financial institutions and the state budget.

### 1.2 Brief summary of the structure of the Sukuk Programme

It is proposed that DBK would act as the issuer of the Sukuk Programme. The proposed Sukuk Programme is for the issuance of up to RM 1.5 billion Sukuk Commodity Murabahah with a tenor of up to 20 years.

DBK intends to offer the Sukuk Commodity Murabahah in Kazakhstan. As such, DBK will also appoint Halyk Finance to act as the Joint Lead Manager for the offering of the Sukuk Commodity Murabahah in Kazakhstan.

The proposed Islamic Shariah principle to be adopted for the Sukuk Commodity Murabahah will be based on the Shariah principles as approved under the Securities Commission's Islamic Securities Guidelines, to be agreed between the Joint Shariah Advisers, the Joint Lead Managers and DBK.

In line with current regulations and guidelines, the Issuer would be required to undergo a rating exercise by a local rating agency of Malaysia. It is anticipated that the Issuer would be assigned an investment grade domestic rating based on (i) DBK's current financial robustness; (ii) the strength and support of the Government of Kazakhstan; and (iii) DBK's current external foreign currency ratings of Baa3/BBB+/BBB- by Moody's/S&P/Fitch.

A diagrammatical illustration of the transaction and the other terms and conditions are set out in Annexure I of section 2.1 of the Information Memorandum, below.

### 1.3 *Use of Proceeds*

The net proceeds received by DBK from the issuance of the Sukuk Commodity Murabahah shall be utilised by DBK for purposes that are Shariah-compliant only and in accordance with the Shariah Governing Manual, which may include, *inter alia*, financing Shariah compliant investments and/or in connection with Shariah compliant Islamic finance activities of DBK's clients and/or other companies of Samruk-Kazyna, equity capital injection into external companies, the client companies of DBK or into JSC DBK Leasing (a wholly-owned subsidiary of DBK which conducts all DBK's lease financing activities), as approved by the Joint Shariah Advisers, investing in Islamic instruments, potential development of Islamic division of DBK or founding an Islamic bank, or any Shariah compliant investment that carries a Shariah pronouncement.

### 1.4 *Rating*

- (a) RAM Rating Services Berhad has assigned an indicative rating of AA2 to the Sukuk Programme.
- (b) Standard&Poor's Rating Services has assigned an indicative rating of "BBB+" to the Sukuk Programme.

### 1.5 *Regulatory Approvals / Requirements*

- (a) Approval for the Sukuk Programme was granted by BNM (as the Controller of Foreign Exchange) vide its approval letter dated 3 May 2012.
- (b) Approval for the Sukuk Programme has been granted by the SC vide its letter dated 11 June 2012.
- (c) Consent from FMSC to issue the Sukuk Commodity Murabahah on the territory of a foreign state was granted by FMSC vide its approval letter dated 16 April 2012.
- (d) Listing consent from the KASE for the Sukuk Commodity Murabahah to be admitted to the official list of the KASE has been granted by KASE vide its approval letter dated 18 May 2012.
- (e) Consent from FMSC to place the Sukuk Commodity Murabahah on the territory of a foreign state has been granted by FMSC vide its approval letter dated 1 June 2012.

### 1.6 *Selling Restrictions*

- (a) *General*

No action has been taken by the Issuer or the Joint Lead Managers that would or is intended to permit a public offer of the Sukuk Commodity Murabahah in any country or jurisdiction where any such action for that purpose is required.

Purchasers of the Sukuk Commodity Murabahah are recommended to consult their professional advisers if they are in any doubt as to the regulatory implications of subscribing for, purchasing, holding, disposing of or otherwise dealing in the Sukuk Commodity Murabahah.

(b) *Malaysia*

(i) Selling Restrictions at the issuance of the Sukuk Commodity Murabahah

The Sukuk Commodity Murabahah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Sukuk Commodity Murabahah may be made and to whom the Sukuk Commodity Murabahah are issued would fall within Schedule 6 or Section 229(1)(b) of the CMSA and Schedule 7 or Section 230(1)(b) of the CMSA; and would fall within Schedule 9 or Section 257(3) of the CMSA.

(ii) Selling Restrictions Thereafter

The Sukuk Commodity Murabahah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Sukuk Commodity Murabahah would fall within Schedule 6 or Section 229(1)(b) of the CMSA and would fall within Schedule 9 or Section 257(3) of the CMSA.

(c) *Kazakhstan*

(i) Selling Restrictions at the issuance of the Sukuk Commodity Murabahah

The Sukuk Commodity Murabahah may only be offered, sold, transferred or otherwise disposed directly or indirectly in Kazakhstan in compliance with the Article 22-1 of the Securities Law of Kazakhstan.

(ii) Selling Restrictions Thereafter

The Sukuk Commodity Murabahah may only be offered, sold, transferred or otherwise disposed directly or indirectly in Kazakhstan in compliance with the applicable securities laws and regulations of Kazakhstan.

1.7 (a) *Offering and Placement of the Sukuk Commodity Murabahah in Kazakhstan*

Concurrently with the commencement of placement of the Sukuk Commodity Murabahah in Malaysia the Sukuk Commodity Murabahah shall also be offered through the organized securities market of Kazakhstan on the same terms as those relating to placement in Malaysia. The collection of investors' orders in Kazakhstan for the purchase of the Sukuk Commodity Murabahah (the "**investors' orders**") shall be conducted by the KASE. For the purpose of this section, the investors who submit their order through the KASE shall be collectively referred to as the "**Kazakhstani investors**". The Kazakhstani investors' orders shall be filled at the yield to maturity determined by the Issuer upon collection of all orders within the offering of Sukuk Commodity Murabahah in Malaysia and Kazakhstan. At least twenty per cent. (20%) of the total nominal amount of the Sukuk Commodity Murabahah will be placed to Kazakhstani investors, subject to adequate investor demand. Where the total nominal amount of Kazakhstani investors' orders collected by the KASE is less than twenty per cent. (20%) of the total nominal amount of the Sukuk Commodity Murabahah, such Kazakhstani investors' orders shall be filled in full.

It is expected that the primary settlement of the Sukuk Commodity Murabahah for Kazakhstani investors will be done through a licensed bank in Malaysia (the "**Malaysian**



**Bank**) (i) with whom Clearstream, Luxembourg and the Kazakhstani investors' global custodians shall maintain their accounts, or (ii) who will act as the global custodian for those Kazakhstani investors who maintain a local custody agreement with such Malaysian Bank's subsidiary in Kazakhstan. The Kazakhstani investors whose orders were filled shall be responsible for procurement of funds to the Malaysian Bank, either in Malaysian ringgits or in U.S. dollars to be converted by the Malaysian Bank, or any other licensed bank in Malaysia, into Malaysian ringgits at the spot exchange rate prevailing on the settlement date, corresponding to the amount of their orders, as well as for any fees or charges arising in connection with such conversion. The Malaysian Bank shall be responsible for delivering the Sukuk Commodity Murabahah to the corresponding accounts of the Kazakhstani investors, whose orders were filled, held with their global custodians against the payment under such investors' orders.

*(b) Payment to Sukukholders in Kazakhstan*

All payments, incl. payments of profits, due under the Sukuk Commodity Murabahah to the Sukukholders in Kazakhstan shall be converted on the due date by the Malaysian Bank, or any other licensed bank in Malaysia, into U.S. Dollars at the then prevailing spot exchange rate. It is expected that the Sukukholders in Kazakhstan in whose favor such payments are made shall be responsible for any fees or charges arising in connection with such conversion.

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## **SECTION 2.0 PRINCIPAL TERMS AND CONDITIONS OF THE SUKUK COMMODITY MURABAHAH**

### *2.1 The Principal Terms and Conditions of the Sukuk Commodity Murabahah*

The full summary of the Principal Terms and Conditions of the Sukuk Programme, including the representations and warranties and covenants, details on the utilisation of proceeds of the Sukuk Programme are set out in Appendix 2 as annexed to this Information Memorandum.

This summary highlights selected information and may not contain all of the information that is important to prospective investors. To understand the terms of the Sukuk Commodity Murabahah, prospective investors should carefully read this Information Memorandum.

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## SECTION 3.0 INVESTMENT CONSIDERATIONS

The following is a summary of risk factors relating to the Sukuk Commodity Murabahah and their possible mitigating factors. This section does not purport to be comprehensive or exhaustive and is not intended to substitute or replace an independent assessment of the risk factors that may affect the Sukuk Commodity Murabahah. Each investor should carefully conduct his or her independent evaluation of the risks associated with investing in the Sukuk Commodity Murabahah. Investors should also note that each issue of the Sukuk Commodity Murabahah will carry different risks and all potential investors are strongly encouraged to evaluate each Sukuk Commodity Murabahah on its own merit.

### Sukuk Programme

#### 3.1 Risks relating to DBK

##### (a) Loan Portfolio Growth

The following table presents the gross and net loans to customers:

	<b>As at 31 December, KZT million</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Gross total loans.....	400,675.1	412,055.1	280,952.7	200,513.9	79,972.6
Impairment allowance.....	(125,227.7)	(91,164.2)	(79,540.4)	(12,788.7)	(2,842.4)
<b>Net total loans.....</b>	<b><u>275,447.4</u></b>	<b><u>320,890.9</u></b>	<b><u>201,412.3</u></b>	<b><u>187,725.2</u></b>	<b><u>77,130.2</u></b>

DBK's gross loans to customers has decreased by 2.8% as at 31 December 2011 as compared to 31 December 2010, after rapid increase of 46.7% in 2010, 40.1% in 2009 and 150.7% in 2008.

DBK's loans to customers less allowance for impairment losses has decreased by 14.2% as at 31 December 2011 as compared to 31 December 2010, following rapid increase of 59.3% in 2010, 7.3% in 2009 and 143.4% in 2008.

This overall growth in the size of DBK's loan portfolio has increased DBK's credit exposure and will require continued and improved monitoring by management of credit quality and the adequacy of provisioning levels, as well as continued improvement in DBK's credit risk management programme.

Continued growth of DBK's loan portfolio is, to an extent, dependent upon the availability of funds allocated by the Government to finance special development projects, the ability of DBK to identify suitable corporate guarantors for such development projects, the ability of DBK to borrow in the domestic and international market, the ability of DBK to attract and retain qualified personnel and to train new personnel to monitor asset quality.

Changes in the volume of the loan portfolio of DBK and other commercial banks in Kazakhstan were affected by the general economic situation in Kazakhstan and global capital markets, as well as anti-crisis measures of the Government.

##### (b) Loan Portfolio Concentration

DBK was established (among other reasons) to provide credit and other banking services at preferential interest rates to sectors of the Kazakhstan economy other than extraction of oil, gas, and metals to support the Government's development goals. As a result of this objective, DBK's loan portfolio is, from time to time, characterised by concentration in one or more particular economic sectors.

<b>Gross Loans to Customers by industry, %</b>	<b>As at 31 December</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Mining, metallurgy and mineral resources.....	21.5	23.4	12.8
Agriculture.....	16.8	12.7	21.7
Oil and gas.....	12.7	11.9	0.7
Energy and electricity distribution.....	6.7	8.8	7.6
Textile.....	8.9	8.4	11.5
Transportation and warehousing.....	8.2	8.0	12.4
Construction materials.....	6.6	6.2	7.9
Chemical.....	5.2	4.9	7.8
Manufacturing.....	4.9	4.5	2.8
Paper-pulp.....	3.4	3.2	4.8
Food processing.....	2.3	2.3	3.8
Machinery-producing.....	1.9	1.9	2.3
Telecommunication.....	0.1	0.2	0.6
Mortgage.....	0.2	0.2	0.1
Fishery.....	0.1	0.1	0.1
Electric Equipment.....	0.0	0.1	0.2
Recycling.....	-	-	2.0
Others.....	0.3	3.3	0.9
<b>Total.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The largest proportion of loans were granted to the (i) mining, metallurgy and mineral resources, (ii) agriculture, and (iii) oil and gas sectors, accounting for 22%, 17% and 13%, respectively, of total gross loans to customers as at 31 December 2011. Oil and gas item in the table above is comprised of projects in oil refinery.

In general, the breakdown of loans granted to customers in various economic sectors can fluctuate significantly as a result of a single loan disbursement repaid in a given period.

The directed nature of DBK's lending activities may, from time-to-time, result in DBK having concentrated exposures. DBK is continuously working on diversification of its portfolio.

(c) *State Ownership*

DBK was established as the Government's primary vehicle for promoting economic development and exports from non-extractive sectors of the Kazakhstan economy and is part of an overall industrial development programme. DBK's sole shareholder is JSC Sovereign Wealth Fund "Samruk-Kazyna", which is, in turn, wholly-owned by the Government.

The Government has stated that Samruk-Kazyna will maintain an arm's-length relationship with DBK and will not influence DBK's funding or lending policies. However, due to its shareholding in DBK, Samruk-Kazyna has the right to determine all matters requiring a vote of shareholders, including the election of DBK's Board of Directors (the "**Board of Directors**"), which is the main management body of DBK responsible for the approval of credit decisions for projects whose value exceeds U.S.\$ 50 million and DBK's financial strategy.

As Kazakhstan's sovereign wealth fund, with the goal of supporting and diversifying Kazakhstan's economy, the interests of Samruk-Kazyna may conflict with the interests of DBK's creditors and there can be no assurance that Samruk-Kazyna will exercise influence over DBK in a manner that is in the best interests of DBK or the Sukukholders. In addition, being controlled by the Government may slow DBK's decision-making process and may subject DBK to the risk of bureaucracy and inefficiencies commonly attributed to state-controlled companies. Furthermore, because Samruk-Kazyna is controlled by the Government, there is a risk that any change of administration in Kazakhstan may result in changes in Samruk-Kazyna's policies, and such new policies may conflict with the interests of DBK and the Sukukholders.

There can be no assurance that the Government or Samruk-Kazyna will not change their respective policies in respect of DBK, which could result in material adverse changes in DBK's current strategies and management or could materially affect DBK's ability to operate on a commercial basis.

(d) *Lack of Information and Risk Assessments*

Kazakhstan's system for gathering and publishing statistical information relating to its economy generally or specific economic sectors within it, or corporate or financial information relating to companies and other economic enterprises, is not as comprehensive as that of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements, available to DBK relating to its corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. In particular, DBK finances long-term development projects about which there may be little historical information. Accordingly, DBK is subject to greater risks than a commercial bank.

Kazakhstan commercial enterprises, in co-operation with Experian, an international credit reference agency, established a credit reference bureau in Kazakhstan in 2004 to provide information about potential borrowers. DBK uses the information from the bureau extensively during the loan application evaluation process.

(e) *Credit Risks*

DBK has implemented specific credit risk policies. In particular, DBK uses advanced internal-rating based approach in credit risk assessment, the ratings are monitored quarterly, projects are subject to on-site monitoring at least once a year, all DBK loans have to be collateralized, and the collateral is subject to semi-annual on-site monitoring and inspection. In addition, DBK's large-scale project risks are mitigated by government support, political motivation and supervision.

As Kazakhstan's economy is substantially influenced by commodity prices, customers operating in industries that are susceptible to commodity price fluctuations may find their financial condition affected by such fluctuations and, consequently, the ability of such customers to service loans extended by DBK fully and on time may be adversely affected.

(f) *Non-Performing Loans*

DBK defines Non-Performing Loans (NPLs) as more than 90 days overdue loans. Ratio of NPLs to gross loans outstanding to customers went up from 27% as at 31 December 2010 to 46% as at 31 December 2011. 81% of NPLs are in are past due over 360 days as at 31 December 2011.

A high percentage of NPLs, primarily is a result of the ongoing impact of the global financial crisis on Kazakhstan. In addition, other reasons have been: (i) substantial delays in project commissioning (construction delays), (ii) higher raw material prices, (iii) still sluggish activity in the construction sector. The increase of NPLs is also explained by aging of some NPLs as DBK is in the process of restructuring the terms of some of these old NPLs. Loan restructuring activities include collateral enhancement, collection of overdue interest payments, helping borrowers find additional investors, conducting other measures aimed at maximizing loan recovery and collection opportunities.

Development of industrial innovation projects, which are reflected in the Message of the President of the RK N.Nazarbayev in 2012, obtains new social importance. Said direction is acknowledged as major objective for the modernization of economy.

In the light of above mentioned objectives there increases importance of DBK as an investment institution for projects financing, which are approved by the Government within Accelerated Industrialization Program. Thus, taking into account investment activity of DBK there is need to assign the obligations to recover non-performing loans to a separate financial institution. Moreover, this action will create positive image for DBK. In this regard,

DBK is currently considering possibility of improving its balance sheet position by means of transfer of problem loans of the Bank to JSC Investment Fund of Kazakhstan.

(g) *Concentration of Funding Sources*

DBK has obtained loans from banks and other financial institutions for its funding. As at 31 December 2011, 2010 and 2009, funding from banks and other financial institutions, as a percentage of DBK's total liabilities, represented 64.85%, 74.89% and 74.08%, respectively. Many factors may affect the ability of DBK to obtain such funding, including, inter alia, the condition of Kazakhstan and international banking sectors, capital controls that are or may be imposed globally, the willingness of multilateral institutions to fund specific projects and the actual and perceived economic conditions in Kazakhstan.

(h) *Interest Rate Risk*

DBK is exposed to risk resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. To the extent that DBK's assets in the future may reprice more frequently than its liabilities, if interest rates fall, DBK's interest expense will increase more rapidly than its interest income, which could negatively affect interest margins. As a measure to manage the risk of mismatch in interest rates which is inherent in DBK's operations, the Government grants loans to DBK with low interest rates to ensure DBK is able to sustain margins in a falling interest rate environment. With such Government loans with low interest rates, the generated interest income could offset possible downfalls in interest rates. In addition to that DBK structures its assets with floating interest rates and its balance sheet so that fixed part of interest income generated by assets cover possible fluctuations in interest rate and there is always acceptable balance between interest-bearing liabilities and interest-earning assets. In particular, according to DBK's credit policy, DBK passes on interest rate risks to borrowers by lending on similar conditions. Managing interest rate is also accompanied by system of limits and reporting set to control and monitor interest rate risk on monthly basis.

(i) *Foreign Currency Risk*

Since DBK's balance sheet include non-tenge assets and liabilities, DBK can be exposed to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. Also, many of DBK's borrowers have revenues principally generated in Tenge and any decrease in the value of the Tenge relative to the U.S. Dollar may adversely affect their financial condition and, consequently, the ability of such borrowers to repay fully and on time the U.S. Dollar denominated loans extended by DBK. In order to manage foreign currency risk DBK sets limits on the level of exposure to currencies (primarily, the U.S. Dollar) keeps close gap on its assets and liabilities denominated in same foreign currencies and enters into forward and swap transactions to hedge foreign currency risk inherent to DBK and its borrowers. Foreign currency risk is monitored and controlled on weekly basis using system of reporting.

(j) *Regulation*

DBK's operations are regulated by the Law on the Development Bank of Kazakhstan dated 25 April 2001, as amended, (the "**DBK Law**"), the Law on Banks And Banking Activities in the Republic of Kazakhstan dated 31 August 1995, as amended, the Law on the Sovereign Wealth Fund dated 11 February 2012, the Law on the Joint Stock Companies dated 13 May 2003, as amended the Memorandum on Credit Policy of JSC Development Bank of Kazakhstan, dated 18 June 2009, as amended on 19 November 2009 (the "**Credit Policy Memorandum**"), DBK's Charter (the "**DBK Charter**"), and other relevant laws and regulations. There can be no assurance that this regulatory regime will not change or that the Government will not implement other regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations relating to or affecting taxation, interest rates, inflation or exchange controls, or otherwise take action that could have a material adverse effect on DBK's business, financial condition, results of operations and prospects or that could adversely affect the market price and liquidity of the Sukuk Commodity Murabahah.

(k) *Information Systems Risk*

DBK relies on information systems to conduct its business. Any failure or interruption in or breach of security of these systems could result in temporary failures or interruptions in DBK's risk management operations or loan origination procedures. Thus, it might be unable to serve some customers' needs on temporary basis and there is a possibility for material adverse effect on DBK's business, financial condition, results of operations and prospects. In order to prevent such failures, as at the date of this Information Memorandum, DBK, performs back-up procedures on a daily basis. In addition to that, access to back-up copies restricted to IT and information security personnel only. All back-up copies are tested on a regular basis. For continuity of core banking system DBK is planning to install a stand-by server. All IT systems of DBK are installed on internal servers located in separate server room within the premises of DBK. Server room is equipped with fire-alarm, gas fire extinguisher, air condition, raised floor and access control system. All the necessary documentation is hard copied and stored. In case of any emergency situation the responsible IT personnel will be notified by sms alarm. DBK has established disaster recovery and business continuity plan, which are updated and tested on regular basis.

(l) *Shortage of Qualified Personnel*

There is a considerable shortage of adequately qualified personnel in Kazakhstan's financial sector, particularly in such areas as risk management and brokerage services. In this respect, DBK's management believes that a shortage of qualified personnel contributed to the circumstances giving rise to the qualified audit opinions issued in respect of the Audited Annual Financial Statements. If the shortage of adequately qualified personnel persists, DBK's ability to offer the desired range and volume of services and monitor and maintain the quality of its assets may be affected which may, in turn, affect DBK's business, financial condition, results of operations and prospects. In addition, a shortage of adequately qualified personnel may force DBK to offer additional financial and other incentives to retain existing personnel and recruit additional personnel, which would increase operating expenses.

(m) *Long-Term Projects*

A key area of DBK's business is the limited recourse financing of large and long-term infrastructure projects, which means that DBK will carry the risk that the projects will not be successful. The macro-economic and political risks inherent in emerging economies will have a significant effect on the success or failure of these projects and it is difficult to predict at the outset of a project all of the factors which may affect it in the long-term. The main risks are likely to be that a project will not be completed as scheduled or within budget or that it may fail altogether. There is also the risk that if an event of default for a project financing occurs the collateral provided may not be sufficient to cover the value of the loans. The occurrence of any of such events could have a material adverse effect on DBK's financial condition or results of operations.

To minimize the aforementioned effects DBK requires independent external technical and marketing evaluations of the project's documentation as a part of loan application evaluation. Collateral is also appraised by independent appraisers. During construction phase of a project independent financial and technical consultants provide project oversight and supervision.

3.2 *Risks relating to the Republic of Kazakhstan*

(a) *Emerging Markets*

The disruptions experienced in recent years due to the impact of the global financial crisis in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets such as Kazakhstan may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by the level of investor confidence in such markets as a whole and as such any factors that affect investor confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets. In particular, the construction and real estate markets in Kazakhstan have experienced significant volatility primarily as a result of the reduction of available financing, which has in turn increased the risk profile of Kazakhstan banks exposed to the construction and real estate markets and has made them more susceptible to defaults caused by these macroeconomic factors. Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Information Memorandum may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Sukuk Commodity Murabahah.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, companies operating in emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular countries in the Commonwealth of Independent States or Central Asian regions, which recently have experienced significant political instability (including terrorism), could potentially negatively affect DBK's business.

(b) *Kazakhstan's Banking Industry*

The global economy and the global financial system have experienced a period of significant turbulence and uncertainty in recent years, particularly the severe disruption of the financial markets around the world that began in August 2007 and that has substantially worsened since September 2008 with adverse consequences for many large global commercial and investment banks, insurance companies and other financial institutions. This disruption has severely impacted general levels of liquidity and the availability of credit together with the terms on which credit is available. Governments around the world, including that of Kazakhstan, have sought to inject liquidity into banking systems and to recapitalise their banking sectors to reduce the risk of systemic failure and increase confidence in the financial markets.

This market disruption has also been accompanied by a slowdown in many economies including that of Kazakhstan. The Kazakhstan banking sector has been particularly affected by the lack of availability of international wholesale debt financing and the volatility of deposits. Kazakhstan banks have previously heavily relied on such financing and deposits as a source of funding. The high dependence on capital market funding poses a significant refinancing risk for both individual banks and the banking system as a whole. Wholesale debt financing has now become significantly more expensive.

The NBK and the Government have taken steps to protect the Kazakhstan banking sector from the recent turmoil in the financial markets, including the provision of short term liquidity support, the deposit into local commercial banks of temporary excess cash of national companies, enterprises and joint stock companies which are wholly or partially owned by the State or controlled by the NBK and the establishment by the Government of JSC Distressed Assets Fund to buy doubtful assets of commercial banks. If the NBK and the Government were to withdraw their liquidity support it would lead to decreased overall liquidity in the Kazakhstan banking sector.



(c) *Corporate Governance and Disclosure Laws*

The corporate governance laws and rules applicable to DBK are, in the first instance, the DBK Law, the Law on Sovereign Wealth Fund, the Law on Joint Stock Companies and other laws of Kazakhstan. The corporate governance regime in Kazakhstan is less developed than that in the United States and the United Kingdom, and the responsibilities of the members of the Board of Directors and DBK's management board (the "**Management Board**") under Kazakhstan law are different from those generally applicable to corporations organised in the United States, the United Kingdom or other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and certain other countries is to promote the full and fair disclosure of all material corporate information to the public. Although DBK is subject to certain disclosure requirements under Kazakhstan law, these requirements are less stringent than the comparable requirements in the United States, the United Kingdom or certain other jurisdictions and, therefore, there is less information publicly-available about DBK than would be required if DBK were organised in the United States, the United Kingdom or certain other jurisdictions.

The Government has stated that it intends to continue to reform the corporate governance regulations to which DBK is subject, in common with all other joint stock companies, with a view toward increasing disclosure and transparency in the corporate sector in order to promote growth and stability. However, the Government may not continue to pursue such a policy in the future or such policy, if continued, may not ultimately prove to be successful. It is not possible to predict the effect in this regard of future legislative developments.

(d) *Location of DBK's Assets and Operations*

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has undergone significant change as it has emerged from a single-party political system and a centrally controlled command economy to a market oriented one. The transition was initially marked by political uncertainty and tension, a recessionary economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of state enterprises. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this Information Memorandum will continue or that such reforms will achieve all or any of their intended aims.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. Thus, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

According to figures compiled by the Statistics Agency of Republic of Kazakhstan, GDP grew in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5% in 2001, 9.8% in 2002, 9.2% in 2003, 9.4% in 2004, 9.4% in 2005, 10.7% in 2006 and 8.9% in 2007. In 2008, the pace of the GDP growth decreased, such that the GDP increased by only 3.3% GDP increased by only 1.2% in 2009. Thus, the global economic crisis resulted in a general economic slowdown in Kazakhstan in 2008 and 2009, as evidenced in higher unemployment, reduced corporate profitability, increased corporate insolvency rates, increased personal insolvency rates and increased interest rates. This, in turn, reduced borrowers' ability to repay loans and caused prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the value of the collateral securing many bank loans, increasing writedowns and negatively affecting the ability and willingness of companies and individuals to place deposits with domestic banks.

In 2010-2011, the economy started recovering with GDP growing by 7.3% in 2010 and by 7.5% in 2011 driven by rising commodity prices, strong fiscal stimulus, growing consumption, good grain harvest and increase in domestic credit. In 2011, volumes in retail increased by 12.5%, transportation – by 6.7%, agriculture – by 26.7%, industry – by 3.5%. Projected economic growth for 2012 is 6.0%, according to the National Bank forecast. However, recovery is still not broad-based due to sluggish activity in the construction sector and a burden of bad loans of the banking sector.

(e) *Kazakhstan's sovereign credit rating and liquidity problems*

Factors outside Kazakhstan have also had an impact on Kazakhstan's economy, specifically the finance and banking sector. For example, in February 2009, Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc ("**S&P**") downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while Moody's Investors Services Inc ("**Moody's**") downgraded the bank financial strength ratings of six banks. Other ratings services have also downgraded certain of Kazakhstan's banks. The rating agencies have stated that these downgrades were the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy and its financial institutions and specifically mounting asset quality and liquidity problems and the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the devaluation of the Tenge in February 2009. Several commercial banks in Kazakhstan have experienced difficulty in refinancing maturing international debt and, as a result, have sought short-term funding from the NBK and substantially limited issuance of new loans. Pursuant to the terms of financial stability legislation adopted by the Government in February 2009, two of Kazakhstan's largest banks, JSC BTA Bank and JSC Alliance Bank, were effectively nationalised by the Government in the wake of the new fiscal stability legislation and have recently completed substantial restructuring programmes. It is not clear what impact this will have on the prospects of other participants in the Kazakhstan banking sector and their customers, including DBK. The small and medium-sized enterprises have been particularly affected while larger companies and state-owned entities have generally continued to have access to offshore funding albeit on a more limited basis and on less favourable terms.

On 5 April 2010, Moody's changed the outlook on the sovereign rating of Kazakhstan to stable from negative, based on its analysis of evidence that the economic downturn is proving shallower than expected and that the Government will emerge relatively unscathed from Kazakhstan's serious banking crisis. Any further downgrade of Kazakhstan's sovereign rating is likely to result in a downgrade of DBK's ratings. A downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect DBK's prospects, business, financial condition and results of operations.

In November 2011, Standard & Poor's upgraded sovereign credit ratings of Kazakhstan from "BBB" to "BBB+" based on an improved fiscal position of Kazakhstan, stable economic growth supported by high oil prices, conservative fiscal policy, and continuing FDI inflows. In the same period, Fitch upgraded sovereign ratings from "BBB-" to "BBB" with a "positive" outlook.

(f) *Exchange Rate Policies*

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly, although, until its devaluation by the NBK in February 2009, the Tenge had generally appreciated in value against the U.S. Dollar over the previous decade. Exchange rates may also be affected by the levels of inflation in Kazakhstan as high rates of inflation tend, over time, to lead to a depreciation of the currency.

On 4 February 2009, the NBK devalued the Tenge by 18% to KZT 143.98 per U.S.\$1.00, due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas). Devaluation of the Tenge was also intended to

enhance the competitiveness of Kazakhstan exports. As at 31 December 2009, the official KZT/U.S.\$ exchange rate quoted on the KASE, as reported by the NBK, was KZT 148.36 per U.S.\$1.00, reflecting a depreciation of the Tenge against the U.S. Dollar by 22.8% from 31 December 2008. The official KZT/U.S.\$ exchange rate has remained relatively stable throughout 2010 and 2011; as at 31 December 2010, the official KZT/U.S.\$ exchange rate quoted on the KASE, as reported by the NBK, was KZT 147.40 per U.S.\$1.00, whilst as at 31 December 2011, the official KZT/U.S.\$ exchange rate quoted on the KASE, as reported by the NBK, was KZT 148.40 per U.S.\$1.00.

A further devaluation or depreciation of the Tenge against the U.S. Dollar or other foreign currencies could negatively affect DBK in a number of ways, including, among other things, by increasing the actual cost to DBK of financing its U.S. Dollar denominated assets and by making it more difficult for Kazakhstan borrowers to service their U.S. Dollar denominated loans. Any of these developments may, in turn, have a material adverse effect on DBK's business, financial condition, results of operations and prospects.

(g) *The Economy's Dependence on Oil Exports and Commodity Prices*

Kazakhstan's economy and state budget rely on the export of oil, oil products and other commodities as well as the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability. In addition, any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility in earnings from U.S. Dollar denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which would, in turn, have an adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

As Kazakhstan is negatively affected by low commodity prices, particularly in respect of the oil and gas sector, and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which may materially adversely affect DBK's business, prospects, financial condition, cash flows or results of operations.

As the commodity sector in Kazakhstan recovers, it is possible that the operating costs of Kazakhstan companies will increase in line with this recovery. Operating costs, such as labour costs, leases, machinery and plant costs may all rise resulting in increased expenses for businesses operating in this sector. Rising costs will impact the profit margins of such companies and may adversely affect their ability to service loans made to them by DBK which, in turn, may have a material adverse effect on DBK's business, financial condition, results of operations and prospects. As a result, DBK may experience a decline in its profitability which could affect its ability to service its liabilities, including the Sukuk Commodity Murabahah.

(h) *Recovery from the Global Financial Crisis*

Having been greatly affected by the global financial crisis, which commenced in 2007, the Kazakhstan economy is in the process of recovering. In order for this to be fully achieved, solvent borrowers, as well as a diversified economy, in order to stimulate economic growth, are needed. The Kazakhstan economy was seriously affected and, only after many lengthy debt-restructurings of a number of Kazakhstan's largest banks, does it look to be emerging from the global financial crisis. Without solvent borrowers, DBK's returns on its loans will be limited which will, in turn, continue to hamper its profitability.

(i) *Uncertainty Over Economic Reforms*

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers and mining companies.

There remains a need for substantial investment in many sectors of the Kazakhstan economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the significant size of the shadow economy may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. There can be no assurance, however, that these measures will be effective or that any failure to implement them may not materially and adversely affect DBK's business, financial condition, results of operations and prospects.

(j) *The Regulatory and Tax Regime and Judicial System*

Although a large volume of legislation has been enacted since early 1995 (including new tax codes, introduced with effect from 1 January 2002 and 1 January 2009 (the "2009 Tax Code"), laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies and State enterprise reform and privatisation), the legal framework in Kazakhstan is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. There have been instances of improper payments being made to public officials, and administrative decisions and court decisions have been difficult to predict.

Further, due to numerous ambiguities in Kazakhstan's commercial legislation, in particular in its newly-adopted tax legislation, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the 2009 Tax Code, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

It is also expected that tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the business, financial condition results of operations and prospects of companies operating in Kazakhstan, including DBK.

The 2009 Tax Code was adopted at the end of 2008 and came into force as at 1 January 2009. The 2009 Tax Code provides for reduced rates for certain taxes, including the corporate income tax rate from 30% in 2008 to 20% since 2009.

In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. The Government has stated that it believes in continued reform of corporate governance processes and shall endeavour to improve discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on DBK's business, financial condition, results of operations and prospects.

As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. Kazakhstan's tax system is still in a transitional phase and no assurance can be given that new taxes and duties or new tax rates will not be introduced during the life of the Programme.

(k) *Underdeveloped Securities Market in Kazakhstan*

Kazakhstan has a less-developed securities market than the United States or the United Kingdom and other Western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States or the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan-based entities, such as DBK, may be publicly-available to investors in such entities than is available to investors in entities organised in the United States or the United Kingdom and other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan, which may hinder the development of Kazakhstan's economy.

(l) *Kazakhstan's President*

Since the dissolution of the Soviet Union, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. Kazakhstan's president, Nursultan Nazarbayev, is 71 years old and has been in office since Kazakhstan became an independent sovereign state in 1991. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development. Changes to the Constitution in May 2007 and further changes in 2010 introduced the concept of the first president and established that the first president (i.e., the current president) enjoys a number of privileges and is not subject to limitation as to the number of consecutive re-elections. In 2011 Nursultan Nazarbayev was re-elected as President, and his current term in office ends in December 2016.

Commentators on Kazakhstan suggest that there is political in-fighting among the potential successors to President Nazarbayev and there are concerns about possible dynastic succession. Should he fail to complete his current term of office for whatever reason or should a new president be elected at the next election, Kazakhstan's political situation and economy could become unstable and the investment climate in Kazakhstan could deteriorate, which would have a material adverse effect on DBK's business, financial condition, results of operations and prospects. As there is currently no clear successor, the issue is a potential cause for instability in Kazakhstan. If a future president is elected with a different political outlook, the business regime in Kazakhstan could change. Upon the results of parliamentary elections held in 2007, the Nur Otan party headed by President Nazarbayev became the sole party represented in the Majilis, the lower chamber of the Parliament. After that amendments to legislation were made that ensured that at least two parties must be represented in the Parliament. Early in 2012 parliamentary elections were held. Currently three parties – the Nur Otan ruling party, the Ak Zhol party and the Communist Peoples Party of Kazakhstan are represented in the Majilis. Political instability in Kazakhstan or changes to its property, tax or regulatory regimes or other changes could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

(m) *Official Statistics*

Official statistics and other data published by Kazakhstan authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. DBK has not independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this Information Memorandum is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Information Memorandum has been extracted from official Government sources and was not prepared in connection with the preparation of this Information Memorandum.

In addition, certain information contained in this Information Memorandum is based on the knowledge and research of DBK's management using information obtained from non-official sources. DBK has accurately reproduced such information and, so far as DBK is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. However, this information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Information Memorandum.

3.3 *Risks relating to the Sukuk Commodity Murabahah*

- (a) *There has been no prior public market for the Sukuk Commodity Murabahah and as such the liquidity and market price of the Sukuk Commodity Murabahah following the issue of a series of Sukuk Commodity Murabahah may be volatile.*

There is no existing market for the Sukuk Commodity Murabahah and there can be no assurances that a secondary market for the Sukuk Commodity Murabahah will develop, or if a secondary market does develop, that it will provide Sukukholders with liquidity of investment or that it will continue for the life of the Sukuk Commodity Murabahah. Consequently, any sale of the Sukuk Commodity Murabahah by the Sukukholders in any secondary market which may develop may be at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates and the market for similar securities. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Sukuk Commodity Murabahah and an investor in the Sukuk Commodity Murabahah must be prepared to hold the Sukuk Commodity Murabahah for an indefinite period of time or until their maturity, nor any assurance can be given as to the ability of the Sukukholders to sell their Sukuk Commodity Murabahah, or the prices at which the Sukukholders would be able to sell their Sukuk Commodity Murabahah.

- (b) *The market value of the Sukuk Commodity Murabahah may be subject to fluctuation*

The market price of Sukuk Commodity Murabahah could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Sukuk Commodity Murabahah, as well as other factors, including the trading market for notes issued by or on behalf of Kazakhstan as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of Sukuk Commodity Murabahah without regard to the Issuer's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in commodity prices or the Issuer's operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters, terrorist attacks and war may have an adverse effect on the market price of Sukuk Commodity Murabahah.

- (c) *An investment in the Sukuk Commodity Murabahah is subject to interest rate risk*

Sukukholders may suffer unforeseen losses due to fluctuations in interest rates. Although the Sukukholders are Islamic securities that do not pay interest, they are similar to fixed income securities and may therefore see their price fluctuate due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices. The Sukuk Commodity Murabahah may be similarly affected resulting in a capital loss for the Sukukholders. Conversely, when interest rates fall, bond prices and the prices at which the Sukuk Commodity Murabahah trade may rise. Sukukholders may enjoy a capital gain but profit received may be reinvested for lower returns.

- (d) *An investment in the Sukuk Commodity Murabahah is subject to inflation risk*

Sukukholders may suffer erosion on the return of their investments due to inflation. Sukukholders would have an anticipated rate of return based on expected inflation rates on the purchase of the Sukuk Commodity Murabahah. An unexpected increase in inflation could reduce the actual return.

- (e) *The rating on the Sukuk Programme may be changed at any time and this may adversely affect the market value of the Sukuk Commodity Murabahah*

The Sukuk Programme has been assigned an indicative rating of AA2 by RAM Rating Services Berhad, "BBB+" by S&P (see Section 1.4 of this Information Memorandum). A rating is not a recommendation to purchase, hold or sell the Sukuk Commodity Murabahah as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by an assigning rating organisation in the future, if, in its judgment, circumstances in the future so warrant. In such circumstances, the market price and liquidity of the Sukuk Commodity Murabahah may decrease, and no person or entity would be obligated to provide any additional credit enhancement with respect to the Sukuk Commodity Murabahah. Any reduction, suspension or withdrawal of a rating of the Sukuk Commodity Murabahah will not constitute an event of default or a dissolution event with respect to the Sukuk Commodity Murabahah.

- (f) *Suitability of investments*

The Sukuk Commodity Murabahah issued under the Sukuk Programme may not be a suitable investment for all investors. Each potential investor in the Sukuk Commodity Murabahah must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk Commodity Murabahah, the merits and risks of investing in the Sukuk Commodity Murabahah and the information contained in this Information Memorandum;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk Commodity Murabahah and the impact the Sukuk Commodity Murabahah will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk Commodity Murabahah, including where the currency of payment is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Sukuk Commodity Murabahah and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

(g) *Shariah compliance*

The Joint Shariah Advisers have approved and confirmed that the structure, mechanism and the form of legal documentation of the Sukuk Commodity Murabahah are in compliance with Shariah. However, such approval and confirmation are only an expression of the views of the Joint Shariah Advisers based on their experiences in the subject. There can be no assurance as to the permissibility under Shariah of the structure, the form of legal documentation or the issue and the trading of the Sukuk Commodity Murabahah and none of the Issuer, the Joint Lead Arrangers or the Joint Lead Managers makes any representation as to the same. Prospective investors in the Sukuk Commodity Murabahah are reminded that, as with any Shariah views, differences in Shariah opinion are possible. Prospective investors should obtain their own independent Shariah advice as to the permissibility under Shariah of the structure, the form of legal documentation and the issue and the trading of the Sukuk Commodity Murabahah.

(h) *There can be no assurance as to the impact of a change in the laws governing the Sukuk Commodity Murabahah*

The Sukuk Commodity Murabahah and the transaction documents are based on, and subject to, Malaysian law, practice and regulations in effect as at the date of this Information Memorandum. The Sukuk Commodity Murabahah are also based on, and subject to all other applicable tax law, practice and/or regulations in effect as at the date of this Information Memorandum, having regard to the expected tax treatment of all relevant statutes under such law, practice and/or regulations. No assurance can be given as to the impact of any possible judicial decision or change to Malaysian law, practice and regulations and/or to any other applicable tax law, practice and/or regulations after the date of this Information Memorandum, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Sukuk Commodity Murabahah, the structure of the transaction and/or the tax treatment of the Sukuk Commodity Murabahah and/or the proposed financing structure.

(i) *Legal Investment Risk*

Prospective investors should consult their own legal advisors in determining whether and to what extent the Sukuk Commodity Murabahah constitute legal investments for such investors and whether and to what extent the Sukuk Commodity Murabahah can be used as collateral for various types of borrowings. In addition, financial institutions should consult their legal advisors or regulators in determining the appropriate treatment of the Sukuk Commodity Murabahah under any applicable risk-based capital or similar rules. Prospective investors whose investment activities are subject to investment laws and regulations or to review or regulations by certain authorities may be subject to restrictions on investments in certain types of debt securities, which may include the Sukuk Commodity Murabahah. Prospective investors should review and consider such restrictions prior to investing in the Sukuk Commodity Murabahah.

(j) *Exchange Control Risk*

Malaysia has a system of exchange controls. Although its exchange control regime has been liberalised, there is no assurance that strict exchange controls will not be re-imposed, which may affect the convertibility of Ringgit into other currencies.

The Issuer will pay all amounts in Ringgit. There are certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than in Ringgit. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Ringgit or revaluation of the Investor's Currency) and the risk that government and monetary authorities (including those having jurisdiction over the Investor's Currency) may impose or modify exchange controls that could adversely affect an applicable exchange rate. An appreciation in the value of the Investor's Currency relative to the Ringgit would decrease (1) the Investor's Currency-equivalent yield on the Sukuk Commodity Murabahah, (2) the Investor's Currency-equivalent value of the Periodic Income and Redemption Amount and (3) the Investor's Currency-equivalent market value of the Sukuk Commodity Murabahah.



(k) *The Sukuk Commodity Murabahah are not guaranteed and are unsecured*

Prospective investors should be aware that no guarantee is or will be given in relation to the Sukuk Commodity Murabahah by DBK or by any other person. A Sukukholder, in subscribing for or purchasing any Sukuk Commodity Murabahah, will take the credit risk of DBK as the sole right of the Issuer, the Trustee and the Sukukholders against DBK shall be to enforce the obligations of DBK to perform its obligations under the Murabahah Agreement, to perform its obligations as obligor to make payments due under the Murabahah Agreement and to otherwise perform its obligations under the other transaction documents.

The Sukukholders are not and shall not, under any circumstances, be considered as secured creditors of DBK or any of its subsidiaries and/or affiliates (if any). Once the obligation of DBK to pay the relevant deferred sale price crystallises, the Sukukholders' recourse (through the Trustee unless the Trustee fails to act on behalf of the Sukukholders pursuant to the Trustee's obligations under the transaction documents) shall only be against DBK as the obligor under the Murabahah Agreement to pay the relevant deferred sale price.

(l) *Modifications, waiver and substitution*

Compliance with the terms of the Sukuk Commodity Murabahah may be waived and, subject to the consent of the Issuer, the terms of the Sukuk Commodity Murabahah may be modified, amended, supplemented or substituted by the Sukukholders (either individually or, if applicable, in a meeting convened in accordance with the procedures set out in the trust deed constituting the Sukuk Commodity Murabahah.

Notwithstanding the above, no variations and/or amendments to the Sukuk Commodity Murabahah shall take effect unless such variations and/or amendments are in accordance with Shariah principles.

(m) *Exchange Rate Risk and Exchange Controls*

DBK is obliged to pay principal and profit on the Sukuk Commodity Murabahah in the relevant specified currency as specified in the principal terms and conditions of the Sukuk Commodity Murabahah as provided in Section 2.1 above (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Specified Currency or the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease equivalent in the Investor's Currency of the yield on the Sukuk Commodity Murabahah, the principal payable on the Sukuk Commodity Murabahah and the market value of the Sukuk Commodity Murabahah.

(n) *Credit Ratings*

One or more independent credit rating agencies may assign credit ratings to Sukuk Commodity Murabahah. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above or other factors that may affect the value of Sukuk Commodity Murabahah. A credit rating is not a recommendation to buy, sell, or hold securities and may be revised or withdrawn by the rating agency at any time.

(o) *Legal Investment Considerations*

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent Sukuk Commodity Murabahah are lawful investments for it, Sukuk Commodity Murabahah can be used as

collateral for various types of borrowing, and other restrictions apply to its purchase or pledge of any Sukuk Commodity Murabahah. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Sukuk Commodity Murabahah under any applicable risk based capital or similar rules.

(p) *Enforceability of Judgements*

Kazakhstan's courts will not enforce any judgment of a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and Malaysia. However, each of Kazakhstan and Malaysia are the parties to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and, accordingly, an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions of enforcement set out in such Convention are met.

3.4 *General Considerations*

*Forward Looking Statements*

This Information Memorandum includes, and any accompanying information memorandum supplement may include, forward-looking statements. All statements other than statements of historical facts included in this Information Memorandum and any information memorandum supplement regarding, among other things, the Issuer's respective business may constitute forward-looking statements. Such forward-looking statements in the Information Memorandum involve known and unknown risks, uncertainties and other factors which may affect actual outcomes, many of which are outside the control of the Issuer. These factors will cause the actual results, performances or achievements of the Issuer to differ, perhaps materially, from the results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Issuer believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

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## SECTION 4.0 DESCRIPTION OF DBK

### 4.1 History

DBK was organised under the laws of the Republic of Kazakhstan on 31 May 2001 for an unlimited duration as Closed Joint Stock Company "Development Bank of Kazakhstan". On 18 August 2003, DBK was re-registered as Joint Stock Company Development Bank of Kazakhstan in order to comply with the requirements of the Law on Joint Stock Companies adopted on 13 May 2003. A re-registration certificate (No. 4686-1900-AO) was issued in respect of DBK by the Registration Service and Legal Assistance Committee of the Ministry of Justice on 18 August 2003.

### 4.2 Ownership

The current shareholding structure of DBK is as follows:

<u>Shareholder</u>	<u>Percentage Shareholding</u>
JSC Sovereign Wealth Fund "Samruk-Kazyna".....	100.0%

### 4.3 Recent Development

DBK registered an increase in assets in 2010 which were attributed to the increase of the loan portfolio and assets available for sale, whereas decrease of assets in 2011 is mainly related with prepayment of loans issued and additional accrual of provisions on realized interest income and impaired loans.

In 2010 there is an observed increase in liabilities as a result of loans obtained from The Export-Import Bank of China (US\$400 million and U.S.\$ 156 million.), JBIC (JPY 2,748 million), Bank of Tokyo-Mitsubishi (EUR 30 million) and issuances of debt securities (U.S.\$ 500 million). In 2011, DBK tapped the market in the form of medium term debt securities with nominal value U.S.\$ 277 million, and disbursed additional amount of JPY 279 million and U.S.\$ 9.4 million. At the same time there has been an observed decrease of liabilities due to repayments of loans, namely BayernLB (U.S.\$ 100 million), Credit Suisse (U.S.\$ 129 million), China Development Bank (U.S.\$ 13 million) and syndicated loan from HSBC Bank PLC, ING Bank, Sumitomo Mitsui Banking (U.S.\$ 300 million). In year 2010 to year 2011, DBK was provided a loan by JSC Sovereign Wealth Fund "Samruk-Kazyna" in the amount KZT 20 billion. During the first (1st) quarter of 2012, repayment of Credit Suisse (U.S.\$ 48 million) loan was made.

Capital decrease in 2011 was associated with the decrease of positive reserve from revaluation of JSC NC KazMunaiGas and JSC KazakhTelecom obligations, suspension of hedge accounting (hedge reserve was classified to the composition of income and loss) and KZT 17 billion net loss for the year 2011. During the first (1st) quarter of 2012, positive reserves in the capital have increased due to revaluation of assets available for sale which are mainly driven by the revaluation of JSC NC KazMunaiGas and JSC KazakhTelecom obligations.

### 4.4 Business Overview

Pursuant to the DBK Law, DBK's purposes are:

- to improve and increase the effectiveness of governmental investment activity;
- to develop the industrial infrastructure and manufacturing industry in Kazakhstan; and
- to promote foreign and domestic investment in Kazakhstan.

As a part of its role under Kazakhstan's industrial development programme and in furtherance of such purposes, DBK provides medium and long-term financing for investment projects and, through JSC DBK Leasing, leasing transactions of U.S.\$ 5 million or more and export transactions of U.S.\$ 1 million or more to companies (whether or not resident in

Kazakhstan) operating in priority sectors of the economy in Kazakhstan as set out in the Credit Policy Memorandum. In determining which projects or transactions to finance, DBK gives priority to projects and transactions related to the modernisation and establishment of competitive industries, in particular, non-extracting industries, and infrastructure in Kazakhstan. DBK's lending activities are primarily funded through the issuance and placement of domestic and international debt securities and through borrowings from Samruk-Kazyna, financial institutions and the state budget.

JSC DBK Leasing, which is DBK's only subsidiary, offers short- and long-term (up to 20 years) lease financing in various forms, including for industrial equipment, venture leasing, leasing of industrial buildings and certain combined services, such as leasing and consulting, equity participation and leasing (in cooperation with the Investment Fund of Kazakhstan) and credit and leasing. JSC DBK Leasing invests only in large-scale projects valued at over U.S.\$1 million.

In addition to financing investment projects, leasing deals and export-related transactions, DBK acts as a service agent for regional and national investment projects financed by the State budget and projects financed by Government-guaranteed borrowing. In this role, DBK receives fees but assumes no risk. Agency services include project monitoring, servicing of payments and collections, including opening and maintaining special conditional deposit and reserve accounts and collecting loans on behalf of the Government. As service agent, DBK arranges the settlement and repayment of funds extended from the Government's budget. Pursuant to the DBK Law, DBK acts as an agent for various national and regional investment projects financed from the state or local government budget or supported by Government guarantees.

### **Authority of DBK**

The DBK Law specifies certain activities in furtherance of DBK's purposes that DBK is authorised to engage in, whether in Tenge or foreign currencies, without the need to obtain a licence. These activities include, inter alia:

- providing loans to entities;
- issuing guarantees;
- issuing and confirming letters of credit;
- opening and maintaining correspondent accounts with and for other financial institutions;
- accepting deposits and opening and managing bank accounts for certain of DBK's borrowers and certain other entities;
- accepting certain deposits in order to provide liquidity to DBK;
- conducting leasing activities;
- issuing securities; and
- participating in certain foreign currency exchange transactions.

DBK is not permitted to solicit deposits from, open accounts for or provide settlement and cash services to individuals. In addition, there are legal restrictions on DBK's ability to conduct business with certain entities (e.g., internal or external borrowers whose borrowings are overdue and, inter alia, individuals, credit associations, non-governmental pension funds, pension fund management companies, investment funds and insurance organisations) or to make certain unsecured loans.

### **Participation in Government Programmes**

DBK provides financing in connection with a number of Government programmes and initiatives, including, most notably:

- the Programme for Accelerated Industrial and Innovation Development of Kazakhstan, which covers the years 2010-2014 (the "Industrialisation Programme"); and
- the Government's anti-crisis programmes.

## **Industrialisation Programme**

The Programme for Accelerated Industrial and Innovation Development of Kazakhstan was approved by Presidential Decree No. 958, dated 19 March 2010, and sets out expected investments of over U.S. \$50 billion during the period 2010-2014. The Industrialisation Programme provides that DBK will be a primary lending vehicle for the long-term financing of strategic investment project in infrastructure and in the metallurgy, chemical and petrochemical, electrical, energy generation, transportation, telecommunication and other manufacturing sectors. As a part of the Programme implemented Industrialisation Map, which is consisting of 609 projects. DBK has financed for 26 projects of Industrialisation Map and is considering funding a further 8 projects

## **Support Programs**

DBK and DBK's borrowers have (receive) the opportunity to participate in the following state sub-programs: Ozdorovleniye (Rehabilitation), Road map 2020, Productivity 2020, Exporter 2020, Investor 2020. According to the sub-program Productivity 2020 JSC DBK Leasing is a key public provider of government financial resources (KZT 15 bill.) for leasing operations.

## **Rehabilitation Program**

**The purpose** of the program is rehabilitation of competitive (to-big-to-fail) enterprises whose debt exceeds KZT 4.5 billion (USD 30 million.) except extracting industry, state owned or foreign companies, production of tobacco and alcohol.

**Support measures:** interest rate subsidies on extended loans, credits and leasing, of the bond coupons placed in the Kazakhstani Stock Exchange. The term of subsidizing will be to 5 years with an interest rate of 7% p.a. The final interest rate, taking into account the subsidies, shall not be lower than 7%. Besides, those enterprises covered by the recovery program can be given a deferment in payment of taxes and other mandatory payments to budget for a period of up to three years, tax preference and assistance in search of the strategic investor. If the products produced by the enterprise have a good market in the quasi-state and state sectors, the situation can be like this that a guaranteed order would be placed for a period of to 4 years. Also, the policy of placing the national companies' funds on the deposit accounts at the banks, considering for their participation in the recovery program, is agreed.

## ***Business Road map 2020***

**Purpose:** Sub-program was approved by Government 2010 in order to support business initiatives in non-extracting sectors of the economy, to develop entrepreneurship (primarily the small and medium entrepreneurship), and to create new job places. Government adopted Resolution in (1-HY) 2011, which permits DBK (DBK's borrowers) participation in the sub-program.

**Support measures:** interest rate subsidies on loans (which are less than 30 mln. USD), partial guarantees on loans, development of industrial infrastructure, service support, and personnel training. Both new and previously granted credits on implemented projects will be subsidized with the maximum subsidy period 3 years with possibility of extension up to 10 years.

## ***Productivity 2020***

**Purpose:** The program is purposed to help upgrade manufacturing enterprises (to increase productivity) in priority sectors of economy (with high value added) and establish new ones. It includes different measures of support, especially, in the area of innovations and implementation of new technologies.

**Support measures:** provision of (soft) long-term lease financing, innovative grants, partial reimbursement of expenditures for attraction of highly-qualified design and engineering

organizations, for attraction of highly qualified foreign specialists, for introduction of modern management and production technologies and for development or expertise of a comprehensive plan of an investment project.

More than a hundred domestic companies have so far shown their interest in the programme. Before the end of this year, according to a forecast from the development institution, the number of companies wishing to upgrade its equipment will increase to three hundred.

### ***Export 2020***

**The purpose** of the sub-program “Export - 2020” is comprehensive support of export-oriented domestic companies in non extracting branches in order to increase and expand the geography of export.

**Support measures:** Sub-program operators provide export support services for commodities manufactured in Kazakhstan, including the identification of potential markets internationally, search for partners-buyers within the nation’s trade missions abroad etc., trade finance and export insurance, partial reimbursement of expenses for promotion goods of domestic enterprises abroad (registration of the trademark, certification of products abroad, participation in foreign exhibitions etc.).

### ***Investor 2020***

**The Purpose** of the program is to create most attractive environment in Kazakhstan for foreign direct investments in non extracting export-oriented and innovative sectors.

### **Government Anti-Crisis Programme**

In response to the effect of the global financial crisis and, in particular, with the aim of supporting the Kazakhstan financial sector, the Government has developed the “Plan of Top Priority Measures for Securing the Stability of Social and Economic Development of the Republic of Kazakhstan”. Under this programme, DBK refinances loans for certain investment projects previously approved by domestic commercial banks in Kazakhstan. As at 31 December 2011, DBK has refinanced 19 investment projects of domestic commercial banks totalling U.S.\$493 million in respect of strategically-important sectors of the Kazakhstan economy, such as transportation, communication, metallurgy and manufacturing of construction materials. Projects elected for refinancing are selected in accordance with DBK’s internal standards and on the basis of an assessment of the degree of completion of the project and the previous financing terms provided by the relevant domestic commercial banks.

In addition, under this programme, in November 2009, DBK received a loan of KZT 20 billion from JSC Distressed Assets Fund, which was granted, to encourage the refinancing of previously-disbursed loans within the manufacturing sector at lower interest rates. Furthermore, DBK has financed a number of strategic investment projects using funds received from the National Fund of the Republic of Kazakhstan, including, inter alia, the development of the Chymbulak ski resort (KZT 10.3 billion), expansion and modernisation of Taraz metallurgical plant (KZT 6.5 billion), and modernization of Atyrau Oil Refinery (KZT 26.4 billion).

### **Strengths**

DBK believes it benefits from the following strengths:

- **Strong Government Support**

DBK plays a significant role in the Industrialisation Programme and other Government programmes. Under the Industrialisation Programme, DBK is intended to be the major source of low-cost and long-term funding for manufacturing and infrastructural projects.

Under the DBK Law, DBK enjoys a special legal status, which gives it special rights and responsibilities not applicable to other participants in the Kazakhstan banking sector.

- **Strong shareholder support and high capitalisation**

DBK is relatively well-capitalised with a capital adequacy ratio of 16.4% as at 31 December 2011. In addition, Samruk-Kazyna demonstrated its support for DBK through the provision of a U.S.\$1.1 billion capital injection in 2009. Samruk-Kazyna has also indicated that it would provide further support to DBK should it be required in order to meet applicable capital adequacy ratios. This support has permitted DBK to maintain an active role in the lending market in comparison to the rest of Kazakhstan's banking sector, which has been more significantly affected by the global financial crisis.

- **Credit Ratings**

DBK has one of the highest credit ratings among corporate entities in Kazakhstan, on a par with the sovereign ratings of Kazakhstan published by S&P (BBB+). Moody's has published a rating of Baa3 in relation to DBK, as compared to a sovereign rating of Kazakhstan of Baa2, and Fitch has published a rating of BBB- in relation to DBK, as compared to the sovereign rating of Kazakhstan of BBB. A credit rating is not a recommendation to buy, sell, or hold securities and may be revised or withdrawn by the rating agency at any time.

- **Strategy**

DBK's long-term strategy for the period 2010-2020 (the "Long Term Strategy") was approved by the Board of Directors on 28 May 2010. In accordance with Samruk-Kazyna guidelines, from 2011, DBK's Board of Directors also approve medium-term five-year development plans, which are updated on an annual basis.

DBK's development strategies have been developed with the aim of transforming DBK into a high-profile development bank, which plays a significant role in the diversification and development of Kazakhstan's economy, whilst remaining a stable and commercial organisation. Under such strategies, DBK will continue to focus its operations on its key business lines of corporate fixed capital lending, trade finance and financial agency services.

The Long Term Strategy sets out the principal directions and objectives for the implementation of DBK's mission to assist in the development of competitive, non-extractive economic sectors in Kazakhstan. Under the Long Term Strategy, DBK aims to become, inter alia:

- a recognised and dynamic national development bank offering a wide range of financing instruments and services to development projects within or related to Kazakhstan;
- a leading participant in structuring and financing infrastructure and industrial projects within Kazakhstan; and
- the principal financing agent for the raising of long-term and low-cost borrowings in the non-extractive economic corporate and public sector in Kazakhstan.

DBK's Long Term Strategy is split into two stages, stage 1 for the years 2010-2014 ("Stage 1") and stage 2 for the years 2015-2020 ("Stage 2"). During Stage 1, DBK intends to focus on lending to strategic investment projects in line with the Government's development priorities (namely infrastructure development, metallurgy, chemical and petrochemical industries, the energy sector and manufacturing, as well as continuing its trade finance activities. During Stage 2, DBK intends to increase its lending volumes and attract increased amounts of private capital into its projects, as well as to syndicate certain loans, offering structured and project products and providing consultation services in connection with the raising of capital, as well as the provision of financial agency services for investment projects of the Government and commercial banks.

The key components of DBK's Stage 1 strategy are:

- **Applying different approaches to the financing of development and commercial projects**

DBK intends to divide its loan portfolio into two parts: development projects (i.e., capital-intensive projects financed in accordance with the priorities of the Industrialisation Programme) and commercial projects (i.e., all other projects). This intended division, which has not yet commenced, is aimed at concentrating expertise, increasing the quality and diversification of the loan portfolio and reducing the overall level of credit risk, as well as ensuring DBK's long-term stability and profitability in accordance with applicable Samruk-Kazyna requirements. DBK intends to implement different procedures, offer different instruments and use different funding sources for each part of its loan portfolio. For example, DBK intends to use low-interest, low-cost loans for the financing of development projects, whereas the financing of commercial projects will involve a wider range of alternative instruments, such as mezzanine financing, project financing and working capital loans and will be funded primarily by commercial sources. DBK intends that not less than 60% of its total portfolio will be comprised of development projects and not more than 40% of its total portfolio will be comprised of commercial projects.

- **Increasing DBK's range of products and services**

The majority of DBK's activities are concentrated on the provision of low-cost finance of investment projects and export transactions for domestic manufacturers. The amendment to the DBK Law in February 2009 expanded the range of credit instruments that DBK may offer. Accordingly, DBK intends to expand the range of credit instruments offered to clients. Such credit instruments will include, inter alia, various project financing, mezzanine financing, working capital loans, bridge financing and interbank lending. In addition to direct lending, DBK is planning to offer advisory services to clients in respect of raising debt capital and managing project risks.

- **Diversifying Funding Base**

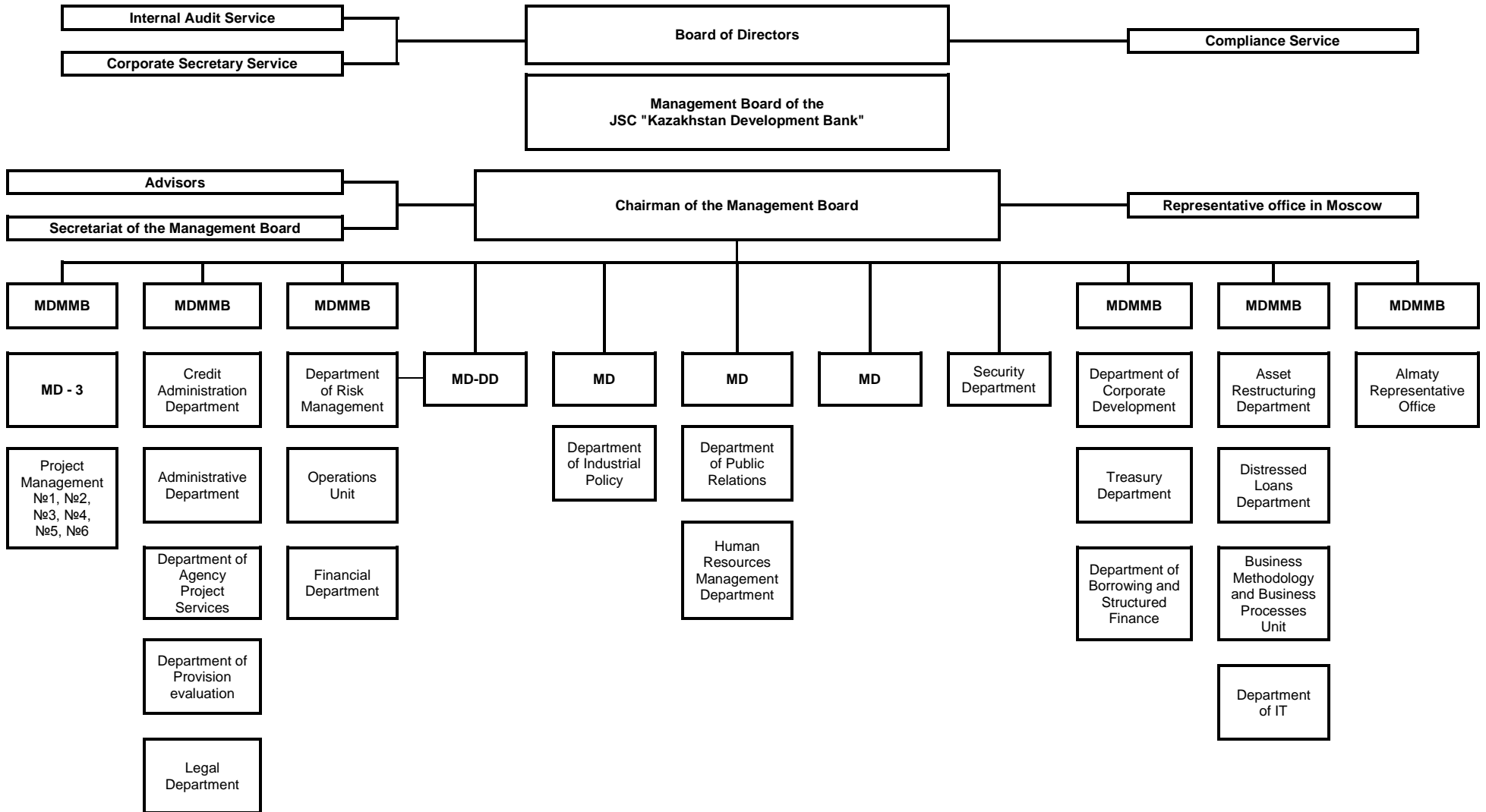
Pursuant to the DBK Law, DBK currently funds the majority of its operations by borrowing from Samruk-Kazyna, the Government and international commercial banks in both domestic and foreign currencies and issuing debt securities on the domestic and international capital markets. In order to diversify its funding base, DBK intends to continue to borrow from international commercial banks and expand its borrowing in the domestic market by issuing Tenge-denominated domestic bonds. In order to promote investment opportunities in Kazakhstan, DBK also expects to increase its participation in project co-financings with various multinational financial development organisations. DBK believes that, through its funding sources, it should be able to provide loans at lower cost than commercial banks, thereby stimulating economic growth, as well as establishing margin yield benchmarks for domestic and international corporate debt security issuers, and contributing to the development of Kazakhstan's securities market.

- **Strengthening human resources**

In order to compete with other banks in attracting and retaining highly qualified staff. DBK is planning to strengthen its human resources by providing further investment in internal and external training programmes for its employees and by enhancing the rewards, benefits and bonuses granted to its employees.



**Organization Chart of JSC Development Bank of Kazakhstan**



## **Lending**

DBK is a development financial institution that provides medium and long-term financing for investment projects and trade financing for export transactions in priority sectors of the economy of Kazakhstan, as set out in the Credit Policy Memorandum.

As defined in the Credit Policy Memorandum, DBK's priorities are to finance investment projects and leasing transactions (through its subsidiary, JSC DBK Leasing), which are focused on the creation and development of:

- infrastructure (power engineering, transport, telecommunications and tourist infrastructure);
- non-extractive industrial production, including the excavation, purchase and transportation of raw materials and the processing and sales of finished products;
- agricultural production, including the cultivation, purchase and transportation of raw materials and the processing and sales of finished products;
- commercial service industries, including tourism, healthcare, education, recreation, sports and hotels; and
- exports.

DBK is also permitted to finance the following types of projects implemented outside Kazakhstan:

- projects, which are linked to facilities located in Kazakhstan and which are involved in the processing of extracted raw materials where those projects aid the development of such facilities;
- infrastructure projects, which enhance the transportation network in Kazakhstan and promote exports of Kazakhstan's goods; and
- projects by non-residents, which are recommended by the Government and guaranteed by the government of the borrower's country.

DBK's core investment activity abroad is in projects that facilitate the development of infrastructure in Kazakhstan and the export of goods and services produced in Kazakhstan.

Much of DBK's lending is co-financed by other banks or lending institutions. As at 31 December 2011, DBK has approved 182 investment projects and export-related projects worth a total of U.S.\$10.6 billion, of which DBK's participation was U.S.\$5.3 billion. As at 31 December 2011, DBK's outstanding and disbursed loans to customers in respect of investment projects and export related projects amounted to U.S.\$ 2.73 billion.

Despite the global financial crisis, DBK has continued lending. In 2011, DBK's lending activity focused on the financing of projects, which had been previously approved and adopted two projects for an aggregate amount of U.S.\$238.6 million (of which DBK's participation was U.S.\$ 199.5 million) were approved in 2011.

## **Investment Projects**

As at 31 December 2011 volume of the outstanding loan book portfolio of the Bank (outstanding loan amount) totaled U.S.\$2.7 billion. More than 82% of outstanding loan book portfolio comes to investment projects (U.S.\$2.2 billion.), 12% export operations (U.S.\$0.3 billion.) and 6%-loans to DBK subsidiary JSC DBK Leasing (U.S.\$0.2 billion.).

Since the beginning of activities, DBK had approved of 89 investment projects. As at 31 December 2011, the total value of approved investment projects was U.S.\$8.9 billion (of which DBK's participation was U.S.\$4.1 billion), with investments in the chemicals & petrochemicals, metallurgy and energy comprising the largest proportion of DBK's loans (37%, 14% and 11%, respectively). Details of the principal sectors in which DBK is participating, as at 31 December 2011, are set out below.

- **Transport and Communications Sector**

DBK is participating in a number of investment projects in the transport and communications sector, totalling approximately U.S.\$693 million, of which DBK's participation is approximately U.S.\$432 million.

DBK is participating in three major projects in this sector: (i) the U.S.\$281.6 million expansion of the Aktau Sea International Commercial Port in the Manghystau Region (DBK's participation is U.S.\$115.4 million); (ii) the U.S.\$57.1 million railway transportation project (DBK's participation is U.S.\$52.7 million); and (iii) the U.S.\$123.9 million construction of transportation and logistics centres in Almaty and Astana (DBK's participation is U.S.\$96.1 million).

DBK has also participated in financing of "Uzen - Aktau" reserve gas pipeline project, that had an overall cost of U.S.\$29.67 million. U.S.\$29.49 million of project cost was financed by DBK.

In 2012-2013 DBK plans to participate in realization of steel gas pipelines replacement project in Taraz city with the maximum use of modern technologies (project cost: U.S.\$136 million, DBK's participation U.S.\$68 million) and finance installation of average pressure gas pipelines with individual cupboard gas-distributing points in Southern region with project cost of U.S.\$200 million, where DBK participates as U.S.\$97.4 million investor.

Another project that is under consideration of DBK is construction of electric locomotives production plant in Astana with project cost of U.S.\$134 million, where DBK participation is U.S.\$53 million.

- **Electric Power, Gas, Steam and Water Sector**

DBK is participating in a number of investment projects in the electric power, gas, steam and water sector, totalling approximately U.S.\$522 million, of which DBK's participation is approximately U.S.\$258 million.

DBK is participating in two major projects in this sector: (i) the U.S.\$361.2 million project to construct hydro-electric power plant on the Charyn River (DBK's participation is U.S.\$133.0 million); and (ii) the U.S.\$129.3 million gas-turbine power station project in Akshabulak field (DBK's participation is U.S.\$90.0 million).

- **Tourism Sector**

DBK is participating in a number of investment projects in the tourism sector, such as the project of building a hotel in a resort area Borovoe, totalling approximately U.S.\$88.6 million (DBK's participation is U.S.\$49.5 million).

- **Metallurgy Sector**

DBK is participating in a number of investment projects in the metallurgy sector, totalling approximately U.S.\$1229 million, of which DBK's participation is approximately U.S.\$494 million.

DBK is participating the U.S.\$1,018.3 million aluminium smelter construction project in Pavlodar with an expected capacity of up to 250 tons of primary aluminium per year (DBK's participation is U.S.\$400 million).

There are some metallurgical projects under consideration in DBK as at the first (1st) quarter of 2-12, totalling approximately U.S.\$338 million, of which DBK's participation is approximately U.S.\$227 million.

- **Other Non-Metal Mineral Products Sector**

DBK is participating in a number of investment projects in the other non-metal mineral products sector, totalling approximately U.S.\$323 million, of which DBK's participation is approximately U.S.\$226 million.

- **Chemicals Sector**

DBK is participating in a number of investment projects in the chemicals sector, totalling approximately U.S.\$3,542 million, of which DBK's participation is approximately U.S.\$1,297 million.

DBK is participating in the U.S.\$100.7 million chlorine production plant project (DBK's participation is U.S.\$65.7 million).

- **Agriculture Sector**

DBK is participating in a number of investment projects in the agricultural sector, totalling approximately U.S.\$354 million, of which DBK's participation is approximately U.S.\$169 million.

### **Export Financing**

DBK provides export financing services for operations worth more than U.S.\$1 million. The provision of financing of exports of Kazakhstan commodity producers promotes the development of Kazakhstan's export potential. As at 31 December 2011 since the beginning of activities, DBK had approved 84 export-related transactions worth a total amount of U.S.\$1,458 million, of which DBK's participation was U.S.\$836 million.

### **JSC DBK-Leasing**

JSC DBK Leasing, which is DBK's only subsidiary conducts all of DBK's lease financing activities. It offers short- and long-term (up to 20 years) lease financing in various forms, including for industrial equipment, venture leasing, leasing of industrial buildings and certain combined services, such as leasing and consulting, equity participation and leasing and credit and leasing. JSC DBK-Leasing invests only in large-scale projects worth more than U.S.\$1 million and the average value of transactions in which JSC DBK Leasing participates was U.S.\$4.6 million as at 31 December 2011. All of DBK's lease financing operations are carried out through JSC DBK Leasing. JSC DBK Leasing has a total portfolio of approximately U.S.\$160.0 million over 50 transactions.

DBK funds 82% of JSC DBK Leasing's activities at market rates for on-lending under finance lease arrangements. JSC DBK Leasing was established as a separate legal entity in order to widening the range of instruments provided by DBK and creating new finance models of investment projects in the framework of industrial policy of the Republic of Kazakhstan. JSC DBK Leasing's customers may take advantage of tax legislation as certain VAT exemptions in respect of certain financed imported equipment and amount of remuneration and indexation of lease payments. These tax advantages can reduce cost of object of leasing for clients. Customers may also prefer leasing, which unlike loans from DBK, does not require 100% collateral, since JSC DBK Leasing retains title to the equipment. As a result only a 15-30% down payment and a smaller collateral requirement that is required for all other forms of finance is requested of customers.

JSC DBK Leasing was established as a joint stock company under the laws of Kazakhstan on 6 September 2005 and was re-registered with the Ministry of Justice under certificate No. 20246-1901-AO in February 2006. DBK-Leasing is based in Astana and has a representative office in Shymkent. As at 31 December 2011, JSC DBK Leasing had share capital of 160 thousand ordinary shares all of which were fully paid and directly owned by DBK. JSC DBK Leasing has the same development priorities as DBK and supports DBK's role as a development bank.

### **Agency Services**

Pursuant to the DBK Law, DBK acts as an agent for various national and regional investment projects financed from the state or local government budget or supported by Government

guarantees. Agency services include project monitoring, servicing of payments and collections, including opening and maintaining special conditional deposit and reserve accounts and the collection of loans on behalf of the Government. The scope of DBK's agency services and the fees for such services are defined on a case-by-case basis by the agency agreements between the parties who have received such loans. DBK's provision of agency services does not involve an assumption by DBK of liability for the clients' obligations to the Government or creditors' obligations under loans guaranteed by the Government. Acting solely as an agent, DBK receives fees but assumes no risk.

As at 31 December 2011, DBK was acting as the agent for 14 investment projects, including 3 Government loans and 11 Government guaranteed loans, in an aggregate amount of approximately U.S.\$ 676.3 million. As at 31 December 2011, DBK's total fees for agency services were KZT 16.6 million.

### **Investment Banking Services**

Pursuant to the DBK Law, DBK is permitted to provide investment banking services together with direct financing. In line with the Long Term Strategy, DBK may provide financial consulting and underwriting services and it is envisaged that DBK will provide the following range of investment banking services:

- assistance in obtaining credit ratings from international ratings agencies;
- organising initial public offerings on international stock exchanges for DBK's clients, including carrying out due diligence exercise, arranging the necessary documentation and assisting with the compliance with the listing procedures of the international stock exchanges;
- arranging syndicated loans, including the selection of investors, and providing assistance with the preparation of the related legal and financial documentation;
- arranging bond issues on both the domestic and foreign debt markets and the underwriting of such transactions, including conducting market analysis, arranging for the necessary certifications and assisting with the compliance requirements of any stock exchange procedures; and
- other financial consulting services.

### **International Banking**

DBK co-operates with international development organisations and financial institutions, such as the International Monetary Fund (the "IMF"), the Islamic Development Bank, the European Bank for Reconstruction and Development (the "EBRD"), the Asian Development Bank, the Export-Import Bank of Turkey, the Development Bank of China, the Export-Import Bank of China, the European Investment Bank and other international financial institutions and foreign export credit agencies. DBK is a founding member of the InterBank Consortium of the Shanghai Co-operation Organisation, established in 2005, and held the Interbank Consortium chairmanship for the second time for the 2010-2011 period (having previously held this position in 2007-2008). DBK has also been appointed as a national coordinator and operator for the Islamic Corporation for Private Sector Development and is a member of the Board of Directors of the Association of Development Financial Institutions of Asia and the Pacific.

On 4 June 2007, DBK and EBRD entered into a Memorandum on Principles of Co-operation (the "EBRD Co-operation Memorandum"). Pursuant to the EBRD Co-operation Memorandum, DBK and EBRD agreed to co-operate further in the financing of the second construction phase of the KEGOC North-South power transmission line following the completion of their joint financing of the first phase of this project. As at 1 December 2010, the project has been fully funded and has been commissioned. This co-financing marked the first time in the history of Kazakhstan's power distribution sector that a company operating in this sector succeeded in

obtaining significant long-term funding from an international development bank without the benefit of a Government guarantee. In addition, co-operation with EBRD during this project allowed DBK's personnel to familiarise themselves further with international standards for credit assessment, portfolio performance and management of information systems, which has, in turn, improved the quality of services provided by DBK in other projects.

DBK maintains correspondent banking relationships with a number of banks, including ING Bank N.V., Bank of New York Mellon, Commerzbank AG, Sberbank of the Russian Federation and JPMorgan Chase Bank.

### **Competition**

Pursuant to the DBK Law, DBK's primary lending activities include both medium-term (for five or more years) and long-term (from 10-20 years) financings. Kazakhstan's commercial banks generally provide short- to medium-term financing for up to three years. DBK does not consider itself to be a competitor of the commercial banks in Kazakhstan.

The Investment Fund of Kazakhstan, designated to be part of the development infrastructure of Kazakhstan, and JSC KazAgroFinance, a non-banking financial institution, in each case, like DBK, are charged with supporting the development of certain sectors of the economy. The objectives of these entities, however, are limited to those set forth in the relevant legislation approved by the Government, and they do not have flexibility in selecting their areas of investment. The Investment Fund of Kazakhstan is only permitted to make equity investments in those sectors of the economy that do not involve extraction and processing of mineral resources and may not engage in lending activity, while JSC KazAgroFinance was specifically established by the Government to support the agricultural sector through the financial leasing of machinery and equipment. Consequently, DBK does not consider itself to be a competitor of such entities in any material respects.

### **Employees**

As at 31 December 2011, DBK had 267 full-time employees, as compared to 244 as at 31 December 2010. DBK has not entered into any collective labour agreements nor are any of its employees members of a labour union nor has DBK experienced any work stoppages resulting from labour disputes.

DBK's statute on labour compensation and employee motivation governs the procedures for the granting of employee incentives and rewards. In addition to salaries, the statute provides for bonus packages to be awarded based on DBK's reported financial results in certain circumstances as well as certain other employee incentives. In addition, levels of social support are also provided to employees, including in the form of financial aid on the occurrence of certain events, secondee compensation payments, health insurance and assistance with housing costs.

Employees from key departments and divisions of DBK regularly attend a wide range of specialised training seminars organised by multinational financial institutions. In addition to the arrangement of specialist seminars and training courses, DBK's employees also participate in internships with banks and other financial institutions.

DBK is committed to continuing to upgrade the level of the professional skills and knowledge of its personnel to ensure the availability of sufficiently trained personnel to implement its strategic objectives as set out in the DBK Law and the Credit Policy Memorandum. For this purpose, DBK has budgeted KZT 21.5 million for training expenses in 2010, KZT 32.3 million in 2011, KZT 56.8 million in 2012. As at 31 December 2011, 43% employees of DBK have received training at various seminars and courses at a total cost of KZT 60.5 million.

### **Technology**

DBK use the third party core banking system supported by external and internal IT staff. For internal and external communication DBK use information and communication solutions installed

on internal DBK servers. All DBK servers are placed in separate server rooms protected by access control system and equipped with fire alarm, automated gas fire extinguisher system. Access to server rooms are logged and limited to authorised IT personnel only. The development of IT in DBK is guided by IT Strategy approved by Management Board for the years 2012-2014. The management of DBK are paying great attention on technology matters as proof of these external IT audit was performed by KPMG in 2011.

DBK has established a separate IT Information security division which is subordinated to the Security department. For ensuring protection of sensitive information DBK use tape data storage, and perform back-up procedures on regular basis. For preventing data loss and misusing access to USB ports and CD drives are limited to personnel authorised by Information Security specialists. DBK is committed to further upgrading and maintaining its information and technology systems and it has budgeted for the year 2012 KZT 110 million for operation expenditure and KZT 291 million for capital expenditure purpose in 2012.

As at 31 December 2011, the figures were KZT 79 million and KZT 83 million respectively.

### Credit ratings

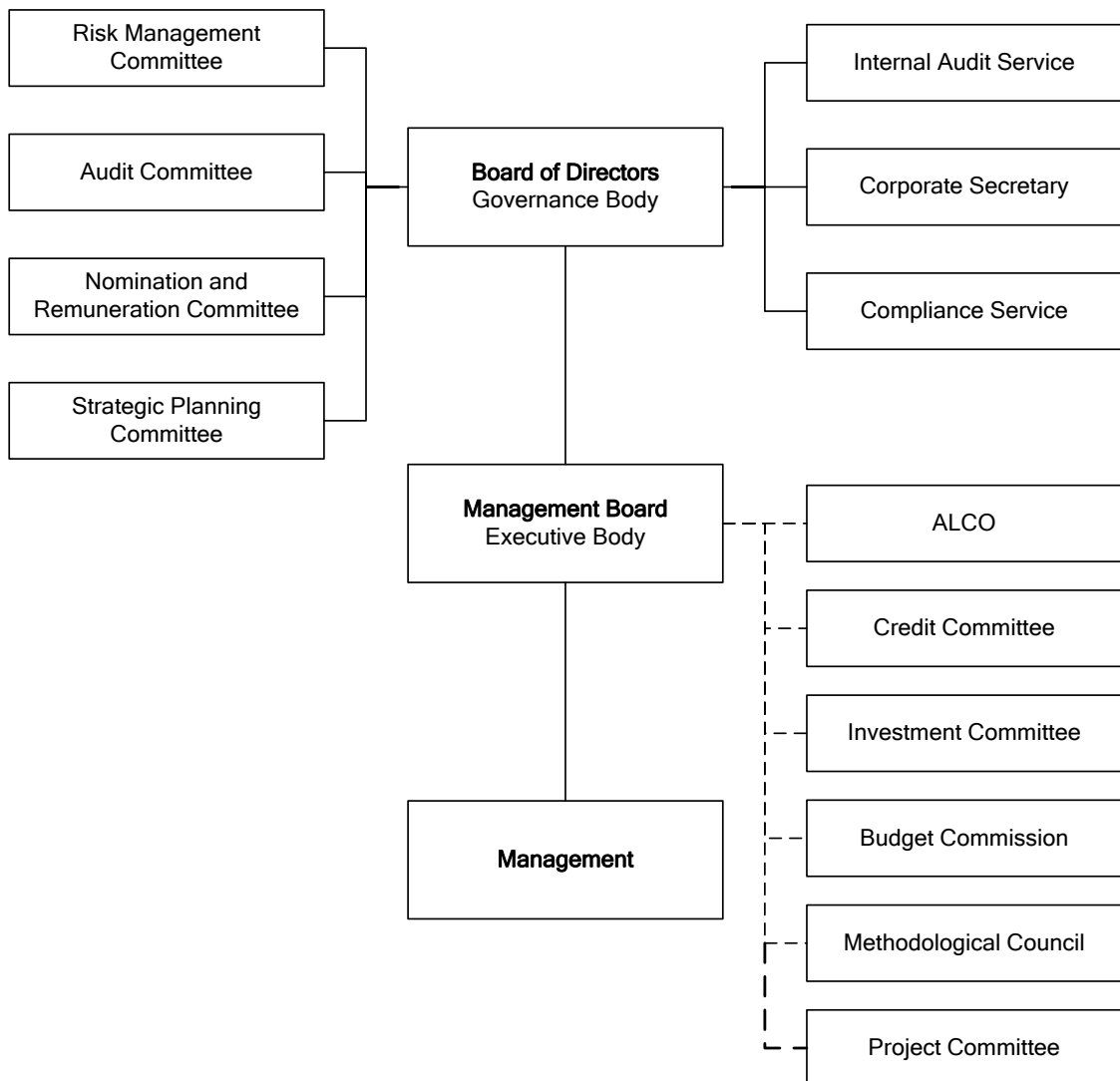
DBK is rated by S&P, Moody's and Fitch and its credit ratings are as follows:

<u>Rating Agency</u>	<u>Tenor</u>	<u>Rating</u>	<u>Outlook</u>
S&P	Foreign Long Term Rating	BBB+	Stable
	Foreign Short Term Rating	A-2	—
	Local Long Term Rating	BBB+	Stable
	Local Short Term Rating	A-2	—
Moody's	Foreign Long Term Issuer Rating	Baa3	Stable
Fitch	Long Term Issuer Default Rating	BBB-	Positive
	Short Term Issuer Default Rating	F3	—
	Local Currency Long Term Issuer Default Rating	BBB	—
	Local Currency Short Term Issuer Default Rating	F3	—
	Support Rating	2	—
	Support Rating Floor	BBB-	—

A credit rating is not a recommendation by the rating organization or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organization and each should be evaluated independently from the other. Any adverse change in an applicable credit rating could adversely affect the trading price for the Sukuk Commodity Murabahah.

## Management

The following organisation chart sets forth the management reporting lines and principal business units of DBK as at 31 December 2011:



## General

The DBK Charter provides for the following corporate governing bodies:

- the sole shareholder, Samruk-Kazyna, which represents the highest corporate governing authority of DBK. Samruk-Kazyna, among other things, appoints the chairman of the Management Board based on recommendations of the Ministry of Industry and New Technologies as a trustee and approves the annual financial statements and DBK's dividend policy;
- the Board of Directors, which is responsible for the general management of DBK and the approval of its strategic and operational plans. Pursuant to the aforementioned trust management agreement concluded between Samruk-Kazyna and the Ministry of Industry and New Technologies the structure and terms of appointment to the Board of Directors are determined by the mentioned Ministry which also appoints the chairman of the Board of Directors;



- the Management Board, which is responsible for the day-to-day management and administration of DBK; and
- the Internal Audit Service, which is responsible for the internal control processes and reports to the Board of Directors.

### Board of Directors

DBK's Board of Directors, consisting of 7 members, including the chairman of the Board of Directors, is generally responsible for setting the strategic policy of DBK in accordance with the Credit Policy Memorandum, determining and overseeing the remuneration of the Management Board, approving DBK's annual budget and dealing with all other matters not reserved to Samruk-Kazyna. In accordance with the DBK Law and the DBK Charter, at least one-third of the members of DBK's Board of Directors must be independent directors. The activities of the Board of Directors are governed by DBK's Code of Corporate Governance and the Statute on the Board of Directors, both dated 14 March 2008.

The business address of the members of the Board of Directors is the registered office of DBK, namely, 10, Orynbor Street, "Kazyna Tower" Building, Yesil District, Astana, Republic of Kazakhstan. As at 1 May 2012, the members of DBK's Board of Directors are:

<u>Name</u>	<u>Other Positions</u>	<u>Date Appointed</u>
Aset Issekeshv (Chairman)..	Minister of Industry and New Technologies of Kazakhstan	21 May 2009
Kuandyk Bishimbayev.....	Deputy Chairman of the Management Board of JSC Sovereign Wealth Fund "Samruk-Kazyna"	13 March 2012
Kanat Dosmukametov.....	Managing Director of JSC Sovereign Wealth Fund "Samruk-Kazyna"	13 March 2012
Nurlan Kussainov.....	Chairman of the Management Board of DBK	1 June 2009
Ulf Wokurka (independent director).....	Managing Director and Chief Country Officer of Deutsche Bank AG, Kazakhstan	13 September 2007
Jacek Brzezinski (independent director).....	Consultant for corporate clients	10 September 2008
Kay Zwingenberger (independent director).....	President and CEO of Siemens in Central Asia	13 August 2010

Information regarding the members of the Board of Directors is set out below:

**Aset Issekeshv** is the Chairman of the Board of Directors. He graduated from the Law Faculty of Al-Farabi Kazakh National University and the Higher School of Public Administration and started his professional career at the municipal administration of Almaty city and the Strategic Planning Agency of Kazakhstan. From 1999 to 2002, Mr Issekeshv held various managerial positions in the Ministry of Justice, served as the President of the National Legal Service JSC, President of the National Consulting Group and Vice-President of "Ordabasy" JSC. From 2002 to 2008, he was an advisor to the Minister of Economics and Budget Planning, Vice-Minister of Industry and Trade, Deputy Chairman of Samruk-Kazyna and director for marketing financial products at Credit Suisse (Kazakhstan) LLP. From March 2008 to May 2009, he was an aide to the President of Kazakhstan and on 21 May 2009, he was appointed Minister of Industry and Trade of Kazakhstan. Since March 2010, Mr. Issekeshv has been the Deputy Prime Minister and Minister of Industry and New Technologies of Kazakhstan, since 2011 - Minister of Industry and New Technologies of Kazakhstan.

**Kuandyk Bishimbayev** is a graduate of School of Management and Business at Georgetown University with MBA degree, Kazakh State Management Academy with a major in International Economic Relations, and Taraz State University with a major in Legal Studies. Mr. Bishimbayev started his professional career as a senior analyst at DBK. In 2002-2003 – head of divisions at the Department of Budget Policy and Planning and Strategic Planning Department of the Ministry of Economy and Budget Planning of Kazakhstan. Since 2003 Mr. Bishimbayev has worked at various executive positions at National Innovation Fund, Centre for Marketing and Analytic Research, “Ordabasy” Corporation. Since 2005 – Advisor to the Minister of Economy and Budget Planning, since 2006 – Advisor to the Prime-Minister of Kazakhstan. Starting from 2007 – Vice-Minister of Industry and Trade of Kazakhstan, from 2008 – Head of Social and Economic Monitoring Division at the Presidential Administration, Aide of the President of the Republic of Kazakhstan. In 2010 – Vice-Minister of Economic Development and Trade of Kazakhstan. Since April 2011 – Deputy Chairman of the Management Board of “Samruk-Kazyna” Sovereign Wealth Fund.

**Kanat Dosmukametov** is a graduate of Kazakh State Management Academy with a major in Economics, PhD. Mr. Dosmukametov started his professional career in 1994 and worked at various positions from the senior economist to Deputy Director of Financial Control Department at the National Bank of Kazakhstan in 2004. Starting from 2004 – Deputy Chairman of the Agency for Regulation and Supervision of Financial Markets and Financial Institutions. In 2006-2009 – Managing Director at Seimar Investment Group, SAFC, Deputy Chairman of “KazAgro” National Holding, Chairman of Neftebank (Delta Bank), and Executive Director of at Deloitte TCF LLP. Since 2009 – Chairman of the Treasury Committee at the Ministry of Finance of Kazakhstan. Since February 2012 – Managing Director at “Samruk-Kazyna” Sovereign Wealth Fund.

**Nurlan Kussainov** graduated from the Kazakhstan State Management Academy (specialising in international economic relations). He also holds a Masters Degree in Management from Leland Stanford Junior University. From March 2001 to September 2002, he worked for DBK as Director of the Strategic Planning Department. Between September 2002 and May 2004, he acted as advisor to the Minister of Economy and Budget Planning and supervised the team of the Ministry of Industry and Trade that was responsible for the negotiations of Kazakhstan’s accession to the World Trade Organisation. From May 2004 to 2005, he acted as Chairman of the Board of JSC Center of Marketing and Analytical Research in the Ministry of Economics and Budget Planning. Between January 2007 and September 2010, he also acted as Director of Investment Company CNRG Capital, as Director of investment and consulting company Al Falah Investment Management Ltd and as Member of the Board of Directors of Direct Investments Fund Fallah Growth Fund. He was appointed as a member and First Deputy Chairman of the Management Board in September 2010. Mr Kussainov was appointed as the Chairman of the Management Board as of 9 April 2011.

**Ulf Wokurka** studied at the Martin Luther University in Halle (Germany) and, in 1989, he graduated from the Faculty of International Relations at the Moscow State Institute of International Relations. In 1990, he joined Deutsche Bank AG in Frankfurt, Germany, where, from 1992, he worked as a manager servicing corporate clients. From 1993 to 1994, he was the head of the representative offices of Deutsche Bank AG and Morgan Grenfell & Co. Limited in Kazakhstan. From 1996 to 1998, he worked in London as the manager of the group on mineral resources sector financing at Deutsche Bank. In 1998, he was appointed a deputy director of the Project and Export Financing Department in New York and later in Frankfurt. In 1999, he became the director of the Frankfurt Structured Trade and Export Financing Division of Deutsche Bank AG. From 2006 to 2008, he was deputy Chairman and a member of the management board of JSC “Kazakhstan Holding for Management of State Assets” “Samruk”. Since August 2008, Mr Wokurka was the managing director of Metzler Asset Management GmbH, based in Frankfurt from August 2008 to September 2010. In September 2010, he was appointed Managing Director and Chief Country Officer of Deutsche Bank AG in Kazakhstan.

**Jacek Brzezinski** graduated from the Poznan School of Economics in 1979 with a degree in economics and, in 1989, achieved a doctorate in economics. He also studied at the Diplomatic Academy in Vienna, the Ecole Nationale d’Administration in Paris and the Escuela Diplomática in Madrid. He started his professional career at the Department for Securities and Investment

Banking in Central and Eastern Europe at Creditanstalt-Bankverein, Vienna. From 1994 to 1997, he was head representative of the EBRD in Kazakhstan. From 1997 to 1999, he was a director of the Department for Securities and Investment Banking in Central and Eastern Europe at GiroCredit Ban in Vienna and a director of Bank Austria Creditanstalt Futures AG in Vienna and London. From 2000 to 2006, he was general director at B.P. Invest Consult GmbH (BPIC) in Vienna. He currently works as a consultant for corporate clients.

**Kay Zwingenberger** graduated from the faculty of International Economic Relations of the Moscow State Institute of International Relations in 1995. In 1992, he joined Siemens AG in Moscow and, in 1995, was appointed as commercial director of marketing. Between 1998 and 2001, Mr Zwingenberger worked at Siemens-Elema (Solna, Sweden), where he served as head of sales in Asia and Eastern Europe in the division of Electromedicine. Between 2001 and 2004, he was head of the medical technology department at “Siemens” in Kiev, Ukraine. From 2004 to 2007, he was head of the medical engineering department of “Siemens” in Moscow, Russia. Since 2007, he has been Director of Siemens Central Asia. Since 2010, Mr. Zwingenberger has been a board member of the German Economy Club (DWK).

### Management Board

In February 2009, a number of changes were made to the DBK Law, including the creation of a new management structure which abolished the previous offices of the President and his Vice Presidents and replaced them with the Management Board. The Management Board is an executive board consisting of seven members of the corporate management of DBK. The Management Board generally manages the day-to-day activities of DBK. Members of the Management Board are appointed for terms of three years by the Board of Directors, after consultation with the Nomination and Remuneration committee.

As at 1 May 2012, the members of the Management Board are:

<u>Name</u>	<u>Other Positions</u>	<u>Date Appointed</u>
Nurlan Kussainov (Chairman).	Member of the Board of Directors, member of the Nomination and Remuneration Committee	09 April 2011
Dauletkhan Kilybayev.....	Member of the Credit Committee	18 April 2011
Mirzhan Karakulov.....	Chairman of the Budget Commission, Chairman of the Investment Committee, member of the ALCO	28 May 2010
Nurali Aliyev.....	Chairman of the board of directors of JSC Nurbank	2 June 2009
Zhaslan Madiyev.....	Chairman of the ALCO, Deputy Chairman of the Investment Committee, member of the Audit Committee and member of the Strategic Planning Committee	25 March 2010
Marat Aitenov.....	Chairman of the Credit Committee	29 April 2011
Nurlan Nietbayev.....	Member of the Budget Commission, Chairman of Disciplinary Committee	1 March 2012

**Nurlan Kussainov** graduated from the Kazakhstan State Management Academy (specialising in international economic relations). He also holds a Masters Degree in Management from Leland Stanford Junior University. From March 2001 to September 2002, he worked for DBK as Director of the Strategic Planning Department. Between September 2002 and May 2004, he acted as advisor to the Minister of Economy and Budget Planning and supervised the team of the Ministry of Industry and Trade that was responsible for the negotiations of Kazakhstan’s accession to the World Trade Organisation. From May 2004 to 2005, he acted as Chairman of the Board of JSC Center of Marketing and Analytical Research in the Ministry of Economics and Budget Planning. Between January 2007 and September 2010, he also acted as Director of

Investment Company CNRG Capital, as Director of investment and consulting company Al Falah Investment Management Ltd and as Member of the Board of Directors of Direct Investments Fund Fallah Growth Fund. Mr Kussainov was appointed as the Chairman of the Management Board as of 9 April 2011.

**Dauletkhan Kilybayev** has over ten years experience in financial sector. Before joining DBK Mr. Kilybayev worked as a Vice-President at Credit Suisse and in a Deputy Manager at Renaissance Capital consulting clients from CIS countries on investment and banking operations, debt financing and structured finance. Dauletkhan Kilybayev has an MBA degree from Vanderbilt University (USA) and a Master of Finance degree from the Academy of Finance under Administration of Russian Federation in Moscow. Dauletkhan's current role includes organization and coordination of the credit policy issues at DBK. He was appointed to the Management Board in April 2011.

**Mirzhan Karakulov** graduated from Kazakhstan Institute of Management, Economics and Strategic Research, as well as, Vanderbilt University (USA) with a Masters Degree in Economics and is a "Bolashak" International Presidential Program Scholar. Between January 2008 and July 2009, he worked at Samruk-Kazyna and between July 2004 and September 2005 he worked at Halyk Bank. Between September 2005 and July 2006 he worked in DBK's Risk Management Department. Since July 2009, he has worked as a Director of DBK's Risk Management Department and currently supervises DBK's operational activity, budget planning and control and correspondent relationships with other financial institutions.

**Nurali Aliyev** graduated from Kazakh National Pedagogical University, from Pepperdine University in the United States, and from the International University in Austria. He also holds an MBA from the International Business School of Imadec University. Between March 2006 and October 2007, he worked as the Acting Chairman of the board of Nurbank JSC and from October 2004 to February 2006, he worked as the President of JSC Sakharniy Tsent. He currently holds the position of Chairman of the board of directors of JSC Nurbank. He has been working for DBK since 2008 and was appointed to the Management Board in June 2009.

**Zhaslan Madiyev** graduated from the Faculty of International Economics and Finance of Kazakh National University. He holds a Masters Degree in Economics and Finance from Columbia University in New York and is a "Bolashak" International Presidential Program Scholar. Between 2006-2008, he was head of the Debt Capital Markets division of JSC Alliance Bank, worked at Fixed Income Department at Morgan Stanley Investment Bank, from December 2007 and August 2008, he worked with Kazyna Fund for Sustainable Development and with the Administration of the President of the Republic of Kazakhstan. From December 2008 to June 2009, he was Director of Treasury Department of Samruk-Kazyna. From June 2009 to March 2010, he worked as the Deputy Chairman of Kazyna Capital Management where he was in charge of the Treasury, Finance and Administrative departments. He has been working for DBK since March 2010 where he currently is in charge of treasury, fund raising, structured finance, investor relations, corporate strategy and corporate governance. He was appointed to the Management Board in March 2010.

**Marat Aitenov** prior to his appointment to the Development Bank of Kazakhstan he held an office of Executive Director – Director of the Legal Department of JSC National Welfare Fund "Samruk-Kazyna", Managing Director of JSC Sustainable Development Fund "Kazyna", Managing Director – Member of the Board of JSC National Innovation Fund. In different years he worked at Republican State Enterprise Institute of Economic Research, JSC Center for Marketing and Analytical Research, Ministry of Economy and Budget Planning of the Republic of Kazakhstan, Ministry of Justice of the Republic of Kazakhstan, Firm "Asyk-Ata-Gas" LLP. He was awarded the Certificates of Merits of the Minister of Justice, Minister of Economy and Budget Planning for exemplary performance of his job duties and distinguished state service. Graduated from Miras University (law), Girne College, Cambridge, UK, Moscow State University after M.Lomonosov (economics and entrepreneurship).

**Nurlan Niyetbayev**, prior to his appointment to the Development Bank of Kazakhstan, was the Chairman of the Board and President of GRANTUM Pension Fund (Subsidiary of Kazkommertsbank). From 2001 until 2006 Niyetbayev held positions of the Managing Director

and Vice-President of DBK. From 2007 until 2008 – Deputy Chairman of the Board of the Damu Entrepreneurship Development Fund. From February 2008 until October 2010 Mr. Nietbayev worked as the Director of the Project Group of the Eurasian Development Bank. Graduate of the Kazakh Economic University.

The business address of the members of the Management Board is the registered office of DBK, namely, 10, Orynbor Street, “Kazyna Tower” Building, Yesil District, Astana, Republic of Kazakhstan.

### **Corporate Governance**

DBK’s Code of Corporate Governance, which was approved by Samruk-Kazyna on 14 March 2008, is constructed upon the following principles:

- protection of the rights and interests of the sole shareholder;
- efficient management of DBK by the Board of Directors and the executive body (the Management Board);
- efficient control over the financial and economic activities of DBK;
- transparency and accurate disclosure of information;
- compliance with laws and ethical standards;
- social responsibility and the development of partnership relations with interested parties; and
- regulation of corporate conflicts.

Four members of the Board of Directors are independent directors. These directors are appointed by the sole shareholder of DBK.

In addition to the establishment of the committees of the Board of Directors as described below, the Service of the Corporate Secretary of the Board of Directors and the Compliance Control Service has been established by DBK to assist the Board of Directors in ensuring DBK’s compliance with corporate governance policies. The Service of the Corporate Secretary was established to assist the Board of Directors in performing its duties and to protect the rights and interests of the sole shareholder. The Compliance Control Service was established to ensure the effective management of compliance risks and has exclusive competence to exercise internal control over the compliance of DBK with the legislation of Kazakhstan, including rulings of the NBK and the internal regulations and procedures of DBK.

The corporate governance efforts of DBK were recognised by the international financial periodical Euromoney in 2007 which named DBK as “The Leading Bank in Corporate Governance in Emerging Europe”. In addition, on 14 January 2010, DBK was assigned a governance, accountability, management, metrics and analysis (GAMMA) score of GAMMA-5 from Standard & Poor’s Governance Services. In 2011 Standard & Poor’s Governance Services upgraded DBK’s corporate governance score to GAMMA-5+. On 5 August 2011, Standard & Poor’s announced confirmation of the GAMMA rating assigned to DBK at the level of “GAMMA 5+” and its immediate withdrawal. The GAMMA rating was withdrawn at the initiative of Standard & Poor’s in connection with the agency’s decision to stop providing services to evaluate corporate governance on the GAMMA methodology. In its official press release Standard & Poor’s stated that despite the GAMMA rating withdrawal, it will continue to evaluate DBK’s corporate governance in the Bank’s credit analysis.

The strengths of DBK’s corporate governance practices reflect the commitment of Samruk-Kazyna to strengthening the governance practices of its subsidiaries (including DBK).

## **Board Committees**

The Board of Directors has established the following committees:

### **Audit Committee**

The Audit Committee was established to facilitate the monitoring of DBK's financial and economic activities and to ensure that there is an adequate system of internal control and risk management in operation. The Audit Committee is responsible for the promotion and strengthening of DBK's internal and external audit functions.

As at 1 May 2012, the members of the Audit Committee are Ulf Wokurka (chairman), Jacek Brzezinski, Kay Zwingenberger, Zhaslan Madiyev and Bakhyt Zhussupbekova (secretary).

### **Risk Management Committee**

The role of the Risk Management Committee is to assist the Board of Directors in risk monitoring, risk control and risk analysis.

As at 1 May 2012, the members of the Risk Management Committee are Ulf Wokurka (chairman), Jacek Brzezinski, Kamilla Khairova, Kay Zwingenberger, and Aray Iskakova (secretary).

### **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee was established to make recommendations to the Board of Directors regarding human resources management, employee motivation policies and nominations to and remuneration of the Board of Directors.

As at 1 May 2012, the members of the Nomination and Remuneration Committee are Jacek Brzezinski (chairman), Ulf Wokurka, Nurlan Kussainov, Kay Zwingenberger and Botagoz Yermekova (secretary).

### **Strategic Planning Committee**

The role of the Strategic Planning Committee is to make recommendations to the Board of Directors in relation to the development of the priority sectors and strategic aims of DBK. As at 30 April 2012, the members of the Strategic Planning Committee are Ulf Wokurka (chairman), Jacek Brzezinski, Zhaslan Madiyev, Kay Zwingenberger, Saule Kazybayeva, Daulet Bekbergenov and Berik Mamykov (secretary).

### **Other Committees and Support Bodies**

The Management Board is also assisted by the Credit Committee, Project Committee, the Budget Commission, the Investment Committee, the Asset and Liability Committee and the Methodological Council.

The Project Committee is responsible for the preliminary consideration of issues and making recommendations to the Credit Committee in relation to credit policy, the Budget Commission assists with the timely development and execution of the budget for each financial year and the Methodological Council is primarily tasked with providing recommendations for the improvement and implementation of legal and practical systems relating to the management of DBK's activities.

### **Internal Audit Service**

As at 31 December 2011, the Internal Audit Service consists of four DBK employees. The Head of the Internal Audit Service and its members are appointed by the Board of Directors with the prior approval of the Audit Committee. The Head of the Internal Audit Service has the right to

convene an extraordinary meeting of the Board of Directors of DBK or the Audit Committee on issues within the competence of the Internal Audit Service. The current members of the Internal Audit Service are Alexandr Zaikin (appointed in March 2012), Altyn Nurkeeva (appointed in February 2006), Bakhyt Zhussupbekova (appointed in September 2008), Assel Tangisheva (appointed in December 2010), and Ermek Kulmanbetov (appointed in March 2011).

### **Management Remuneration**

Determination of the amounts and terms of remuneration for the Board of Directors of DBK is the responsibility of the sole shareholder of DBK. Remuneration of executive officers is based on DBK's financial performance results and is determined by the Board of Directors. As at 31 December 2011, there were no outstanding loans or guarantees granted by DBK to any member of the Board of Directors or the Management Board or to any parties related to them.

### **Conflicts of Interest**

There are no potential conflicts of interest between any duties of the members of the Board of Directors and the Management Board of DBK towards DBK and their private interests or other duties. Board of Directors has adopted policies and guidelines on identification, prevention, resolution, and reporting of potential conflicts of interest of executive officers and employees of DBK.

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## SECTION 5.0 SELECTED FINANCIAL INFORMATION AND OTHER DATA

The audited selected financial information for DBK presented below as at and for the years ended 31 December 2011, 2010 and 2009 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the Audited Annual Financial Statements, including the notes thereto, included elsewhere in this Information Memorandum.

Prospective investors should read the selected financial information in conjunction with the information contained under the headings "Risk Factors", "Capitalisation", "Management's Discussion and Analysis of Results of Operations and Financial Condition", "Selected Financial Information and Other Data", and "Business Overview", as well as the Financial Statements, including the notes thereto, included elsewhere in this Information Memorandum.

### Selected Information from the Consolidated Statement of Comprehensive Income and Financial Position

#### (a) Consolidated Statement of Comprehensive Income

	For the year ended 31 December		
	2011 KZT million	2010 KZT million	2009 KZT million
Interest income.....	60,402.7	53,956.1	41,868.9
Interest expense.....	(35,068)	(29,996.7)	(18,626)
<b>Net interest income.....</b>	<b>25,334.7</b>	<b>23,959.4</b>	<b>23,242.9</b>
Fee and commission income.....	201	203.2	181.7
Fee and commission expense.....	(4,433.8)	(86.5)	(142.6)
<b>Net fee and commission income.....</b>	<b>(4,232.8)</b>	<b>116.8</b>	<b>39</b>
Net foreign exchange gain.....	243.7	395.4	7,667.6
Net realised (loss)/gain on available-for-sale financial assets....	(111.8)	863.7	513.5
Net (loss)/gain on derivative financial instruments.....	(2,181.5)	400	(3,297)
Gain on repurchase of debt securities issued.....	46	567.5	-
Other income, net.....	30.8	414.6	1,174.1
<b>Operating income.....</b>	<b>19,129.1</b>	<b>26,717.3</b>	<b>29,340.2</b>
Impairment losses.....	(35,603.6)	(19,787)	(73,414.1)
General administrative expenses.....	(3,641.1)	(2,842.3)	(2,767.1)
<b>(Loss)/profit before taxes.....</b>	<b>(20,115.6)</b>	<b>4,088</b>	<b>(46,841)</b>
Income tax benefit/(expense).....	3,113.7	(1,861.9)	7,365.4
<b>(Loss)/profit for the period.....</b>	<b>(17,001.9)</b>	<b>2,226.2</b>	<b>(39,475.7)</b>
<b>Other comprehensive income</b>			
Net change in fair value of available-for-sale financial assets.....	(33,749.9)	1,557.9	40,713.5
Impairment on available-for-sale financial assets transferred to profit or loss.....	-	-	2,193.1
Net change in fair value of available-for-sale financial assets transferred to profit or loss.....	111.8	(953.7)	(313.4)
Net unrealised gain on hedging instruments, net of tax of KZT 11.1 million (31 December 2010: KZT 94.1 million, 31 December 2009: KZT 939.7 million).....	44.4	504.8	5,550.5
Net unrealised loss on hedging instruments, net of tax of KZT 74.6 million transferred to profit or loss.....	298.5	-	-
<b>Other comprehensive (loss)/income for the year.....</b>	<b>(33,295.3)</b>	<b>1,109.0</b>	<b>48,143.6</b>
<b>Total comprehensive (loss)/income for the year.....</b>	<b>(50,297.2)</b>	<b>3,335.1</b>	<b>8,668.0</b>



(b) Consolidated Statement of Financial Position

	As at 31 December		
	2011	2010	2009
	KZT million	KZT million	KZT million
<b>Assets</b>			
Cash and cash equivalents.....	143,500.2	198,229.9	293,316.2
Placements with banks and other financial institutions.....	23,416.5	25,030.9	44,481.7
Derivative financial instruments.....	590.3	442.5	-
Amounts receivable under reverse repurchase agreements.....	42,301	33,194.7	-
Loans to customers.....	275,447.4	320,890.9	201,412.3
Finance lease receivables.....	22,704.7	24,565.9	19,276.9
Available-for-sale financial assets....	361,745.9	338,634.7	268,830.2
Held to maturity investments.....	2,934.6	2,707.1	-
Equipment and intangible assets.....	235.6	190.2	150.7
Advances for finance leases.....	638.5	333.1	484.0
Assets to be transferred under finance lease agreements.....	1,230.2	1,411.8	5,782.2
Other assets.....	6,013.4	6,732.4	7,397.8
Current tax asset.....	162.4	188.2	532.5
Deferred tax assets.....	8,989.1	6,058.4	8,001.0
<b>Total assets</b> .....	<b>889,909.9</b>	<b>958,610.8</b>	<b>849,665.5</b>
<b>Liabilities</b>			
Current accounts and deposits from customers.....	1,255.6	1,706.3	45,181.2
Loans from the Government of the Republic of Kazakhstan.....	25,908.9	24,023.3	30,886.1
Loans from the Parent Company.....	12,868.6	2,420.1	-
Loans from banks and other financial institutions.....	440,203.2	517,302.0	430,143.2
Government grants.....	11,517.8	11,133.3	9,459.5
Debt securities issued.....	164,855.3	117,706.9	51,372.4
Subordinated debt.....	5,050.8	4,542.8	2,723.8
Other liabilities.....	9,242.3	4,428.2	2,673.3
Derivative financial instruments.....	7,916.3	7,466.8	8,183.9
<b>Total liabilities</b> .....	<b>678,818.6</b>	<b>690,729.8</b>	<b>580,623.5</b>
<b>Equity</b>			
Share capital.....	255,976.0	255,976.0	255,976.0
Reserve capital.....	17,712.3	17,712.3	17,666.7
Hedging reserve.....	-	(342.9)	(847.7)
Revaluation reserve for available- for-sale financial assets.....	3,030.3	36,668.5	36,064.3
Accumulated losses.....	(65,627.3)	(42,132.8)	(39,817.4)
<b>Total equity</b> .....	<b>211,091.3</b>	<b>267,881</b>	<b>269,041.9</b>
<b>Total liabilities and equity</b> .....	<b>889,909.9</b>	<b>958,610.8</b>	<b>849,665.5</b>

(c) *Selected financial ratios and economic data*

The table below sets forth DBK's selected financial ratios and economic data for Kazakhstan as for the years ended, 31 December 2011, 2010 and 2009:

	As at and for the year ended 31 December		
	2011	2010	2009
	KZT million	KZT million	KZT million
<b>Profitability Ratios (%)<sup>(1)</sup></b>			
Return on average total equity.....	(7.1)	0.8	(21.6)
Return on average assets <sup>(2)</sup> .....	(1.8)	0.2	(6.4)
Net interest margin <sup>(3)</sup> .....	2.8	2.7	3.9
Net interest spread <sup>(4)</sup> .....	1.3	1.2	2.5
Non-interest expense/net interest income plus non-interest income <sup>(5)(6)</sup> .....	(34.3)	(10.9)	(9.9)
Non-interest expense as a percentage of net interest income <sup>(5)</sup> .....	(31.9)	(12.2)	(12.5)
Non-interest expense as a percentage of average total assets <sup>(6)</sup> .....	(0.9)	(0.3)	(0.5)
<b>Loan Portfolio Quality (%)<sup>(7)</sup></b>			
Allowance for impairment losses/gross loans to customers.....	31.3	22.1	28.3
<b>Balance Sheet Ratios and Capital Adequacy (%)</b>			
Loans to customers-total assets.....	31.0	33.5	23.7
Total equity-total assets.....	23.7	27.9	31.7
Liquid assets-total assets <sup>(8)</sup> .....	64.2	62.1	71.4
Contingent liabilities-total equity <sup>(9)</sup> .....	122.5	98.2	36.3
Direct liabilities-total equity <sup>(10)</sup> .....	311.7	252.0	211.3
Capital adequacy ratio <sup>(11)</sup> .....	16.4	20.7	26.3
<b>Economic Data<sup>(12)</sup></b>			
Period-end exchange rate (KZT/U.S.\$).....	148.4	147.5	148.4
Average exchange rate for period (KZT/U.S.\$).....	146.6	147.3	147.5
Inflation growth rate (CPI) (%) <sup>(13)</sup> .....	8.3	7.8	6.2
GDP growth (real) (%) <sup>(13)</sup> .....	7.5	7.0	1.2

*Notes:*

- (1) Averages are based upon opening and closing balances. Average equity and total equity were calculated using opening and closing balances for each relevant period.
- (2) Return on average assets is net profit divided by average period assets. Average period assets are calculated on opening and closing balances for each relevant period.
- (3) Net interest margin is net interest income as a percentage of average interest-bearing assets. Interest-bearing assets consist of cash and cash equivalents, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, loans to customers, finance lease receivables, available-for-sale financial assets and held to maturity investments.
- (4) Net interest spread is the difference between the average interest rate on interest-bearing assets and the average interest rate on interest-bearing liabilities. Interest-bearing liabilities consist of current accounts and deposits from customers, loans from the Government of the Republic of Kazakhstan, loans from the Parent Company, loans from banks and other financial institutions, debt securities issued and subordinated debt.
- (5) Non-interest expense is comprised of fee and commission expense and operating expenses.
- (6) Non-interest income is comprised of net gain/(loss) on derivative financial instruments, net gain/(loss) on foreign exchange operations, fee and commission income, net realised gain on available-for sale financial asset, gain on repurchase of debt securities issued and other income.
- (7) Calculated using gross loan balances, excluding accrued interest.
- (8) Liquid assets comprise investments available-for-sale plus cash and cash equivalents, placements with banks and other financial institutions, derivative financial instruments and amounts receivable under reverse repurchase agreements.
- (9) Contingent liabilities include commitments on loans and unissued credit lines, letters of credit and other transaction-related contingent obligations, as well as guarantees issued less provision on letters of credit.
- (10) Direct liabilities include loans and advances from the Government of the Republic of Kazakhstan, loans from banks and other financial institutions, current accounts and deposits from customers, debt securities issued, loans from the Parent Company, subordinated debt, amounts payable under repurchase agreements and derivative financial instruments.
- (11) Calculated as a ratio of DBK's consolidated equity capital, as calculated according to BASEL II principles to its risk-weighted assets calculated according to BASEL II.
- (12) Based on data from the NBK and the NSA.
- (13) Year-on-year rate.

## Average Balance Sheet and Interest Rates

The following tables set forth the average balances for DBK's interest-earning assets and interest-bearing liabilities, together with weighted average rates and the corresponding amount of interest income (expense) for the periods indicated:

	For the years ended 31 December								
	2011			2010			2009		
	Average balance	Average interest rate	Interest Income/Expense	Average balance	Average interest rate	Interest Income/Expense	Average balance	Average interest rate	Interest Income/Expense
	KZT million	(%)	KZT million	KZT million	(%)	KZT million	KZT million	(%)	KZT million
<b>Interest-earning assets</b>									
Cash and cash equivalents.....	170,865.1	0.3	510.0	245,773.1	1.48	3,638.9	182,856.8	1.27	2,316.3
Placements with banks.....	24,223.7	5.84	1,413.9	34,756.3	12.11	4,207.4	27,451.2	6.04	1,657.9
Loans to customers.....	298,169.2	9.61	28,649.5	261,151.6	9.10	23,760.6	194,568.7	14.84	28,864.8
Finance lease receivables.....	23,635.3	8.0	1,891.5	21,921.4	8.80	1,929.5	14,811.1	11.06	1,638.3
Available-for-sale assets.....	350,190.3	7.12	24,921.0	303,732.5	6.65	20,188.5	169,708.8	4.08	6,930.9
Amounts receivable under reverse repurchase agreements.....	37,747.8	7.45	2,812.6	16,597.4	0.49	81.6	6,492.2	7.10	460.7
Held-to-maturity investments.....	2,820.9	7.24	204.3	1,353.6	11.06	149.6	-	-	-
<b>Total interest-earning assets.....</b>	<b>907,652.2</b>	<b>6.65</b>	<b>60,402.7</b>	<b>885,285.7</b>	<b>6.09</b>	<b>53,956.1</b>	<b>595,888.8</b>	<b>7.03</b>	<b>41,868.9</b>
<b>Interest-bearing liabilities</b>									
Loans and advances from the Government.....	24,966.1	0.32	(79.4)	27,454.7	0.29	(79.4)	32,394.6	0.24	(79.2)
Loans from Samruk-Kazyna.....	7,644.4	4.18	(319.8)	1,210.1	9.89	(119.7)	25,194.3	10.43	(2,628.7)
			(24,959.2)			(26,171.4)			
Loans from banks.....	478,752.6	5.21	2	473,722.6	5.52	4	284,089.9	4.28	(12,150.2)
Customer accounts.....	1,481.0	0.0	0.0	23,443.8	0.0	(1.1)	22,906.6	0.01	(2.4)
Debt securities issued.....	141,281.1	6.69	(9,449.5)	84,539.7	4.10	(3,468.7)	46,525.2	7.47	(3,474.0)
Subordinated debt.....	4,796.8	4.26	(204.3)	3,633.4	4.12	(149.6)	1,362.9	2.22	(30.3)
Amounts payable under repurchase agreements.....	-	-	(55.8)	-	-	(6.8)	2,506.2	10.42	(261.2)
<b>Total interest-bearing liabilities.....</b>	<b>658,921.9</b>	<b>5.32</b>	<b>(35,068.0)</b>	<b>614,004.1</b>	<b>4.89</b>	<b>(29,996.7)</b>	<b>414,978.7</b>	<b>4.49</b>	<b>(18,626.0)</b>
<b>Net interest income.....</b>			<b>25,334.7</b>			<b>23,959.4</b>			<b>23,242.9</b>

Note: average balances are calculated as arithmetic average of end-of-the year and beginning of the year balance sheet amounts.

The average interest rate on interest-earning assets increased to 6.65% for the year ended 31 December 2011 from 6.09% for the year ended 31 December 2010 and 7.03% for the year ended 31 December 2009. The decrease in the average interest rate on interest-earning assets in 2011, as compared to 2010 and 2009, was primarily due to the decrease of DBK's own lending rates. See "—Loan Portfolio".

The average interest rate on interest-bearing liabilities increased to 5.32% for the year ended 31 December 2011 from 4.89% for the year ended 31 December 2010, after having increased from 4.49% for the year ended 31 December 2009. The increase in the average interest rate on interest-bearing liabilities in 2011, as compared to 2010, was primarily due to the generally higher interest rate environment. See "—Principal Sources of Funding".

Despite decreasing average interest rate on interest-earning assets and increased average interest rate on interest-bearing liabilities DBK keeps positive average interest rate margin at 2.8%.

### Loan Portfolio

Net total loans decreased by KZT 45,443.5 million, or 14.2% to KZT 275,447.4 million as at 31 December 2011 from KZT 320,890.9 million as at 31 December 2010, after having increased in 2010 by KZT 119,478.6 million, or 59.3%, from KZT 201,412.3 million as at 31 December 2009. The increase in DBK's loan portfolio since 31 December 2009 is primarily due to DBK's strategy for expanding its loan portfolio in line with its role as a development bank in Kazakhstan. See "Business Overview—Strategy" and "Business Overview—Lending".

The following table presents the gross and net total loan amounts.

	As at 31 December, KZT million				
	2011	2010	2009	2008	2007
Gross total loans.....	400,675.1	412,055.1	280,952.7	200,513.9	79,972.6
Impairment allowance.....	(125,227.7)	(91,164.2)	(79,540.4)	(12,788.7)	(2,842.4)
<b>Net total loans.....</b>	<b>275,447.4</b>	<b>320,890.9</b>	<b>201,412.3</b>	<b>187,725.2</b>	<b>77,130.2</b>

(a) *Loans by Type of Borrower*

In line with DBK's mission as a development bank, large corporate borrowers, which are borrowers with over 250 employees and average assets in excess of U.S.\$3 million, seeking funding for large infrastructure and industrial projects have historically comprised the largest component of DBK's loan portfolio, with loans to large corporates accounting for over 99.0% of total gross loans to customers as at 31 December 2011.

(b) *Loans by Economic Sector*

The following table sets forth an analysis of DBK's loan portfolio, by economic sector, before impairment, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Mining, metallurgy and mineral resources.....	86,306.2	21.5	96,242.7	23.4	35,994.8	12.8
Agriculture.....	67,499.2	16.8	52,360.0	12.7	60,953.3	21.7
Oil and gas.....	51,026.6	12.7	49,006.3	11.9	2,054.7	0.7
Transportation and warehousing.....	33,015.8	8.2	33,167.2	8.0	34,762.2	12.4
Textile.....	35,675.5	8.9	34,485.1	8.4	32,189.7	11.5
Energy and electricity distribution.....	26,756.8	6.7	36,255.9	8.8	21,391.9	7.6
Construction materials.....	26,359.5	6.6	25,342.7	6.2	22,149.6	7.9
Chemical.....	20,929.9	5.2	20,389.2	4.9	22,022.1	7.8
Paper and pulp.....	13,520.9	3.4	13,201.0	3.2	13,509.0	4.8
Food processing.....	9,409.5	2.3	9,588.8	2.3	10,675.2	3.8
Manufacturing.....	19,688.1	4.9	18,501.5	4.5	7,757.2	2.8
Machinery producing.....	7,765.8	1.9	7,782.7	1.9	6,476.4	2.3
Recycling.....	-	-	-	-	5,743.4	2.0
Telecommunication.....	559.0	0.1	925.6	0.2	1,745.6	0.6
Mortgage.....	630.4	0.2	673.9	0.2	311.7	0.1
Electric equipment.....	146.4	0.0	284.4	0.1	494.8	0.2
Fishery.....	306.6	0.1	295.0	0.1	296.9	0.1
Other.....	1,078.9	0.3	13,553.1	3.3	2,424.2	0.9
<b>Total gross loans.....</b>	<b>400,675.1</b>	<b>100.0</b>	<b>412,055.1</b>	<b>100.0</b>	<b>280,952.7</b>	<b>100.0</b>
Impairment allowance.....	(125,227.7)	-	(91,164.2)	-	(79,540.4)	-
<b>Total loans to customers.....</b>	<b>275,447</b>	<b>-</b>	<b>320,890.9</b>	<b>-</b>	<b>201,412.3</b>	<b>-</b>

Growth of the gross loan portfolio by 42.6% in 2009-2011 was mainly associated with increasing lending volumes to projects in metallurgy (mainly a loan for the aluminium smelter construction project) and petrochemical industry (mainly financing of projects of Atyrau Oil Refinery LLP and Kazakhstan Petrochemical Industries LLP).

As of 31 December 2011 the largest shares of the loan portfolio are accounted for by mining, agriculture, petrochemical industry (oil processing), transportation, and textiles. Changes in the breakdown of the loan portfolio by sector were mainly due to larger shares of metallurgy, petrochemicals, along with a significant reduction in the shares of agriculture, transportation, textiles, and chemical industry.

In general, the breakdown of loans granted to customers in the different economic sectors can fluctuate significantly as a result of a single loan disbursement repaid in a given period.

In accordance with the Credit Policy Memorandum, the Board of Directors sets limits set on DBK's total exposure under investment projects to a specific economic sector as a percentage of DBK's own capital. See "—Loan Policies and Credit Approval Procedures".

(c) *Loans by Geographic Location*

As at 31 December 2011, over 99.9% of total loans to customers are to customers in Kazakhstan. For the purposes of the overall development of the territories of Kazakhstan and their involvement in the relation to the Industrial and Innovation Development Strategy of Kazakhstan, now superseded by the Industrialisation Programme (as defined below), DBK carries out lending in all regions of Kazakhstan. See "Business Overview—Participation in Government Programmes—Industrialisation Programme". The regional distribution across the loan portfolio varies depending on the nature and industry of investment projects being undertaken as at any given date.

(d) *Loans by Currency*

The following table sets forth an analysis of DBK's loan portfolio, by currency, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Tenge.....	41,044.0	14.9	66,017.7	20.6	9,080.6	4.5
U.S. Dollars.....	226,491.1	82.2	247,169.1	77.0	189,949.3	94.3
Euros.....	3,056.8	1.1	3,570.8	1.1	2,382.4	1.2
Other currencies.....	4,855.6	1.8	4,133.3	1.3	-	-
<b>Total net loans to customers.....</b>	<b>275,447.4</b>	<b>100.0</b>	<b>320,890.9</b>	<b>100.0</b>	<b>201,412.3</b>	<b>100.0</b>

DBK lends in Tenge and foreign currencies, depending on customer requirements, provided that, in general, DBK will only lend in foreign currencies if the customer has revenues in foreign currencies. Loans in Tenge generally carry a higher interest rate than loans in U.S. Dollars. The currency mix of DBK's loans has generally been stable in 2011 and the non-recurring extraordinary increase in absolute and relative terms of loans denominated in Tenge in 2010 was due to the disbursement of the loan in respect of the Atyrau Refinery. See "Business Overview—Lending".

(e) *Loans by Maturity*

The following table sets forth an analysis of DBK's loan portfolio after allowances for losses, by maturity, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Less than one month.....	-	-	1,201.1	0.4	-	-
One month to three months.....	28.4	-	2,698.6	0.8	587.5	0.3
Three months to one year.....	898.5	0.3	9,780.5	3.1	19,093.2	9.5
One year to five years.....	41,872.2	15.2	47,638.1	14.8	45,126.9	22.4
More than five years.....	198,951.7	72.3	227,241.3	70.8	133,336.1	66.2
Overdue.....	33,696.7	12.2	32,331.3	10.1	3,268.6	1.6
<b>Total net loans to customers.....</b>	<b>275,447.5</b>	<b>100.0</b>	<b>320,890.9</b>	<b>100.0</b>	<b>201,412.3</b>	<b>100.0</b>

Reflecting its principal mission as a development bank to provide financing for large-scale investment projects, DBK's loan portfolio is principally comprised of loans with more than five years until maturity, which accounted for 72.2% of total net loans as at 31 December 2011, as compared to 70.8% and 66.2% as at 31 December 2010 and 2009, respectively. In addition, loans with between one and five years until maturity comprised 15.2%, 14.8% and 22.4% the loan portfolio as at 31 December 2011, 2010, and 2009 respectively.

(f) *Loans by Size*

The following table sets forth an analysis of DBK's loan portfolio (for investment projects only), by size, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	Principal Amount USD million	No. of Loans	Principal Amount USD million	No. of Loans	Principal Amount USD million	No. of Loans %
Under USD 25 million.....	378.7	33	467.8	39	68,076.0	46
USD 25-50 million.....	369.7	11	307.1	9	41,645.9	8
USD 50-100 million.....	696.0	10	854.9	13	106,463.5	10
USD 100-200 million.....	374.5	3	342.4	3	0.0	0
Over USD 200 million.....	1,461.9	2	1,463.1	2	0.0	0

*Loan Policies and Credit Approval Procedures*

The DBK Law, the Credit Policy Memorandum and DBK's internal credit policy rules set out the principal guidelines in relation to DBK's lending policies, including the duration, limits and the bases for the calculation of interest rates charged for all lending.

Pursuant to the Credit Policy Memorandum, the Board of Directors makes decisions in relation to the financing of investment projects and export transactions and the granting of loans otherwise in amounts exceeding U.S. \$50 million (or its equivalent) and in relation to the financing of leasing transactions. Applications for the financing of investment projects, export transactions and leasing transactions will only be reviewed by the Board of Directors upon receipt of positive recommendations from the Management Board and the Credit Committee. Pursuant to the Credit Policy Memorandum, DBK's Management Board may make decisions in relation to the financing of investment projects, export transactions and the granting of credit instruments up to an amount not exceeding U.S.\$50 million (or its equivalent) and 10.0% of DBK's own capital. The Management Board also reports to the Board of Directors in relation to problem investment projects, export transactions and leasing transactions. Applications for the financing of investment projects, export transactions, leasing transactions will only be reviewed by the Management Board upon receipt of positive recommendations from the Credit Committee.

DBK's credit approval process is based on the Credit Policy Memorandum, its regulations on internal lending policies and other internal regulations and procedures approved by DBK's Board of Directors and Management Board.

The Credit Policy Memorandum provides that the level of DBK's exposure to any single borrower or group of affiliated borrowers shall be set by the Board of Directors. Such exposure according to DBK's internal credit policy rules is limited to 25% of its total equity at any given time, unless such borrower is an entity in which the State or Samruk-Kazyna owns 50% or more of the voting shares or participatory interests, in which case the exposure is not limited but may be specially defined by the Board of Directors.

As with DBK's exposure to a single borrower or group of affiliated borrowers, industry sector exposure limits are also set by the Board of Directors. Such exposure is limited to 25% of DBK's total assets at any given time, except in the case of chemical and chemical products, where the limit is 50% at any given time.

DBK is in compliance with the exposure limits set out in the Credit Policy Memorandum.

Pursuant to DBK's internal credit policy rules, the structure of DBK's loan portfolio, in terms of sources, maturities and fees charged for credit, is set by the Assets and Liabilities Management Committee ("ALCO"). DBK's Project Offices and Risk Management Department are responsible for evaluating DBK's loan portfolio, including its credit quality, and establishing allowances and provisions in relation thereto.

Since the start of its operations in 2001, as at 31 December 2011 DBK has approved 182 credit applications to finance investment projects and export transactions to the aggregate amount of U.S. \$10,644 million. Many of these projects and operations are co-financed with other financial institutions, and DBK's participation in such projects amounted to U.S. \$5,285 million.

(a) *Loan Classification Policies*

Since February 2012 DBK is not subject to loan classification requirements established by the Committee for Control and Supervision of the Financial Market and Financial Organizations of NBK. The loan book is broken down into the following 5 categories for analytical purposes:

1. Loans without individual signs of impairment.
2. Impaired loans not past due.
3. Impaired loans overdue less than 90 days.
4. Impaired loans overdue more than 90 days and less than 360 days.
5. Impaired loans overdue more than 360 days.

(b) *Loan Provisioning Policy*

Loan loss provisioning is estimated monthly based on internal rules, developed in accordance with IFRS. Significant increase in impairment levels during 2011 took place due to adoption of a conservative approach to loan provisioning as a whole.

DBK's Financial Department, Loan Administration Department, Project Divisions and Risk Management Department are responsible for the process of loan loss provisioning.

(c) *Credit Monitoring*

DBK has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor DBK's credit risk. See "Asset and Liability Management—Principal Committees—Credit Committee".

Investment projects financed by DBK are monitored periodically at all phases of the project, i.e. from construction through to cash-flow generation. Within the procedures implemented, following types of monitoring can be highlighted:

1. The financial condition of borrowers, co-borrowers and guarantors is assessed on a quarterly basis;
2. The value of collateral is reviewed twice a year. See "—Policies relating to Collateral";
3. Legal review is conducted each 6 months and in parallels with the Field monitoring;
4. Field monitoring is conducted once or twice a year based on financial condition of the borrower and includes complex review of the collateral, assessment of documents, identification and analysis of mismatches between reported and real conditions in order to prevent risks of loss;
5. In order to avoid risks related to the borrower's failure to comply with obligations, Bank constantly monitors payment purposes and schedules/due dates.

Problem loans are handled in either the Problem Loan Department or the Loan Restructuring Department in accordance with DBK's internal policies. In the event that an attempted loan restructuring is unsuccessful, the loan is then handled by the Problem Loan Department. Borrowers whose loans are in the Problem Loan Department are generally considered to be insolvent and unable to pay the debt. As of 31 December 2011, there are 24 borrowers with the total outstanding principal of U.S.\$480.2 million in the Problem Loan Department. Management of problem loans includes ensuring repayment of credit resources, recovery of fundamentally competitive projects, negotiating with potential investors into the projects, recovery of a debt through legal proceedings, and full-scale project restructuring.

There are 22 borrowers (representing seven corporate groups with activities in a range of economic sectors) whose loans, which total an aggregate outstanding principal amount of

approximately U.S.\$532.0 million, in the Loan Restructuring Department. Loans in this department meet two or more of the following criteria: (i) provisions of 50% or more; (ii) a weak collateral structure; (iii) the availability period having been extended by more than 50% of the initial period or on more than three occasions; (iv) more than 60 days delinquent in respect of payments; and (v) extensions being granted more than three times. Loans subject to restructuring may be converted into equity, in which case DBK will become a shareholder or the shareholder of the relevant company, or may be subject to restructuring with the benefit of further corporate or group guarantees and additional collateral.

(d) *Analysis of Loans by Credit Quality*

DBK estimates loan loss provisions on a monthly basis, applying internal rules, developed in accordance with IFRS.

The following tables set forth information on the credit quality of DBK's loan portfolio as at 31 December 2011, 2010 and 2009:

	As at 31 December 2011			
	Gross loans	Impairment KZT million	Net loans	Impairment to gross loans %
Loans without individual signs of impairment.....	184,902.0	(7,396.7)	177,505.3	4.0
Impaired loans, of which				
Not past due.....	28,728.3	(5,236.8)	23,491.5	18.2
Overdue by less than 90 days.....	4,131.5	(2,197.3)	1,934.2	53.2
Overdue by more than 90 days and less than 360 days.....	35,325.4	(14,497.3)	20,828.1	41.0
Overdue by more than 360 days.....	147,587.9	(95,899.6)	51,688.3	65.0
<b>Total impaired loans.....</b>	<b>215,773.1</b>	<b>(117,831.0)</b>	<b>97,942.1</b>	<b>54.6</b>
<b>Total loans.....</b>	<b>400,675.1</b>	<b>(125,227.7)</b>	<b>275,447.4</b>	<b>31.3</b>

	As at 31 December 2010			
	Gross loans	Impairment KZT million	Net loans	Impairment to gross loans %
Loans without individual signs of impairment.....	208,906.6	(6,348.2)	202,558.4	3.0
Impaired loans, of which				
Not past due.....	58,288.3	(12,990.0)	45,298.4	22.3
Overdue by less than 90 days.....	35,636.5	(21,803.8)	13,832.7	61.2
Overdue by more than 90 days and less than 360 days.....	67,287.5	(24,279.8)	43,007.7	36.1
Overdue by more than 360 days.....	41,936.2	(25,742.4)	16,193.8	61.4
<b>Total impaired loans.....</b>	<b>203,148.5</b>	<b>(84,816.0)</b>	<b>118,332.5</b>	<b>41.8</b>
<b>Total loans.....</b>	<b>412,055.1</b>	<b>(91,164.2)</b>	<b>320,890.9</b>	<b>22.1</b>

	As at 31 December 2009			
	Gross loans	Impairment KZT million	Net loans	Impairment to gross loans %
Loans without individual signs of impairment.....	135,581.1	(7,904.2)	127,677.0	5.8
Impaired loans, of which				
Not past due.....	94,013.1	(40,589.0)	53,424.1	43.2
Overdue by less than 90 days.....	32,706.5	(15,954.1)	16,752.4	48.8
Overdue by more than 90 days and less than 360 days.....	18,652.0	(15,093.1)	3,558.9	80.9
Overdue by more than 360 days.....	-	-	-	-
<b>Total impaired loans.....</b>	<b>145,371.6</b>	<b>(71,636.2)</b>	<b>73,735.4</b>	<b>49.3</b>
<b>Total loans.....</b>	<b>280,952.7</b>	<b>(79,540.4)</b>	<b>201,412.3</b>	<b>28.3</b>



(e) *Analysis of Movements in Loan Impairment Allowance*

The following table sets forth an analysis of movements in the loan impairment allowance for the years ended 31 December 2011, 2010 and 2009:

	Year ended 31 December		
	2011	2010	2009
	KZT million		
Balance at the beginning of the year.....	(91,164.2)	(79,540.4)	(12,788.7)
Net charge for the year.....	(33,338.8)	(18,834.2)	(66,853.0)
Effect of foreign currency movements.....	(599.2)	509.6	(3,197.2)
Recovery of accrued interest previously written-off.....	(125.4)	-	-
Write-offs.....	-	6,700.8	3,298.4
<b>Balance at the end of the year.....</b>	<b>(125,227.7)</b>	<b>(91,164.2)</b>	<b>(79,540.4)</b>

*Policies relating to Collateral*

Pursuant to the DBK Law, DBK requires collateral from all borrowers except in the circumstances where DBK's participation in the financing is made through 100% participation in share capital, mezzanine financing or interbank financing. In accordance with DBK's internal policies, the following forms of collateral may be accepted: immovable and moveable property (including assets created under the relevant project); legal rights of use and possession property rights; securities (including shares); cash and commodities and other forms of security not prohibited under Kazakhstan law. DBK also accepts security by way of third party guarantees, provided that such guarantees meet DBK's requirements. The main requirements in relation to collateral are set forth in DBK's Policy on Securing the Fulfilment of Obligations, which was approved by the Board of Directors.

The procedures for collateral appraisal and evaluation are set forth in the Collateral Appraisal Rules as approved by the Board of Directors and internal rules relating to the adequacy and monitoring of collateral as set out by the Management Board. Collateral is appraised by independent valuation companies. The Collateral Appraisal Department is responsible for the inspection and valuation of collateral and for preparing an internal report in relation to the same. The Collateral Appraisal Department reviews the quality of collateral at least twice a year. See "—Classification of Collateral".

(a) *Collateral by Type*

The following table sets forth an analysis of DBK's gross and net total loans to customer by type of collateral as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Mixed types of collateral.....	222,061.5	80.6	208,936.1	65.1	165,775.9	82.3
Guarantees of other companies.....	62,471.9	22.7	62,537.9	19.5	4,464.8	2.2
Motor vehicles and equipment.....	90,343.4	32.8	91,943.3	28.7	34,158.9	17.0
Guarantees of financial institutions.....	9,253.4	3.4	27,193.7	8.5	49,344.7	24.5
Cash.....	2,792.3	1.0	9,855.7	3.1	9,076.7	4.5
Real estate.....	4,886.7	1.8	3,782.7	1.2	10,166.6	5.0
Guarantees of the Government of the Republic of Kazakhstan.....	7,556.4	2.7	7,711.5	2.4	7,965.1	4.0
Guarantees of the Parent company.....	1,309.4	0.5	-	-	-	-
No collateral.....	-	-	94.4	-	-	-
Less impairment allowance.....	(125,227.7)	(45.5)	(91,164.2)	(28.4)	(79,540.4)	(39.5)
<b>Net loans to customers.....</b>	<b>275,447.4</b>	<b>100.0</b>	<b>320,890.9</b>	<b>100.0</b>	<b>201,412.3</b>	<b>100.0</b>

(b) *Classification of Collateral*

Collateral is classified in accordance with the Loan Classification and Provisioning Rules, as follows:

**"Reliable Collateral"** is highly liquid collateral covering, in aggregate, not less than 100% of the liability of the borrower, in the form of Kazakhstan governmental guarantees, guarantees from national holding companies and guarantees from legal entities resident in Kazakhstan, including

from banks with a credit rating of at least “BBB-” from S&P or an equivalent rating from another rating agency.

“**Good Collateral**” is highly liquid collateral (as in Reliable Collateral), which, in aggregate, covers not less than 70% of the borrowers’ liability or security in the form of guarantees of legal entities, resident in Kazakhstan, including banks with a credit rating of at least “B+” from S&P or an equivalent rating from another rating agency, which covers 100% of the borrower’s liability.

“**Satisfactory Collateral**” is Good Collateral whose value covers, in aggregate, not less than 75% of the borrower’s liability, Reliable Collateral whose value covers, in aggregate, not less than 60% of the borrower’s liability or other collateral covering, in aggregate, not less than 100% of the borrower’s liability, in the form of guarantees of legal entities resident in Kazakhstan, including banks with a credit rating of not lower than “B-” from S&P or an equivalent rating from another rating agency, future receivables as detailed in a business plan or money allocated for the settlement and servicing of the borrower’s liability under investment credits in state or local budgets. In addition, collateral formed in accordance with applicable legislation in relation to the maintenance of credit documentation by banks, in the form of movable property in an amount not exceeding 60% of the amount on the borrower’s balance sheet, inventory in an amount not exceeding 60% of the amount on the borrower’s balance sheet and immovable property, whose value covers, in aggregate, not less than 100% of the borrower’s liability will be accepted as Satisfactory Collateral.

“**Unsatisfactory Collateral**” is liquid collateral which, in aggregate, covers not less than 50% of the borrower’s liability.

“**No Collateral**” is unsecured credit or credit which is partially secured, where the amount of collateral covers, in aggregate, less than 50% of the borrower’s liability under the loan. Real collateral under investment projects (such as money, goods, real estate, equity construction and other) and collateral in the form of future receivables, claims and equity shares in household companies, other than assets with repayment terms in the form of a letter of credit, as well as collateral in the form of securities issued by DBK or a party affiliated with DBK are also treated as “No Collateral”.

#### *Contingent Liabilities and Other Off-Balance Sheet Exposures*

##### *(a) Contingent Liabilities*

In the normal course of business, DBK makes contractual commitments on behalf of its customers and, in order to meet the financing needs of its customers, is a party to financial instruments with off-balance sheet risk. Such commitments comprise principally loans or credit lines, whereby DBK agrees to make payments for customers’ accounts under certain conditions or in the event of default by a customer and receives a counter-indemnity from the customer , as well as (to a lesser extent), documentary credits for imports and exports, finance leases (under similar stand-by terms) and commitments with respect to recourse risks arising from discounted bills. These services are normally provided on a fee-paying basis.

The following table sets forth an analysis of DBK’s contingent liabilities as at 31 December 2011, 2010 and 2009.

	As at 31 December		
	2011	2010	2009
	KZT million		
Letter of credit and other commitments related to settlement operations.....	107,531	108,864.5	411.1
Others, of which:			
Finance Lease commitments.....	1,604.6	5,616.2	5,740.4
Loan, credit lines commitments.....	149,353.8	148,566.3	91,388.4
<b>Total.....</b>	<b>258,489.4</b>	<b>263,047</b>	<b>97,539.9</b>

## *Derivatives*

DBK enters into derivatives transactions, most commonly swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions, for hedging purposes. The risk management department monitors risks associated with derivatives, particularly market risks, and derivative instruments (other than such instruments qualifying for hedge accounting) are periodically marked-to-market to reflect their realisable values. According to DBK's existing policy, some of DBK's derivative instruments qualify for hedge accounting, either through fair value or cash flow hedges. See Note 3(f)(vii) and Note 29 to the audited annual consolidated financial statements as at and for the year ended 31 December 2009 and Note 3(f)(ii) and Note 28 to the audited annual consolidated financial statements as at and for the year ended 31 December 2008. See also "Presentation of Financial and Other Data".

As at 31 December 2011, the fair value liability of derivative financial instruments increased by KZT 449.4 million, or 6.02%, to KZT 7,916.2 million from KZT 7,466.8 million as at 31 December 2010. This increase in 2011 was mainly due to the increased number of derivative transactions over the period and the change in the fair value of the currency swap transaction due to mature in 2014. As at 31 December 2011, DBK's principal derivative transactions included a foreign currency swap for a notional amount of U.S.\$160 million due to mature in February 2014, which fair value liability was KZT 3,988.0 million; a foreign currency swap for a notional amount of U.S.\$122.3 million due to mature in June 2014, which fair value liability was KZT 3,357.7 million; four non-deliverable currency forwards, one for a notional amount of U.S.\$100 million, due to mature in May 2012, which fair value liability was KZT 287.0 million, one for a notional amount of U.S. \$100.0 million, due to mature in May 2012, which fair value assets were KZT 293.4 million, one for a notional amount of U.S.\$50.0 million, due to mature in June 2012, which fair value liability was KZT 283.5 million and one for a notional amount of U.S.\$50.0 million, due to mature in June 2012, which fair value assets were KZT 296.9 million.

As at 31 December 2010, the fair value liability of derivative financial instruments decreased by KZT 717.1 million, or 8.8% to KZT 7,466.8 million from KZT 8,183.9 million as at 31 December 2009. This decrease was mainly due to the change in fair value liability of existing foreign currency swaps due to mature in 2014.

As at 31 December 2009, the fair value liability of derivative financial instruments increased by KZT 707.9 million, or 9.5%, to KZT 8,183.9 million from KZT 7,476.0 million as at 31 December 2008. This increase was mainly due to the change in the fair value liability of existing foreign currency swaps due to mature in 2014.

As at 31 December 2011, the fair value asset of derivative financial instruments was KZT 590.3 million, as compared to KZT 442.5 million as at 31 December 2010 and nil as at 31 December 2009. This increase was due to the positive revaluation of a number of derivative transactions DBK entered into in 2010 and 2011.

## *Investment Portfolio and Management of Share Capital*

Pursuant to the Credit Policy Memorandum and the DBK Law, DBK is prohibited from utilising its share capital to fund investment projects and leasing transactions, save for the funding of certain export transactions in accordance with the limits set out in the Credit Policy Memorandum. Consequently, DBK invests its share capital in highly-liquid financial instruments in both international and domestic markets. A significant portion of DBK's investment portfolio consists of securities issued by the Government, Samruk-Kazyna and companies deemed to have a significant role in the country's economy, such as JSC National Company KazMunayGas and JSC Kazakhtelecom.

In accordance with its Strategy on Investment Portfolio Management, adopted on 7 August 2008, DBK aims to maintain adequate levels of liquidity and maximise the profitability of its assets. The long-term objectives for the management of DBK's investment portfolio are:

- the preservation of the real value of DBK's equity over time through, inter alia, the protection of authorised capital from the effects of inflation;
- the maintenance of sufficient asset liquidity through, inter alia, ensuring DBK's ability to cover current liabilities and benefit from new investment opportunities; and

- the maintenance of adequate asset profitability in relation to the level of risk assumed.

DBK actively manages its investments, selling selective assets in order to generate profits or minimise losses, enhance DBK's liquidity and funding base and maintain the diversity of its investment portfolio.

Pursuant to the Credit Policy Memorandum, the ratio of the investment portfolio invested in financial instruments is set by the Board of Directors. All financial instruments in the investment portfolio are classified into liquid and savings instruments in accordance with definitions and regulations established by the Treasury Department.

Liquid instruments consist of unutilised borrowed funds, which are used to maintain the required liquidity level. The weighted average duration of the liquid instruments investment portfolio should not exceed one year. Savings instruments consist of bonds issued by foreign and domestic corporate entities and by the Government, are funded through DBK's equity and serve to maintain DBK's capital at adequate levels. The weighted average duration of the savings instruments investment portfolio should not exceed five years, although the duration of securities issued by Samruk-Kazyna is not included in the calculation of the weighted average duration of the savings instrument investment portfolio.

The requirements set forth in the DBK Law, the Credit Policy Memorandum and the Strategy on Investment Portfolio Management permit DBK's share capital to be invested in the following types of instruments, subject to the specified limits:

<b>Savings instruments investment portfolio</b>	<b>Maximum exposure</b>
Securities issued by the Government, local authorities and Samruk-Kazyna.....	100%
Sovereign securities of foreign states, bonds with credit ratings of not lower than AAA- (S&P and Fitch Ratings Ltd. ("Fitch")).....	70%
Deposits with the NBK.....	90%
Deposits with domestic and foreign commercial banks.....	50%
Securities issued by companies within the Samruk-Kazyna group.....	90%
Supranationals with a maturity of no longer than five years.....	40%
Bonds issued by domestic and foreign corporate issuers.....	50%
Structured securities of up to one year with guaranteed principal and derivatives.....	3%
Other financial securities, that meet criteria set by the FMSC.....	10%

<b>Liquid instruments investment portfolio</b>	<b>Maximum exposure</b>
Deposits with the NBK, notes issued by the NBK and bonds issued by the Ministry of Finance of Kazakhstan.....	100%
Deposits with domestic and foreign commercial banks and bank deposit certificates with a duration of up to one year.....	100%
Securities issued by Samruk-Kazyna.....	100%
Securities issued by companies within the Samruk-Kazyna group.....	100%
Certain derivatives.....	3%
Money Market Funds with terms of up to one year.....	10%
U.S., Eurozone and U.K. bonds (with credit ratings of not lower than "A-" (S&P and Fitch)) with maturities from one to five years.....	10%
Other financial securities that meet the criteria set by the FMSC.....	10%

### *Finance Lease Receivables*

DBK conducts all of its finance lease operations through its wholly-owned subsidiary JSC DBK Leasing. See "Business Overview—JSC DBK Leasing".

As at 31 December 2011, DBK's finance lease receivables decreased by KZT 1,861.1 million, or 7.6% to KZT 22,704.7 million from KZT 24,565.9 million as at 31 December 2010 due to increase in JSC DBK Leasing's impairment.

As at 31 December 2010, DBK's finance lease receivables increased by KZT 5,289.0 million, or 27.4%, to KZT 24,565.9 million from KZT 19,276.9 million as at 31 December 2009.

(a) *Finance Lease Receivables by Lessee*

The following table sets forth the components of DBK's finance lease receivables, by type of lessee, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	KZT million	%	KZT million	%	KZT million	%
Leases to large corporates <sup>(1)</sup> .....	24,664.6	108.6	24,575.4	100.0	13,723.4	71.2
Leases to small- <sup>(2)</sup> and medium-sized <sup>(3)</sup> companies.....	1,103.9	4.9	1,185.1	4.8	6,608.1	34.3
<b>Total gross investment in finance leases</b> .....	<b>25,768.5</b>	<b>113.5</b>	<b>25,760.4</b>	<b>104.9</b>	<b>20,331.6</b>	<b>105.5</b>
Less impairment allowance.....	(3,063.7)	(13.5)	(1,194.5)	(4.9)	(1,054.7)	(5.5)
<b>Net investment in finance leases</b> .....	<b>22,704.7</b>	<b>100.0</b>	<b>24,565.9</b>	<b>100.0</b>	<b>19,276.9</b>	<b>100.0</b>

Notes:

- (1) Large corporates are corporate entities with more than 250 employees and average assets in excess of U.S.\$3 million.  
(2) Small companies are companies with up to 50 people and average assets of up to U.S.\$0.5 million.  
(3) Medium companies are companies with between 50 and 250 employees and average assets of between U.S.\$0.5 million and U.S.\$3 million.

(b) *Finance Lease Receivables by Economic Sector*

The following table sets forth the components of DBK's finance lease receivables, by economic sector, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Telecommunication and transportation.....	12,559.6	55.3	9,745.9	39.7	7,812.0	40.5
Textile.....	6,089.5	26.8	7,271.8	29.6	2,732.1	14.2
Construction.....	1,461.6	6.4	1,373.6	5.6	1,862.8	9.7
Metallurgy.....	1,195.3	5.3	1,490.0	6.1	2,166.7	11.2
Construction materials.....	609.7	2.7	1,387.7	5.6	1,525.1	7.9
Machinery.....	1,124.6	5.0	1,333.3	5.4	1,609.9	8.4
Agriculture.....	670.4	3.0	909.9	3.7	346.4	1.8
Mineral resources.....	892.8	3.9	1,055.1	4.3	1,322.9	6.9
Electric equipment.....	616.3	2.7	659.7	2.7	618.6	3.2
Food processing.....	482.8	2.1	164.2	0.7	244.6	1.3
Paper and pulp.....	66.0	0.3	71.1	0.3	79.7	0.4
Pharmaceutical.....	-	-	298.1	1.2	10.7	0.1
<b>Total gross investment in finance leases</b> .....	<b>25,768.5</b>	<b>113.5</b>	<b>25,760.4</b>	<b>104.9</b>	<b>20,331.6</b>	<b>105.5</b>
Less impairment allowance.....	(3,063.7)	(13.5)	(1,194.5)	(4.9)	(1,054.7)	(5.5)
<b>Net investment in finance leases</b> .....	<b>22,704.7</b>	<b>100.0</b>	<b>24,565.9</b>	<b>100.0</b>	<b>19,276.9</b>	<b>100.0</b>

(c) *Finance Lease Receivables by Maturity*

The following table sets forth an analysis of DBK's finance lease receivables, by maturity, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Less than one month.....	373.8	1.6	300.4	1.2	280.4	1.5
One month to three months.....	911.2	4.0	1,027.0	4.2	1,293.1	6.7
Three months to one year.....	2,824.7	12.4	3,273.2	13.3	3,026.2	15.7
One year to five years.....	10,939.9	48.2	11,274.9	45.9	10,184.9	52.8
More than five years.....	3,930.7	17.3	4,599.8	18.7	2,991.4	15.5
Overdue.....	3,724.4	16.4	4,090.5	16.7	1,500.9	7.8
<b>Total finance lease receivables</b> .....	<b>22,704.7</b>	<b>100.0</b>	<b>24,565.9</b>	<b>100.0</b>	<b>19,276.9</b>	<b>100.0</b>

(d) *Analysis of Finance Lease Receivables by Credit Quality*

The following tables set forth information on the credit quality of the finance lease portfolio as at 31 December 2011, 2010 and 2009:

As at 31 December 2011				
	Gross finance leases	Impairment	Net finance leases	Impairment as a percentage of gross finance leases
	KZT million	KZT million	KZT million	%
<b>Leases to large corporates</b>				
Leases for which no impairment has been identified.....	15,787.5	(633.4)	15,154.1	4.0
Impaired leases.....	8,877.1	(2,129.1)	6,748.0	24.0
<b>Total leases to large corporates.....</b>	<b>24,664.6</b>	<b>(2,762.5)</b>	<b>21,902.1</b>	<b>11.2</b>
<b>Leases to small, and medium-sized companies</b>				
Leases for which no impairment has been identified.....	155.6	(6.2)	149.4	4.0
Impaired leases.....	948.3	(295.0)	653.2	31.1
<b>Total leases to small and medium- sized companies.....</b>	<b>1,103.9</b>	<b>(301.3)</b>	<b>802.7</b>	<b>27.3</b>
<b>Total finance leases.....</b>	<b>25,768.5</b>	<b>(3,063.7)</b>	<b>22,704.7</b>	<b>11.9</b>
As at 31 December 2010				
	Gross finance leases	Impairment	Net finance leases	Impairment as a percentage of gross finance leases
	KZT million	KZT million	KZT million	%
<b>Leases to large corporates</b>				
Leases for which no impairment has been identified.....	22,755.8	(511.3)	22,244.4	2.2
Impaired leases.....	1,819.6	(520.8)	1,298.8	28.6
<b>Total leases to large corporates.....</b>	<b>24,575.4</b>	<b>(1,032.2)</b>	<b>23,543.2</b>	<b>4.2</b>
<b>Leases to small, and medium-sized companies</b>				
Leases for which no impairment has been identified.....	900.2	(20.2)	880.0	2.2
Impaired leases.....	284.8	(142.2)	142.7	49.9
<b>Total leases to small and medium- sized companies.....</b>	<b>1,185.1</b>	<b>(162.4)</b>	<b>1,022.7</b>	<b>13.7</b>
<b>Total finance leases.....</b>	<b>25,760.4</b>	<b>(1,194.5)</b>	<b>24,565.9</b>	<b>4.6</b>
As at 31 December 2009				
	Gross finance leases	Impairment	Net finance leases	Impairment as a percentage of gross finance leases
	KZT million	KZT million	KZT million	%
<b>Leases to large corporates</b>				
Leases for which no impairment has been identified.....	13,723.4	(362.2)	13,361.3	2.6
Impaired leases.....	-	-	-	-
<b>Total leases to large corporates.....</b>	<b>13,723.4</b>	<b>(362.2)</b>	<b>13,361.3</b>	<b>2.6</b>
<b>Leases to small, and medium-sized companies</b>				
Leases for which no impairment has been identified.....	4,821.7	(127.2)	4,694.5	2.6
Impaired leases.....	1,786.4	(565.3)	1,221.1	31.6
<b>Total leases to small and medium- sized companies.....</b>	<b>6,608.1</b>	<b>(692.5)</b>	<b>5,915.6</b>	<b>10.5</b>
<b>Total finance leases.....</b>	<b>20,331.6</b>	<b>(1,054.7)</b>	<b>19,276.9</b>	<b>5.2</b>

### Available-for-Sale Financial Assets

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss. See Note 3 to the Financial Statements. DBK's portfolio of available-for-sale financial assets consists of bonds and bills held by DBK and its subsidiary comprised of, inter alia, bonds issued by corporates, Government entities and local authorities, banks and other credit institutions, treasury bills of the Treasury Department of the United States pledged under a foreign currency swap and treasury bills of the Treasury Department of Ministry of Finance of Kazakhstan pledged under repurchase agreements. In addition to conducting lending and leasing activities, DBK also purchases bonds issued by companies or in respect of projects in furtherance of its role as a development bank. Such bonds are generally classified as "available-for-sale" and categorised as "corporate bonds".

Available-for-sale financial assets held by DBK increased by KZT 22,581.6 million, or 6.7%, to KZT 358,285.0 million as at 31 December 2011, as compared to KZT 335,703.4 million as at 31 December 2010 after having increased by KZT 66,873.2 million, or 24.9%, in 2010, from KZT 268,830.2 million as at 31 December 2009. The increase as at 31 December 2011, as compared to 31 December 2010, was primarily due to the purchase of new available-for-sale securities. the increase in 2010 was primarily as a result of DBK's acquisition of corporate bonds and bonds of the JSC Sovereign Wealth Fund "Samruk-Kazyna".

#### (a) Available-for-sale financial assets by Type

The following table sets forth the composition of DBK's investment portfolio of available for sale financial assets, by type, as at 31 December 2011, 2010 and 2009:

	2011		As at 31 December 2010		2009	
	KZT million	%	KZT million	%	KZT million	%
<i>Held by DBK</i>						
<b>Debt Instruments</b>						
Corporate bonds.....	186,265.5	51.99	211,788.2	63.09	206,215.0	76.71
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan.....	31,360.3	8.75	43,120.4	12.84	38,631.0	14.37
Bonds of Kazakh banks.....	80,281.1	22.41	36,677.7	10.93	16,130.4	6.00
Bonds of Kazakh credit institutions, other than banks.....	9,112.2	2.54	9,341.0	2.78	4,359.9	1.62
Bonds of JSC Sovereign Wealth Fund "Samruk-Kazyna".....	43,200.7	12.06	28,282.3	8.42	1,817.0	0.68
Bonds of OECD Banks.....	7,070.9	1.97	5,981.7	1.78	1,676.9	0.62
Recovery notes of Kazakh banks.....	236.3	0.07	428.6	0.13	-	-
Treasury Bills of the Treasury Department of the United States.....	758.0	0.21	83.5	0.02	-	-
<b>Total.....</b>	<b>358,285.0</b>	<b>100.0</b>	<b>335,703.4</b>	<b>100.0</b>	<b>268,830.2</b>	<b>100.0</b>
<i>Pledged under foreign currency swap</i>						
<b>Debt Instruments</b>						
Treasury Bills of the Treasury Department of the United States.....	3,460.8	100.0	2,931.3	100.0	-	-
<b>Total.....</b>	<b>3,460.8</b>	<b>100.0</b>	<b>2,931.3</b>	<b>100.0</b>	<b>-</b>	<b>-</b>

Available-for-sale financial assets pledged under a foreign currency swap amounted to KZT 3,460.8 million as at 31 December 2011, as compared to KZT 2,931.3 million as at 31 December 2010.

#### (b) Available-for-sale financial assets by Maturity

The following table sets forth an analysis of DBK's investment portfolio of available-for-sale assets, by maturity, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
On demand.....	-	-	-	-	-	-
Less than one month.....	1,024.1	0.3	822.4	0.2	-	-
One month to three months.....	-	-	4,303.5	1.3	8,040.7	3.0
Three months to one year.....	12,349.3	3.4	5,820.2	1.7	22,768.2	8.5
One year to five years.....	81,348.4	22.5	58,665.2	17.3	23,102.9	8.6
More than five years.....	267,024.0	73.8	269,023.4	79.5	214,459.5	79.8
Overdue.....	-	-	-	-	458.9	0.1
<b>Total available-for-sale financial assets.....</b>	<b>361,745.8</b>	<b>100.0</b>	<b>338,634.7</b>	<b>100.0</b>	<b>268,830.2</b>	<b>100.0</b>

(c) *Available-for-sale financial assets by Currency*

The following table sets forth an analysis of DBK's available-for-sale financial assets, by currency, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Tenge.....	128,886.9	35.6	116,941.9	34.5	57,490.4	21.4
U.S. Dollars.....	232,858.9	64.4	215,711.1	63.7	211,212.5	78.6
Other currencies.....	-	-	5,981.7	1.8	127.3	-
<b>Total available-for-sale financial assets.....</b>	<b>361,745.8</b>	<b>100.0</b>	<b>338,634.7</b>	<b>100.0</b>	<b>268,830.2</b>	<b>100.0</b>

(d) *Analysis of Available-for-sale financial assets by Credit Quality*

The following table sets forth information on the credit quality of DBK's available-for-sale financial assets as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Rated AAA.....	4,218.8	1.17	3,014.8	0.89	-	-
Rated from A- to A+.....	7,070.9	1.95	5,981.7	1.77	1,676.9	0.62
Rated from BBB- to BBB+.....	221,970.3	61.36	235,575.4	69.57	39,189.2	14.58
Rated from BB- to BB+.....	89,736.9	24.81	52,357.4	15.46	214,556.6	79.81
Rated from B- to B+.....	34,721.0	9.60	38,203.6	11.28	8,612.8	3.20
Rated C.....	236.4	0.07	-	-	-	-
Rated D.....	-	-	-	-	1,945.8	0.72
Not rated.....	3,791.5	1.05	3,501.8	1.03	2,848.9	1.06
<b>Total available-for-sale financial assets.....</b>	<b>361,745.8</b>	<b>100.0</b>	<b>338,634.7</b>	<b>100.0</b>	<b>268,830.2</b>	<b>100.0</b>

*Principal Sources of Funding*

DBK's activities are funded through the issuance and placement of bonds, in both the domestic and international capital markets, and through loans from the Government of the Republic of Kazakhstan, loans from Samruk-Kazyna, loans from banks and other financial institutions, Government grants and current accounts and deposits from customers. DBK is not permitted to take deposits from customers who are not borrowers of DBK or customers of DBK under an agency agreement. However, acting in its agency capacity, DBK opens interest-free current accounts and interest-bearing deposit accounts. See "Business Overview—Agency Services".

DBK may take inter-bank deposits and open and maintain correspondent accounts for the purpose of managing its liquidity.

The following table sets forth DBK's principal external sources of funding (i.e., other than capital) as at 31 December 2011, 2010 and 2009:



	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Current accounts and deposits from customers.....	1,255.6	0.19	1,706.3	0.25	45,181.2	7.93
Loans from the Government of Kazakhstan.....	25,908.9	3.92	24,023.3	3.54	30,886.1	5.42
Loans from Samruk-Kazyna.....	12,868.6	1.94	2,420.1	0.36	-	-
Loans from banks and other financial institutions.....	440,203.2	66.53	517,302	76.20	430,143.2	75.49
Government grants.....	11,517.8	1.74	11,133.3	1.64	9,459.5	1.66
Debt securities issued.....	164,855.3	24.92	117,706.9	17.34	51,372.4	9.02
Subordinated debt.....	5,050.8	0.76	4,542.8	0.67	2,723.8	0.48
<b>Total.....</b>	<b>661,660.1</b>	<b>100.0</b>	<b>678,834.7</b>	<b>100.0</b>	<b>569,766.3</b>	<b>100.0</b>

(a) *Borrowings*

The principal source of funding for DBK is loans from banks and other financial institutions, which accounted for 64.85%, 74.89%, and 74.08% of DBK's total liabilities as at 31 December 2011, 2010 and 2009, respectively. Loans from Samruk-Kazyna and from the Government also contribute to the funding of DBK.

Loans from Banks and Other Financial Institutions

The table below sets forth certain information in respect of the composition of DBK's loans, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
<b>Loans with fixed interest rate.....</b>						
Loans from OECD banks.....	78,511.3	17.84	97,264.9	18.80	89,831.2	20.88
Loans from non-OECD banks.....	298,627.3	67.84	69,347.4	13.41	9,028.4	2.10
<b>Total loans with fixed interest rate.....</b>	<b>377,138.6</b>	<b>85.67</b>	<b>166,612.2</b>	<b>32.21</b>	<b>98,859.6</b>	<b>22.98</b>
<b>Loans with floating interest rate.....</b>						
Loans from OECD banks.....	4,675.3	1.06	19,247.2	3.72	23,997.5	5.58
Loans from non-OECD banks.....	67,715.7	15.38	295,162.6	57.06	269,320.3	62.61
Syndicated loan facility.....	-	-	44,506.00	8.60	44,851.7	10.43
<b>Total loans with floating interest rate.....</b>	<b>72,391.0</b>	<b>16.44</b>	<b>358,915.7</b>	<b>69.38</b>	<b>338,169.5</b>	<b>78.62</b>
Less unamortised portion of borrowing costs...	(9,326.3)	(2.12)	(8,225.9)	(1.59)	(6,885.8)	(1.60)
<b>Net total loans from banks and other financial institutions.....</b>	<b>440,203.2</b>	<b>100.0</b>	<b>517,302</b>	<b>100.0</b>	<b>430,143.2</b>	<b>100.0</b>

Export-Import Bank of China

On 1 August 2009, DBK entered into a master facility agreement for a period of up to 15 years with the Export-Import Bank of China permitting DBK to draw down up to U.S.\$5 billion (the "China Ex-im Bank Facility"). This China Ex-im Bank Facility is divided into restricted (U.S.\$3.5 billion) and unrestricted (U.S.\$1.5 billion) portions. The restricted portion of the China Ex-im Bank Facility is for use on projects with a Chinese component, whereas the unrestricted portion can be used for DBK's general purposes. The master facility agreement contains certain covenants prohibiting DBK from incurring indebtedness exceeding 25% of its assets or disposing of over 25% of its assets. In addition, there is a change of control clause put option in favour of the Export-Import Bank of China.

Under the unrestricted portion of the China Ex-im Bank Facility, on 24 October 2009, DBK entered into an individual credit agreement with the Export-Import Bank of China for the amount of U.S.\$1.5 billion. This credit agreement is for a period of ten years. Principal and interest under this individual credit agreement is paid semi-annually. In July 2011 the contract terms were modified, i.e. the interest rate was modified from a floating to a fixed rate and the grace period was prolonged (See Note 26 to the Consolidated financial statements for the year ended 31 December 2011).

As at 31 December 2011, the principal amount outstanding under this individual credit agreement was U.S. \$1.5 billion.

Under the restricted portion of the China Ex-im Bank Facility, on 12 December 2009, DBK entered into an individual credit agreement with the Export-Import Bank of China for the amount of U.S.\$884 million of which U.S.\$165.4 million has been drawn as at 31 December 2011. This loan was granted for the purpose of providing financing for the reconstruction of the Atyrau Refinery. This credit agreement matures on 21 July 2022. Principal and interest under this individual credit agreement is paid semi-annually.

DBK has on 11 February 2011 entered into an individual credit agreement with China Ex-im Bank for the amount of U.S.\$1.38 million which loan has not be drawn. The loan was granted for the purpose of providing financing for the construction of the integrated petrochemical project and infrastructure phase 1. The tenure of the loan is ten (10) years. Principal and interest under this individual credit agreement is paid semi-annually.

The restricted portion of the China Ex-im Bank Facility is aimed at the development of energy, transport and communication infrastructure and the funding of strategic projects in metallurgy, chemical and oil industries pursuant to the Kazakhstan State Commission on Modernisations of the Economy's consideration of such projects. The funds of this credit facility will be used for the realisation of investment projects of Kazakhstan companies, including particularly those exporting of industrial output, services and equipment to China.

In addition, in May 2010, DBK entered into a loan with the Export-Import Bank of China for the amount of U.S.\$400 million. This loan is for a period of 15 years. Under the loan agreement, principal and interest is paid semi-annually. This loan matures on 21 May 2025. The loan agreement contains certain covenants prohibiting DBK from incurring indebtedness exceeding 25% of its assets, disposing of over 25% of its assets or declaring or paying more than 50% of dividends or other income distribution whilst there is an outstanding event of default or potential event of default. The funds from this loan have been used for the aluminium smelter construction project in Pavlodar. See "Business Overview—Lending—Investment Projects—Metallurgy Sector".

#### Credit Suisse International

On 19 November, 2007, DBK entered into a loan with Credit Suisse International for the amount of U.S.\$150 million. This loan matures in November 2014. On 23 January 2008, DBK entered into a second loan with Credit Suisse International for the amount of U.S.\$300 million. This loan matures in February 2015. On 5 March 2008, DBK entered into a third loan with Credit Suisse International for the amount of U.S.\$130 million. This loan matures in March 2015. Under all three loan agreements with Credit Suisse, principal and interest is paid semi-annually. Each of these agreements contains covenants requiring DBK, inter alia, to comply with applicable FMSC capital adequacy ratios and to maintain a debt to equity ratio of 4:1 and a net worth of not less than U.S.\$300 million and not to dispose of more than 10% of its assets.

#### BNP Paribas

On 23 September 2009, DBK entered into a framework agreement with BNP Paribas for a total principal amount of €200 million. Under this agreement, on 6 October 2009, DBK entered into an individual credit agreement with BNP Paribas for the amount of €10.2 million for the financing of an oil-gas separation plant at Akshabulak in the Kyzylorda region of Kazakhstan. This loan matures on 1 November 2018.

#### China Development Bank

In 2008 and 2009, DBK received three loans from the China Development Bank, each in the principal amount of U.S.\$100 million. These loans mature on 23 June 2018, 15 December 2018 and 15 April 2019, respectively. Under all three loan agreements, principal and interest is paid semi-annually. The China Development Bank loans contain covenants requiring DBK, inter alia, to comply with applicable FMSC capital adequacy ratios and to maintain a debt to equity ratio of 4:1.

### Loan from JSC Distressed Assets Fund

On 2 November 2009, DBK entered into a loan with JSC Distressed Assets Fund, a State-owned company, for KZT 20,000 million. This loan bears interest at a concessional rate of 1% per annum and matures on 24 November 2024. Under the credit agreement, interest is paid semi-annually and principal is repaid in full at maturity.

This loan was provided in order to finance the restructuring of loans of troubled borrowers under certain conditions in the manufacturing area with the aim of reducing the burden on the real sector of the national economy as a result of the impact of the global financial crisis on Kazakhstan and the impact of the problems within the domestic financial sector. See "The Banking Sector in Kazakhstan". As at 31 December 2011, the principal amount outstanding under this loan was KZT 20,000 million.

### Loans from Banks and Other Financial Institutions by Maturity

The following table sets forth an analysis of DBK's loans from banks and other financial institutions, by maturity, as at 31 December 2011, 2010 and 2009:

	As at 31 December		
	2011	2010	2009
		KZT million	
One month to three months.....	-	59,292.3	-
Three months to one year.....	-	-	6,125.9
One year to five years.....	70,761.0	89,821.4	82,764.2
More than five years.....	369,442.2	368,188.3	341,253.1
<b>Loans from banks and other financial institutions.....</b>	<b>440,203.2</b>	<b>517,302.0</b>	<b>430,143.2</b>

### Government Loans

Pursuant to the DBK Law, DBK may, from time-to-time, borrow certain funds from the Government in line with its mission as a development bank for the purpose of on-lending funds to its corporate customers subject to the requirements, priority economic sectors and objectives set out in the Credit Policy Memorandum and the DBK Law.

DBK uses proceeds from Government loans to help to develop community sectors by providing financing at interest rates comparable to those provided by similar development institutions. As at 31 December 2011, Government loans consisted of long-term loans at concessional rates granted by the Government as part of a Government programme to support certain industries, including, in particular, the textile, gas processing and chemicals industries. The concessional rates of interest on the Government loans range from 0.1% to 0.5%. The funds from such loans were used to provide loans at below market rates in furtherance of DBK's role as a development bank.

### Government Loans by Type

The table below sets forth an analysis of the loans and advances from the Government, by type, as at 31 December 2011, 2010 and 2009:

	As at 31 December		
	2011	2010	2009
		KZT million	
Loans from the Government.....	24,023.3	24,023.3	24,038.3
Advances for project finance.....	1,885.6	-	6,847.8
<b>Total Government loans.....</b>	<b>25,908.9</b>	<b>24,023.3</b>	<b>30,886.1</b>

### Government Loans by Maturity

The following table sets forth an analysis of DBK's loans from the Government, by maturity, as at 31 December 2011, 2010 and 2009:

	As at 31 December		
	2011	2010	2009
		KZT million	
One month to three months.....	1,885.5	-	-
Three months to one year.....	-	-	6,847.8
One year to five years.....	-	-	-
More than five years.....	24,023.3	24,023.3	24,038.3
<b>Total Government loans.....</b>	<b>25,908.9</b>	<b>24,023.3</b>	<b>30,886.1</b>

#### Loans from Samruk-Kazyna

As at 31 December 2011, loans from Samruk-Kazyna comprised a KZT 15,000 million loan granted in August 2011 with an interest rate of 0.2% per annum and maturity in June 2021 and a KZT 5,000 million loan granted in April 2010 which bears an interest of 0.2% per annum and maturity in November 2029. Under the credit agreements, principal and interests shall be repaid in consecutive six monthly instalments.

As at 31 December 2009, there were no loans from Samruk-Kazyna outstanding.

#### Government Grants

As at 31 December 2011, Government grants increased by KZT 384.5 million, or 3.5%, to KZT 11,517.8 million from KZT 11,133.3 million compared to 31 December 2010 and as at 31 December 2010 increased by KZT 1,673.8 million, or 17.69% to KZT 11,133.3 million from KZT 9,459.5 million compared to 31 December 2009. The amount of Government grants recorded comprises the amount of benefits received as a result of the concessional interest rate as compared to the market interest rate, which difference is recognised as income, on the loan received from JSC Distressed Assets Fund and Samruk-Kazyna.

#### (b) Debt Securities

Debt securities issued increased by KZT 47,148.4 million, or 40.06%, to KZT 164,855.3 million as at 31 December 2011 from KZT 117,706.9 million as at 31 December 2010, before having increased by KZT 66,334.5 million, or 129.12%, from KZT 51,372.4 million as at 31 December 2009. The changes depend on fluctuations in exchange rates, as outstanding debt securities primarily consist of Eurobonds denominated in U.S. Dollars.

In October 2002, DBK established the Euro medium term notes programme (the "**Programme**") and has completed five issuances under it as follows:

U.S.\$100 million 7.125% Notes due 2007 in October 2002, which were repaid in accordance with their terms on their maturity date;

U.S.\$100 million 7.375% Notes due November 2013, in November 2003;

U.S.\$100 million 6.5% Notes due 2020, in May 2005;

U.S.\$150 million 6.0% Notes due 2026, in March 2006. As at 31 December 2011 an aggregate principal amount of U.S.\$49.934 million of such Notes has since been repurchased by DBK;

U.S.\$777 million 5.5% Notes due 2015, issued in December 2010 to the amount of U.S.\$500 million with the following Re-Tap in February 2011 to the amount of U.S.\$277 million;

These Eurobonds were and (with the exception of the notes issued in October 2002 which have been repaid and the notes issued in December 2010) are listed on the Luxembourg Stock Exchange and on the KASE. The Eurobonds which mature in December 2015 are listed on the London Stock Exchange and on the KASE.

The Eurobonds also contain covenants requiring DBK to: (i) comply with the DBK Law and the Credit Policy Memorandum; (ii) ensure that its tangible net worth is not less than KZT 28 billion;

and (iii) not pay or cause to be paid any dividends in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise), in respect of its share capital: (a) at any time when there exists an Event of Default or (b) when no such Event of Default exists more frequently than once during any calendar year and in aggregate amount exceeding 50% of DBK's profit for the period in respect of which the dividends are being paid.

In addition, during the year ended 31 December 2010, DBK issued subordinated bonds to Samruk-Kazyna with a nominal value of KZT 37,926 million, which bear interest at a fixed rate of 0.01% per annum and mature in September 2059. The subordinated bonds also have a discretionary coupon of 6.99% per annum, which DBK may unconditionally and unilaterally waive with no further obligation. The subordinated bonds were issued concurrently with DBK's purchase of Samruk-Kazyna securities using DBK's share capital. See "—Investment Portfolio and Management of Share Capital".

During the year ended 31 December 2011, DBK issued additional subordinated bonds with the same characteristics as above to Samruk-Kazyna with a nominal value of KZT 2,084.4 million.

(c) *Current accounts and deposits from customers*

DBK generally does not accept deposits except in limited circumstances for certain customers and in its capacity as agent. Accordingly, DBK does not depend on deposits as a source of funding, and changes in current account and deposit balances are not indicative of DBK's levels of funding or ability to lend.

Current accounts and deposits for customers are also a limited source of funding, accounting for 0.18%, 0.25%, and 7.78% of total liabilities as at 31 December 2011, 2010 and 2009, respectively. See "—Principal Sources of Funding".

Total current accounts and deposits from customers decreased by KZT 450.7 million, or 26.41%, to KZT 1,255.6 million as at 31 December 2011 from KZT 1,706.3 million as at 31 December 2010, after having decreased in 2010 by KZT 43,474.9 million, or 96.22%, from KZT 45,181.2 million as at 31 December 2009.

*Current Accounts and Deposits from Customers by Currency*

The following table sets forth an analysis of DBK's current accounts and deposits from customers, by currency, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
Tenge.....	83.0	6.6	40.8	2.4	61.0	0.1
U.S. Dollars.....	1,170.2	93.2	1,627.6	95.4	45,119.4	99.9
Euros.....	1.4	0.1	34.1	2.0	-	-
Other currencies.....	1.0	0.1	3.8	0.2	0.8	-
<b>Total current accounts and deposits from customers.....</b>	<b>1,255.6</b>	<b>100.0</b>	<b>1,706.3</b>	<b>100.0</b>	<b>45,181.2</b>	<b>100.0</b>

*Current Accounts and Deposits from Customers by Maturity*

The following table sets forth an analysis of DBK's current accounts and deposits from customers, by maturity, as at 31 December 2011, 2010 and 2009:

	As at 31 December					
	2011		2010		2009	
	KZT million	%	KZT million	%	KZT million	%
On demand.....	428.6	34.1	340.2	19.9	312.2	0.7
Less than one month.....	-	-	-	-	43,869.9	97.1
One year to five years.....	50.1	4.0	52.6	3.1	-	-
More than five years.....	776.9	61.9	1,313.5	77.0	999.1	2.2
<b>Total current accounts and deposits from customers.....</b>	<b>1,255.6</b>	<b>100.0</b>	<b>1,706.3</b>	<b>100.0</b>	<b>45,181.2</b>	<b>100.0</b>

### Equity and Capital Adequacy Ratios

As at 31 December 2011, DBK has share capital of KZT 255,976.0 million, consisting of 2,066,525 ordinary shares all of which are fully paid. According to the DBK Charter, the net income of DBK is used to form reserve capital.

As at 31 December 2011, DBK's total equity had decreased by KZT 56,789.7 million, or 21.2%, to KZT 211,091.3 million, as compared to KZT 267,881.0 million as at 31 December 2010, primarily due to a decrease in the fair value reserve of available-for-sale assets. As at 31 December 2010, DBK's total equity had decreased by KZT 1,160.9 million, or 0.4%, to KZT 267,881.0 million, as compared to KZT 269,041.9 million as at 31 December 2009 primarily due to an other distributions (the discretionary coupon on the subordinated debt is represented by subordinated bonds issued to the Parent Company), partially offset by the increase in retained earnings.

Capital adequacy ratio is calculated as a ratio of DBK's consolidated equity capital, as calculated according to BASEL II principles to its risk-weighted assets calculated according to BASEL II. As at 1 January 2012, the capital adequacy ratio of DBK is 16.4%, DBK did not experience noticeable declines in capital adequacy ratio over the last eighteen (18) months as a result of worsening asset quality and believes that current levels are sufficient to cover credit losses that may materialise in the foreseeable future.

### Capitalisation

The following table sets forth the capitalisation and long-term indebtedness of DBK as at 31 December 2011. This table should be read in conjunction with "Selected Financial Information and Other Data" and "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Financial Statements, and the notes thereto, included elsewhere in this Information Memorandum.

	<b>As at 31 December 2011</b>
	<b>KZT Million</b>
Long-term debt:	
U.S.\$100 million 7.375% notes due 2013.....	14,871.5
U.S.\$100 million 6.5% notes due 2020.....	14,602.3
U.S.\$150 million 6.00% notes due 2026.....	14,727.8
U.S.\$777 million 5.5% notes due 2015.....	115,433.1
KZT 5.0 million 8.0% notes due 2016.....	5,220.5
KZT 60,597.7 million notes due 2059.....	5,050.8
€11.1 million loan due 2013.....	621.7
U.S.\$21.4 million loan due 2023.....	2,712.1
U.S.\$150 million loan due 2014.....	14,620.5
U.S.\$300 million loan due 2015.....	34,807.6
U.S.\$130 million loan due 2015.....	14,952.5
U.S.\$100 million loan due 2018.....	13,462.7
U.S.\$100 million loan due 2018.....	14,192.7
U.S.\$100 million loan due 2019.....	14,916.3
U.S.\$1.5 billion loan due 2019.....	223,674.5
€10.2 million loan due 2018.....	1,945.6
U.S.\$400 million loan due 2025.....	59,656.0
JPY 3,441.6 million loan due 2019.....	5,740.8
€30 million loan due 2013.....	5,758.8
U.S.\$884 million loan due 2022.....	23,126.3
KZT 4,300 million budget loan due 2018.....	4,300.4
KZT 4,599 million budget loan due 2019.....	4,600.9
KZT 5,080 million budget loan due 2021.....	5,086.0
KZT 10,046.8 million budget loan due 2028.....	10,036.0
KZT 00 million budget loan due 2015.....	1,885.5
KZT 20,000 million loan due 2024.....	10,015.2
KZT 5,000 million loan due 2029.....	2,582.1
KZT 15,000 million loan due 2021.....	10,286.5
<b>Total long-term debt.....</b>	<b>648,886.7</b>
Equity:	
Share capital.....	255,976.0
Reserve capital.....	17,712.3
Revaluation reserve for available-for-sale financial assets.....	3,030.3
Accumulated losses.....	(65,627.3)
<b>Total equity.....</b>	<b>211,091.3</b>

## SECTION 6.0 SHARE CAPITAL, SOLE SHAREHOLDER AND RELATED PARTY TRANSACTIONS

### *Share Capital*

As at 31 December 2011, DBK's outstanding share capital consisted of 2,066,525 ordinary shares all of which are issued and fully paid. Each ordinary share carries one vote. Samruk-Kazyna is the holder of all 2,066,525 shares. In accordance with the Edict of the President of the Republic of Kazakhstan signed on 10 August 2011 the entire amount of ordinary shares of DBK were transferred into the trust management of the Ministry of Industry and New Technologies of the Republic of Kazakhstan. DBK's authorised capital was increased in October 2009 by more than KZT 165.0 billion. In accordance with the DBK Law, any dividend policy must be approved by the sole shareholder and DBK's net income is added to its reserve capital.

### *Samruk-Kazyna*

Samruk-Kazyna is wholly-owned by the Government and is the national managing holding company for substantially all state enterprises. Samruk-Kazyna was created in 2008 pursuant to the Presidential Edict No. 669, dated 13 October 2008, and the Resolution of the Government No. 962, dated 17 October 2008, by way of the merger of JSC "Kazakhstan Holding for Management of State Assets" "Samruk" and JSC "Sustainable Development Fund" "Kazyna" ("Kazyna"). Samruk-Kazyna is a joint stock company whose shares are held by the Ministry of Finance's Committee of State Property and Privatisation on behalf of Kazakhstan. Prior to this merger, the entire share capital of DBK was owned by Kazyna and, prior to April 2006, directly by the Government, local agencies of the 14 regions of Kazakhstan and the Cities of Astana and Almaty.

Samruk-Kazyna's primary objective is to manage shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing competitiveness of such legal entities in world markets.

The governance of Samruk-Kazyna's activities is subject to general corporate governance applicable to all joint stock companies in Kazakhstan.

Samruk-Kazyna may not dispose of its shareholding in DBK without the approval of the Government, its sole shareholder.

Samruk-Kazyna's board of directors is appointed by the Government and its members include, among others, the Minister of Economy Development and Trade, the Minister of Finance, the Minister of Oil and Gas, the Minister of Industry and New Technologies, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors of Samruk-Kazyna is chaired by the Prime Minister of Kazakhstan.

In instances where state or local budgetary funds have been used, the DBK Law requires DBK to report to the relevant administrative department of the Government or local authority on a monthly basis in relation to the use of such funds. Pursuant to the provisions of the DBK Law, however, any intervention of state organisations or its officials in to DBK's activities are prohibited, unless set forth in legislation.

### *Related Party transactions*

#### *(a) Transactions with the Board of Directors and Management Board*

As at 31 December 2011, the total remuneration of members of the Board of Directors and the Management Board, including payroll and related taxes, was KZT 285.6 million, as compared to KZT 286.2 million and KZT 266.6 million as at 31 December 2010 and 2009, respectively.

#### *(b) Transactions with other related parties*

Other related parties comprise the State, national companies and organisations, including the NBK, the Ministry of Finance of the Republic of Kazakhstan, JSC Distressed Assets Fund and companies where the Bank has significant influence.

## SECTION 7.0 TAXATION

### 7.1 Malaysian Taxation

*The following is intended as general information only and it does not purport to present any comprehensive or complete picture of all aspects of Malaysian tax laws, which could be of relevance to a holder of the Sukuk Commodity Murabahah. Sukukholders should therefore consult their tax advisor regarding the tax consequences of any purchase, ownership or disposal of the Sukuk Commodity Murabahah.*

*The following summary is based on the Malaysian tax law, published case law, and tax practice as in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.*

#### (a) Income Tax

In general, income tax is imposed on income accruing in or derived from Malaysia, or received in Malaysia from outside Malaysia. However, income derived from sources outside Malaysia and received in Malaysia is exempt from tax for all persons, except resident companies carrying on the business of banking, insurance, or sea or air transport.

Any person having queries about Malaysian taxation, or liability to tax in a jurisdiction other than Malaysia is advised to seek appropriate professional advice.

#### (b) Withholding Tax

In general, interest derived from Malaysia that is payable to a non-resident is subject to a Malaysian withholding tax of 15 per cent (15%).

#### (c) Capital Gains Tax

There is no tax on capital gains from the disposition of the Sukuk Commodity Murabahah.

### 7.2 Kazakhstan Taxation

*The following comprises the important information of Kazakhstan tax laws which would be relevant to a holder of the Sukuk Commodity Murabahah.*

#### (a) Income Tax

Generally, the corporate income tax is imposed on income of residents of Kazakhstan or of non-residents, who has a permanent establishment in Kazakhstan.

#### (b) Withholding Tax

In general, interest derived from Kazakhstan and payable to a non-resident is subject to a corporate withholding tax of 15 per cent and individual withholding tax of 10 per cent.

Nevertheless, interest derived from bonds emitted by Kazakhstan's company which is a Finance agency, will be excepted from the taxation. DBK is a Finance agency.

Moreover, the capital gain from sale of DBK's securities is not subject to withholding tax.

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## SECTION 8.0 THE BANKING SECTOR IN KAZAKHSTAN

*Set forth below is certain information regarding Kazakhstan's banking sector. Unless specifically mentioned therein, this information does not apply to DBK due to its special status as a development bank. In particular, pursuant to the DBK Law, DBK is not subject to the prudential requirements of the NBK which only apply to commercial banks in Kazakhstan. As a statutory financial agency, DBK is not subject to withholding tax.*

### 8.1 Introduction

Since mid 1994, the Government has adhered to a strict macroeconomic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which have sharply reduced inflation and lowered interest rates.

Kazakhstan has a two tier banking system with the central bank of Kazakhstan, the NBK, comprising the first tier and the commercial banks comprising the second tier (with the exception of DBK, which has a special status and belongs to neither tier). Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the FMSC (during 2004-2011 this licensing role was carried out by the Financial Markets Supervision Agency, in 2011 the functions of FMSC were given to NBK).

The Government, the NBK and the FMSC have undertaken significant structural reforms in the banking sector, aimed at promoting consolidation in the banking sector and improving the overall stability of the system. In 2011 the FMSC became part of the NBK as Committee on Financial Supervision under the NBK.

Global financial instability and market dislocation have adversely affected the Kazakhstan banking sector, resulting in asset quality deterioration and reduced funding sources for Kazakhstan banks. Statistics published by the FMSC show the considerable asset quality deterioration in 2009, with non performing loans in the banking sector increasing to 36.5%, as at 1 January 2010 from 8.1%, as at 1 January 2009. In 2009, the banking sector overall showed a net loss of KZT 2,834 billion (by way of comparison, the aggregate financial result for the banking sector as at the end of 2008 was a profit of KZT 10.7 billion) and assets of the banking sector also declined in that period. As at 1 January 2011 the share of bad loans in the Kazakhstan banking sector was 23.8%, and the aggregate financial result for the banking sector for the year 2010 was a net profit of KZT 1.420 trillion. As of 1 January 2012, bad loans amounted to 30.6% and the aggregate financial result for the banking sector was KZT 35.4 billion net losses.

The Government has taken a number of steps to support the Kazakhstan banking sector including significant capital injections. The Government's capital injections into the Kazakhstan banking sector are estimated at 6.4%, of Kazakhstan's GDP in 2009, compared, for example, to the United Kingdom and the United States where, according to the IMF, capital injections represented 3.9%, and 2.2%, respectively. The total amount of capital injected into the Kazakhstan banking sector was U.S.\$6,777 million as at 1 September 2010. JSC BTA Bank has been the principal beneficiary of the capital injections, with funds injected to acquire equity amounting to KZT 212.1 billion (or U.S.\$1.4 billion).

For a discussion of various risks associated with the banking sector and banking regulation in Kazakhstan, see "Risk Factors - Risks Relating to Kazakhstan—Kazakhstan's Banking Sector".

### 8.2 The NBK

The NBK is the central bank of Kazakhstan and although it is an independent institution, it is subordinate to the President of Kazakhstan. The President has the power, among other things, to appoint (with the approval of the Senate, which is the higher chamber of the Parliament) and remove the NBK's Chairman, to appoint and remove the NBK's Deputy Chairman upon the proposal of the Chairman, to approve the annual report of the NBK, to approve the concept and design of the national currency, and to request information from the NBK. Mr. Grigoriy Marchenko was appointed as Chairman of the NBK in January 2009. The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the

highest governing body of the NBK, consists of nine members, including the Chairman, five other representatives of the NBK, a representative of the President and two representatives of the Government.

Currently, the principal task of the NBK is to ensure price stability in Kazakhstan. The NBK is empowered to develop and conduct monetary policy, organise banking settlement systems, conduct currency regulation and control, assist in ensuring stability of the financial system, protect the interests of depositors with commercial banks regulate and supervise Kazakhstan's financial markets and financial institutions, including banks, insurance companies, pension funds and pension asset management companies, as well as professional participants in the securities market. The NBK is also empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve the scope of financial reporting for financial institutions and to monitor the activities of, to apply sanctions to (where necessary) and to participate in the liquidation of, financial institutions.

The administration of anti-monopoly legislation in Kazakhstan with respect to the banking sector was transferred to the Competition Agency. However, certain issues of anti-monopoly regulation are under the jurisdiction of both the Competition Agency and the NBK. For example, certain transactions with a value exceeding certain thresholds require the prior consent of the Competition Agency. Such thresholds for the purposes of regulated financial organisations are established jointly by the Competition Agency and the NBK.

### 8.3 *Banking Supervision*

#### (a) *Capital Adequacy*

The FMSC refined its capital adequacy and credit exposure standards in September 2005, when it set limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions.

In November 2005, the regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represented a substantial step towards the implementation of the Basel Accord. In particular, these regulations introduced the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (qualified subordinated debt) and operational and market risks and included rules for calculating risk with respect to derivatives.

As at 1 July 2009, the FMSC required banks to maintain a KI 1 (Tier 1 capital to total assets) and KI 2 (Tier 1 capital to total assets weighted for risk) capital adequacy ratio of 6.0%, compared with the BIS Guidelines' recommendation of 4.0%. The FMSC's K2 (own capital to total assets weighted for risk) capital adequacy ratio requirement is 12.0%, compared with the BIS Guidelines' recommendation of 8.0%. For banks with a bank holding company or a bank parent company among their shareholders and state controlled banks, the FMSC's KI 1 (Tier 1 capital to total assets) and KI 2 (Tier 1 capital to total assets weighted for risk) capital adequacy ratio requirement is reduced to 5.0%, of total assets while the K2 (own capital to total assets weighted for risk ratio) is reduced to 10.0%, of risk weighted assets.

#### (b) *Reserve Requirements*

Starting in the second half of 2008, the NBK adopted a number of measures aimed at providing additional liquidity to banks. With effect from 3 March 2009, the minimum level at which second tier banks must maintain reserves has been decreased from 2.0%, to 1.5%, with respect to domestic liabilities and from 3.0%, to 2.5%, with respect to other liabilities.

#### (c) *Deposit Insurance*

In December 1999, a self funded domestic deposit insurance scheme, the KDIF, was established and as at 1 September 2010, 34 commercial banks, including subsidiaries of foreign banks, were covered by the scheme (according to the Kazakhstan Deposit Insurance Fund). The insurance coverage is presently limited to personal deposits in any currency up to a maximum amount per

customer of KZT 5 million at any given bank. Starting from 1 January 2012, the maximum guaranteed amount is scheduled to be reduced from KZT 5 million to KZT 1 million. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals. It is anticipated that participant banks will be called upon to make further contributions to the scheme as a result of payments made by the scheme to depositors of JSC Valut Transit Bank.

(d) *Other Regulations*

In addition, in June 2006 the FMSC implemented measures to restrict Kazakhstan banks from having outstanding external short term financings which exceed a bank's regulatory capital. These measures may limit a bank's ability to extend the maturity of certain short term facilities causing it to look to longer term financings or customer deposits to replace such short term facilities. A failure to replace these facilities could lead to an increase in a bank's funding costs, an increase in its liquidity and interest rate risk or both.

To address concerns about currency mismatches and more precisely, to manage banks' liquidity, the FMSC has also tightened requirements regarding open/net currency positions and introduced various limits on currency liquidity.

In December 2006, and with effect from 1 April 2007, the FMSC approved new rules on classification of assets and provisioning. While the principles of classification and provisioning remain largely unchanged, these rules, among others, introduced more stringent requirements regarding the monitoring of credit files, developed a definition of financial soundness with respect to borrowers, provided for a more differentiated approach to various types of borrowers, loans and security and stipulated the right of the FMSC to demand that a bank increases its provisioning ratios.

(e) *Commercial Banks*

According to data published by the FMSC, as at 1 January 2012, 33 of the 38 second tier banks had capital of over KZT 5 billion, four banks had a capital of KZT 2 billion to KZT 5 billion, and one bank has negative capital. Since 1 October 2009, any bank whose own capital (i.e. shareholders' equity) falls below KZT 5 billion (or KZT 2 billion for banks registered outside of Astana and Almaty) is required to apply to the FMSC for voluntary reorganisation into an organisation performing only limited banking operations. Starting from 1 July 2011 the minimum requirements for size of own capital are established at KZT 10 billion for banks, including newly created banks and KZT 5 billion for residential construction savings banks and for banks registered and carrying out a significant part of their operations outside Astana and Almaty.

According to data published by the FMSC, the total capital of commercial banks decreased to KZT 1,293 billion as at 1 January 2012 compared to KZT 1,322 billion as at 1 January 2011 and negative capital KZT 981 billion as at 1 January 2010. During such period, the total assets of such banks increased to KZT 12,809 billion as at 1 January 2012 from KZT 12,308 billion as at 1 January 2011. The aggregate liabilities increased to approximately KZT 11,516 billion as at 1 January 2012 from KZT 10,715 billion as at 1 January 2011 but still less in comparison to KZT 12,536 billion as at 1 January 2010.

#### 8.4 *Financial Stability and Restructuring Reforms*

On 23 October 2008, new legislation relating to the stability of the Kazakhstan financial system was adopted.

Under the new law, in the event of a breach by a bank of capital adequacy or liquidity ratios or two or more breaches by a bank in any twelve month period of any other prudential or other mandatory requirements, the Government may, with the agreement of the FMSC, acquire, either directly or through a national management holding company (which is currently Samruk-Kazyna), the authorised shares of any bank in Kazakhstan to the extent necessary (but not less than 10.0%, of the total amount of issued and outstanding shares of such bank, including those to be acquired by the Government or the national management holding company) to improve such

bank's financial condition and ensure compliance with prudential or other mandatory requirements. The new law provides that the management and shareholders of an affected bank do not have the right to approve any such acquisition, and any shares issued as part of any such acquisition may be issued without granting pre-emptive rights to existing shareholders. Following such an acquisition, the state body authorised to manage state property or the national management holding company is authorised to appoint no more than 30.0% of the members of the board of directors and the Management Board of the affected bank.

The Government or the national management holding company must sell the acquired shares within one year of their acquisition to a third party investor or investors by way of direct sale or through the stock exchange. However, this term may be extended if the financial condition of the bank shows no sign of improvement.

On 2 February 2009, the FMSC agreed with the Government on the acquisition of approximately 75.1% of JSC BTA Bank's shares, which were subsequently acquired by Samruk-Kazyna within the new financial stability measures. In January 2010 Samruk-Kazyna has acquired 100% of share capital of JSC Alliance Bank. As at the date of this Information Memorandum, Samruk-Kazyna owns 81% of the share capital of JSC BTA Bank and 67% of the share capital of JSC Alliance Bank.

The NBK decreased its refinancing rate from 10.5%, to 10.0%, effective from 1 January 2009, and the current refinancing rate is 7.0%. The stated reason for the rate cut was the shortage of liquidity in the market. These measures proved to be insufficient and both JSC BTA Bank and JSC Alliance Bank defaulted on their debt in April 2009. JSC Astana Finance, a diversified financial services company, defaulted and announced a moratorium on the repayment of its debt in May 2009, and other banks face increasing pressure due to the growing number of non-performing loans. In response to the pressure faced by major banks in Kazakhstan in 2008 and 2009, Kazakhstan's parliament adopted the Restructuring Law with the twin aims of enabling consensual financial restructurings approved by a majority of creditors and of revising the existing framework for good bank/bad bank reorganisations. The restructuring of JSC Alliance Bank was completed on 23 March 2010, restructuring and/or cancelling over U.S.\$4.5 billion of JSC Alliance Bank's financial indebtedness. The restructuring of JSC BTA Bank was completed on 31 August 2010, cancelling approximately U.S.\$16.7 billion of JSC BTA Bank's financial indebtedness. As at the date of this Information Memorandum, the application of the Restructuring Law has been tested in practice three times, in the restructurings of JSC Alliance Bank and JSC BTA Bank (as referred to above) and JSC Temir Bank.

As at the date of this Information Memorandum, the Kazakhstan banking system remains under stress.

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## **SECTION 9.0 INFORMATION ON THE REPUBLIC OF KAZAKHSTAN**

The perspective of the Kazakhstan economy is closely connected with further integration into international economic relations, utilisation of unique reserves of energy and mineral resources, vast possibilities to export industrial and agricultural products, optimum employment of country's transit potential and also with availability of highly qualified specialists in different spheres.

During the Soviet period Kazakhstan was an agrarian, raw materials supplier of the former Soviet economy, where the military industry played the major role. The main economic content of 16 years of independence has become transition from the central command planning to a market system. During these years, Kazakhstan has made considerable progress in implementing complex political, economic and social reforms to establish a democratic state with a market economy.

While the country has not experienced political disturbances during the transition period, it has faced numerous economic, social and environmental challenges.

The first few years of Kazakhstan's independence were characterized by an economic decline (mostly due to the destabilizing force of disintegration of the Soviet Union): by 1995 real GDP dropped to 61,4% of its 1990 level. This economic deterioration exceeded the losses experienced during the Great Depression of the 1930s.

Since 1992, Kazakhstan has actively pursued a program of economic reform designed to establish a free market economy through privatization of state enterprises and deregulation and today is generally considered to be more advanced in this respect than most other countries of the CIS. Kazakhstan remains one of the most successful reformers in the CIS, and it has the strongest banking system in Central Asia and CIS.

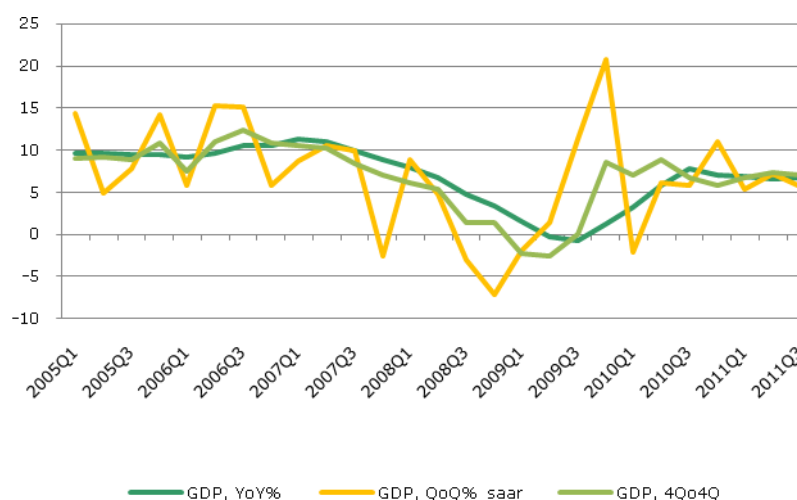
The EU and USA have recognized Kazakhstan (first in CIS) as a country with market economy in 2001 and 2002 respectively. Kazakhstan has become the first country in the CIS to reach investment grade status. In January 2005 the Organization for Economic Cooperation and Development (the "OECD") has upgraded Kazakhstan's country export risks rating, moving it from the 5th to the 4th group of risks.

Kazakhstan possessing sizable amounts of oil and gas, coal, uranium is an important energy player in the world. However, having these abundant resources, the Government and the country's energy sector keep an attentive eye on global energy trends. (source: Official site of the President of the Republic of Kazakhstan)

### **Economic growth**

In 2011 Kazakhstan's economy kept growing at a faster rate than almost all large developing economies. According to preliminary information, in real terms the economy grew by 7.5% compared with 2010 when the growth was 7.3%. Nominal GDP amounted to U.S.\$186 billion (or U.S.\$11.2 thousand per capita), which is 25% higher than in 2010. As it was announced in the previous quarterly report, the change of seasonal picture makes it more complicated to interpret the data; therefore, the GDP growth of 13.3% in the last quarter should be viewed with caution. (See Fig. 1). However, comparisons over a larger period of time also suggest a growth in the last quarter of 2011: the growth of GDP in fourth quarter of 2011 with the fourth quarter of 2010 is 8.2% or 7.4%YoY.

Figure 1 Quarterly growth of GDP



Source: : The Statistics Agency of Republic of Kazakhstan, Halyk Finance estimates

In contrast to 2010, in 2011 industry was not a main driver of economy, though it produced 30.3% of gross product. Industry noticeably slowed down after the unprecedented boom the year earlier, when growth was mainly supported by mining and metallurgy. In 2011 mining sector grew only 1.3%, partly because of the strike in the oil-producing west, partly due to the fall in external demand for metal ores. The slowdown in manufacturing to 6.2% was an expected return to the norm after surge of 13.6% in 2010. Despite the slower rate, metallurgy still showed good results: ferrous metallurgy grew 5.6% and non-ferrous – 7.2%. Substantial slowdown in food industry (from 12.9% in 2010 to 0.3% in 2011) and chemical production (from 37.1% to 21.5%) was a result of decrease of investments to these sectors.

The growth was assured by sharp growth of agricultural product in the fourth quarter, continuing boom in communications and less sizeable acceleration in budget sphere. Agricultural growth by 26.7% caused by record harvest could be larger if the sector was better provided by investments. Growth in internal trade (14.5%) and communications (18.7%) in many parts was a result of growing incomes of population and associated change of consumption preferences. Increase of budget financing ensured faster growth of education (4.4%) and healthcare (5.6%).

Table 1 Growth by sectors, % QoQ

	2011Q1	2011Q2	2011Q3	2011Q4
Agriculture.....	7.5	3.3	9.1	29.4
Industry.....	-0.2	0.2	-3.4	6.4
Construction.....	-2.1	-2	5.1	0.9
Trade.....	5.2	4.9	2.9	0.4
Hotels and restaurants.....	3.6	2.7	0	4.5
Transport.....	-12.3	0	8.6	17.2
Telecom.....	13.3	2.3	7.2	-1.9
Financial activity.....	6.8	-2.4	-15.7	11.1
Real estate services.....	-1.6	3.4	-2.4	4.3
Public administration.....	5.7	-2.8	1.5	3.9
Education.....	1.3	1.2	1.4	0.7
Healthcare.....	1.6	1.7	1.2	2.1
Net taxes.....	-1.3	-16.5	31.4	1.8
<b>Gross domestic product.....</b>	<b>1.3</b>	<b>1.8</b>	<b>1.4</b>	<b>3.2</b>

Source: The Statistics Agency of Republic of Kazakhstan, Halyk Finance estimates

## **Slowdown of inflation**

CPI inflation, which almost whole year was higher than the target level of 8%, started to decline in fall and by the end of the year fell to 7.4%. Decline of inflation was a result of confluence of several factors. On one hand, there was an influence of traditional macroeconomic factors. Fiscal stimulus of previous years slightly decelerated. The wages of government-financed employees grew reservedly. Growth of credit to economy by 15.67% in 2011 substantially lagged the growth of household's income of 18.2%. Monetary growth was more moderate (14.95% by the end of 2011 compared to 35.3% by the end of 2008). In the second half of 2011 prices of wheat and other products traded in international markets declined noticeably, which resulted in lowering of food inflation by the end of the year.

In addition to these natural factors, there were some other administrative methods of inflation control, which became usual for Kazakhstan. For example, the agency of Kazakhstan for regulation of natural monopolies, as it was suggested by the Government, sought to limit the contribution of regulated prices to inflation. As a result, electricity, heating, and water prices substantially slowed down, but at the same time profitability of many regulated companies declined and so their need for government financing of their capital expenditures rose, which is one of the crucial moments in the government program of industrial development.

## **External sector**

The sustainability of the external position of Kazakhstan was supported by high prices for raw materials. Despite the almost balanced the balance of payments (the "BOP"), which closed with a deficit of U.S.\$0.29 billion, external sovereign position of Kazakhstan became stronger due to increase of portfolio investments abroad by U.S.\$13.5 billion, mainly on the accounts of the National Fund. Improvement of external sector of government was reflected in the increase of credit ratings by Fitch to "BBB" and S&P to "BBB+".

Exchange rate policy was still targeted to its stabilization. Comparable success of this policy was connected to the existence of automatic stabilizers of balance of payments, particularly, of services import and payment of investment income, the values of which are tightly connected with the price of oil. So, the trade account grew from U.S.\$29 billion in 2010 to U.S.\$47 billion in 2011, whereas the deficit of investment income also rose from U.S.\$17 billion to U.S.\$25 billion. As a result, the current account rose by a smaller amount than did the trade account, from U.S.\$2.4 billion to U.S.\$14.1 billion.

These stabilizers endured less sensitivity of BOP of Kazakhstan compared with Russia, which also resulted in the less sensitivity of exchange rate on oil prices. The stable exchange rate was also supported by the confident policies of the NBK, which took active interventions in the foreign exchange market to restrict both appreciation of Tenge (in response to inflow of speculative capital in the beginning of the year) and depreciation (during outflow of speculative capital in April-September). Stability of the supply of the primary liquidity during interventions was ensured by sterilization of interventions.

Fluctuations of demand for Tenge were inevitably reflected on interest rates in the liquidity markets, but fluctuations of interest rates were restrained and did not create additional interest-rate risks to banks. However, gradual shift to the flexible exchange rate becomes more and more necessary for the future development of the financial sector, if not to the inflation targeting. Disadvantages of hard peg, which still have not manifested in full, will become more apparent as effectiveness and liquidity of the short-term capital markets increases. Subsequent integration with Russia in the framework of common economic space, which assumes harmonization of legislation and macroeconomic policies, will assure the shift to flexible exchange rate in order to decrease the risks of competitiveness loss, currency crisis, speculative inflow of foreign capital.

## **Banking sector**

Banking sector remained slowly recovering after the excesses of 2003 – 2007. In 2011 after the stagnation of previous three years, net loan portfolio of good banks, that is banks except JSC BTA Bank and JSC Alliance Bank, grew 13.4% compared to 0.0% in 2010. Continued the deposits growth (13.95% in 2011 compared to 12.5% in 2010) and substitution by them of the wholesale funding. However, the more rapid growth of the economy resulted in a decrease of the ratio of credit to GDP to 32% and of deposits to GDP to 31%.

The intensification of credit activity was especially noticeable among medium banks, which continued to lower interest rates and grew faster than large banks. Growth of medium banks was mainly ensured by the decrease of interest rates on loans, which became possible thanks to cheaper funding from the side of foreign banks-shareholders and more effective technologies of borrowers selection. Medium banks were also more active in the market of retail credits, where the growth was provided by the decrease in interest rates along with improvement of service quality, widening of product lines, and cancellation of commission payments, as the quarterly survey of banks by NBK suggests. Large banks remained cautious in credit policies.

Low quality of loan portfolio remains a barrier for a credit growth. Inadequacy of restructuring measures taken by banks restricts their opportunities for lending. In order to recover doubtful assets, substantial lowering of debt burden on borrowers and transfer of non-performing loans under control of creditors is needed, but the majority of banks, which suffer from low capital, conduct only nominal restructuring. In the beginning of the year NBK proposed measures for acceleration of this process, including removal of "tax on write-off of non-performing loans" and two voluntary schemes. The first scheme assumes creation of subdivisions by banks, to which they would transfer collaterals and which would not be subject to regulatory restrictions on holding minor assets. The second scheme involves creation of partly state-owned companies, which would buy stressful assets by a single discount for subsequent recovery. Although on legislative level measures were taken in the end of 2011, their details are not yet published. Along with other measures, regulator considers the option of softening the regulatory requirements of capital adequacy of banks in order to stimulate lending.

The decrease of interest rates on loans limited the interest income of banks, but it seems to have a positive effect on quality of assets because banks were bound to decrease interest rates for problematic borrowers. In 2011 worsening of portfolio quality slowed down in many banks, while in some of them it actually improved. The data on assets quality report stabilization, partly due to growth of loan portfolio, in part to slowdown of growth of delinquency and non-performing loans (NPLs). Among good banks the share of overdue loans grew from 17.4% to 18.3% of loan portfolio, share of NPLs grew from 22.0% to 23.7% and of provisions – from 22.7% to 22.9%.

During 2011 banks continued to substitute wholesale foreign funding with deposits. The growth of deposit base was 14.2%. Retail deposits grew 22.8% and corporate deposits grew 10%. In the breakdown by sectors of economy there was a growth of share of credits to non-production sphere and individual activities, while share of credits to industry and trade on reverse continued to decline. The share of credits issued in Astana has grown. In 2011 the share of retail credits in Tenge grew to 60% and of corporate credits in Tenge grew to 70%.

### **Labor market**

Average real monthly wage in 4Q2011 grew 10.99% compared to 4Q2010 mainly due to government sector, agriculture, industry and trade. In seasonally-adjusted terms, wages in the agriculture grew most rapidly thanks to record harvest (+16.3%QoQ). In the public administration real wages grew 7.4%QoQ sa, education – by 8.1%QoQ sa, and healthcare – by 5.2%QoQ sa. In industry, real wages grew on average by 4- 5%QoQ sa.

The unemployment rate in 2011 was 5.4%, whereas in 2010 it was 5.8%. It is worth to note that in the third quarter the unemployment rate reached its historic minimum of 5.3%. Moreover, the labor utilization rate returned to pre-crisis levels and in December 2011 it was 95.2%. All these factors indicate on intensification of labor market, which is likely to put inflationary pressure on economy.

### **Government sector**

In 2011 the budget deficit grew 7.8% compared to 2010 and reached KZT 568.6 billion. But taking into account substantial growth of nominal GDP, percentage ratio of budget deficit to GDP declined: in 2011 it became 2.1% compared to 2.4% in 2010, which was achieved thanks to substantial reduction of budget deficit in second and third quarters. The contraction of budget deficit indicates the decline in need to borrow to finance expenditures.



The ministry of Finance increased its forecasts of budget inflow by KZT 485.9 billion and guaranteed transfers by KZT 180 billion. As a result the forecasts of the expenditure side of the budget were also increased by KZT 507.2 billion to KZT 6,016.8 billion, which is 11% greater than those in 2011.

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## **SECTION 10.0 GENERAL INFORMATION**

### *10.1 Regulatory Approvals/Requirements*

#### *(a) Malaysian Law*

- (i) Approval for the Sukuk Programme was granted by BNM (as the Controller of Foreign Exchange) vide its approval letter dated 3 May 2012.
- (ii) Approval for the Sukuk Programme has been granted by the SC vide its letter dated 11 June 2012.

#### *(b) Kazakhstan Law*

- (i) Consent from FMSC to issue the Sukuk Commodity Murabahah on the territory of a foreign state vide the approval letter from FMSC dated 16 April 2012.
- (ii) Listing consent from KASE for the Sukuk Commodity Murabahah to be admitted to the official list of the KASE vide the letter from KASE dated 18 May 2012.
- (iii) Consent from the FMSC NBK to place the Sukuk on the territory of a foreign state vide its approval letter dated 1 June 2012.

### *10.2 Internal Authorisation*

The establishment of the Sukuk Programme and the issue of the Sukuk Commodity Murabahah thereunder have been duly authorised by a resolution of the board of directors of DBK dated 14 March 2012.

### *10.3 Significant or Material Change*

There has been no adverse change in the financial position or prospects of DBK taken as a whole since 31 December 2011.

### *10.4 Material Contracts*

In an effort to strengthen the platform for development of bilateral beneficial cooperation with foreign partners, DBK concluded memorandum of understanding, cooperation agreements, framework loan agreements with foreign financial institutions and international banks and leading export credit agencies. Below are the list of such agreements:

- (i) Memorandum of understanding (2009 - 2011) - Export-Import Bank of Malaysia Berhad, HSBC Amanah Malaysia Berhad, Bank for Investment and Development of Vietnam, Turk Eximbank, COFACE, China Export & Credit Insurance Corporation (Sinasure), European Investment Bank, Oesterreichische Kontrollbank Aktiengesellschaft (OeKB).
- (ii) Cooperation agreements (2009 - 2011) - Export-Import Bank of Korea (KEXIM).
- (iii) Framework loan agreement (2009 - 2011) - China Exim Bank, China Development Bank (CDB), BNP Paribas, Japan Bank for International Cooperation (JBIC), Deutsche Bank, Bank of Tokyo Mitsubishi UFJ, KEXIM.

### *10.5 Material Litigation*

There are no legal proceedings considered by DBK, which may have material adverse effect on DBK and its activities.

There have been no pending or threatened criminal investigations or administrative proceedings against DBK, its Managing Director of DBK or any member of the Board of Directors, any executive directors of DBK.

## 10.6 *Contingent Liabilities and Capital Commitments*

### *Contingent Liabilities*

In the normal course of business, DBK makes contractual commitments on behalf of its customers and, in order to meet the financing needs of its customers, is a party to financial instruments with off-balance sheet risk. Such commitments comprise principally loans or credit lines, whereby DBK agrees to make payments for customers' accounts under certain conditions or in the event of default by a customer and receives a counter-indemnity from the customer, as well as (to a lesser extent), documentary credits for imports and exports, finance leases (under similar stand-by terms) and commitments with respect to recourse risks arising from discounted bills. These services are normally provided on a fee-paying basis.

The following table sets forth an analysis of DBK's contingent liabilities as at 31 December 2009, 2010, 2011.

	As at 31 December		
	2011	2010	2009
	KZT Million		
Letter of credit and other commitments related to settlement operations.....	107,531	108,864.5	411.1
Others, of which:			
Finance Lease commitments.....	1,604.6	5,616.2	5,740.4
Loan, credit lines commitments.....	149,353.9	148,566.3	91,388.4
<b>Total.....</b>	<b>258,489.5</b>	<b>263,047</b>	<b>97,539.9</b>

There are pending legal or regulatory issues, which could have a material effect on DBK. Following the adoption of the Law of Kazakhstan "About amendments and additions to certain legislative acts of the Republic of Kazakhstan concerning issues related to regulation of banking activity and financial organizations in the sphere of minimizing risks" dated 28 December 2011, DBK has been withdrawn from the NBK regulation on issues of formation of provisions (reserves) under classified assets and contingent liabilities. Therefore, currently there are questions concerning allocation of DBK's provision expenses (reserves) for deductions from taxable base, which increases tax burden on DBK.

However, the above issues are currently being considered by the Government and DBK is working with the relevant governmental authorities to resolve the above issues and DBK do not expect new provisioning rule and regulations to have any material impact on DBK's financial conditions and prospects.

### *Contingent Tax Liabilities*

Pursuant to the approved budget of DBK for year 2012, it is expected that, in 2012, around 70-80% of the tax loss carried forward from the previous reporting periods will be used to cover taxable income expected in 2012. Hence, in 2013, it is expected that DBK will have income tax liabilities.

## 10.7 *Related Party Transactions*

### **(a) Transactions with other related parties**

	The Parent Company		Other subsidiaries of the Parent Company		Associates of the Parent Company		Other state companies and organisations		Total
	KZT million	Average interest rate, %	KZT million	Average interest rate, %	KZT million	Average interest rate, %	KZT million	Average interest rate, %	KZT million
<b>Statement of Financial Position</b>									
<b>ASSETS</b>									
Cash and cash equivalents.....	-	-	-	-	8.4	-	76,115.7	0.56	76,124.1
Loans to customers.....	-	-	60,727.4	7.29	-	-	22,756.5	5.16	83,483.9
Finance lease	-	-	2,627.2	9.70	-	-	-	-	2,627.2
Amounts receivable under reverse repurchase agreements.....	-	-	42,300.9	7.13	-	-	-	-	42,300.9
Available-for-sale financial assets.....	43,200.7	6.24	182,152.6	8.70	31,769.0	7.83	40,472.5	6.56	297,594.8
Held-to-maturity investments.....	2,934.6	0.01	-	-	-	-	-	-	2,934.6
Other assets.....	-	-	451.9	-	-	-	43.9	-	495.8
Current tax asset.....	-	-	-	-	-	-	162.4	-	162.4
Deferred tax assets.....	-	-	-	-	-	-	8,989.1	-	8,989.1
<b>LIABILITIES</b>									
Current accounts and deposits from customers.....	-	-	345.2	-	-	-	786.7	-	1,131.9
Loans from the Government of the Republic of Kazakhstan.....	-	-	-	-	-	-	25,908.9	0.33	25,908.9
Loans from banks and other financial institutions	-	-	-	-	-	-	10,015.2	1.00	10,015.2
Government grants.....	2,241.2	-	-	-	-	-	9,276.6	-	11,517.8
Loan from the Parent Company.....	12,868.6	0.20	-	-	-	-	-	-	12,868.6
Subordinated debt.....	5,050.8	0.01	-	-	-	-	-	-	5,050.8
Other liabilities.....	4,513.4	-	2,160.1	-	-	-	-	-	6,673.5

31 December 2011	The Parent Company	Other subsidiaries of the Parent Company	Associates of the Parent Company	Other state companies and organisations	Total
	KZT million	KZTmillion	KZTmillion	KZTmillion	KZTmillion
<b>Profit/(loss)</b>					
Interest income.....	2,538.5	24,353.4	966.4	3,263.9	31,122.2
Interest expense.....	(527.5)	-	-	(748.7)	(1,276.2)
Fee and commission income.....	-	31.0	-	12.4	43.4
Fee and commission expense.....	-	-	(2.9)	-	(2.9)
Net realised gain on available-for-sale financial assets.....	5.4	98.0	112.8	56.6	272.8
Net gain on derivative financial instruments.....	-	1.7	-	-	1.7
Income on purchase/sale of foreign currency.....	39.2	1,293.1	-	-	1,332.3
Impairment losses.....	-	(576.9)	-	(1,522.3)	(2,099.2)
General administrative expenses.....	(165.2)	(89.5)	(0.5)	(226.6)	(481.8)
Other (expenses)/income.....	-	(24.0)	-	6.1	(17.9)
Income tax benefit.....	-	-	-	3,113.6	3,113.6

## 10.8 *Conflict of Interest*

(a) *DBK:*

The board of directors of DBK confirms that after making enquiries as were reasonable in the circumstances, DBK is not aware of any circumstances that would give rise to a conflict of interest arising from or in relation to its respective roles in the Sukuk Programme.

(b) *RBS Berhad:*

After making enquiries as were reasonable in the circumstances, RBS Berhad is not aware of any circumstance that would give rise to a conflict of interest in its capacity as Joint Lead Arranger of the Sukuk Programme and the Joint Lead Manager of the Sukuk Programme for the offering of the Sukuk Commodity Murabahah in Malaysia.

(c) *HSBC:*

After making enquiries as were reasonable in the circumstances, HSBC is not aware of any circumstance that would give rise to a conflict of interest in its capacity as Joint Lead Arranger of the Sukuk Programme and the Joint Lead Manager of the Sukuk Programme for the offering of the Sukuk Commodity Murabahah in Malaysia.

(d) *Halyk Finance:*

After making enquiries as were reasonable in the circumstances, Halyk Finance is not aware of any circumstance that would give rise to a conflict of interest in its capacity as Joint Lead Manager of the Sukuk Programme for the offering of the Sukuk Commodity Murabahah in Kazakhstan.

(e) *Trustee:*

After making enquiries as were reasonable in the circumstances, Deutsche Trustees Malaysia Berhad is not aware of any circumstance that would give rise to a conflict of interest in its capacity as the Trustee in relation to the Sukuk Programme.

(f) *Messrs. Wong & Partners:*

After making enquiries as were reasonable in the circumstances, Messrs. Wong & Partners is not aware of any circumstance that would give rise to a conflict of interest in its capacity as the Malaysian legal counsel to the Joint Lead Arrangers and the Joint Lead Managers in relation to the Sukuk Programme.

(g) *Norton Rose:*

After making enquiries as were reasonable in the circumstances, Norton Rose is not aware of any circumstance that would give rise to a conflict of interest in its capacity as the legal counsel to the Issuer for the offering of the Sukuk Commodity Murabahah in Malaysia as to Kazakhstan.

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**APPENDIX 1**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF JSC DEVELOPMENT BANK OF  
KAZAKHSTAN AS AT AND FOR YEAR ENDED 31 DECEMBER 2011**

**APPENDIX 2**

**THE PRINCIPAL TERMS AND CONDITIONS OF THE SUKUK PROGRAM**



**Development Bank of Kazakhstan JSC**

Consolidated Financial Statements  
for the year ended 31 December 2011



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E-mail company@kpmg.kz

## **Independent Auditors' Report**

To the Board of Directors of Development Bank of Kazakhstan JSC

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

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group 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.



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Nigay A.N.  
Certified Auditor  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate  
No 536 of 10 January 2003



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Alun Bowen  
Managing Partner

**KPMG Audit LLC**

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



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

28 February 2012

*Development Bank of Kazakhstan JSC*  
*Consolidated Statement of Comprehensive Income for the year ended 31 December 2011*

	Note	2011 KZT'000	2010 KZT'000
Interest income	4	60,402,700	53,956,104
Interest expense	4	(35,068,000)	(29,996,707)
<b>Net interest income</b>		<b>25,334,700</b>	<b>23,959,397</b>
Fee and commission income	5	200,983	203,208
Fee and commission expense	6	(4,433,777)	(86,454)
<b>Net fee and commission (expense)/income</b>		<b>(4,232,794)</b>	<b>116,754</b>
Net foreign exchange gain	7	243,652	395,413
Net realised (loss)/gain on available-for-sale financial assets		(111,753)	863,707
Net (loss)/gain on derivative financial instruments	8	(2,181,458)	399,973
Gain on repurchase of debt securities issued		46,007	567,491
Other income, net	9	30,764	414,572
<b>Operating income</b>		<b>19,129,118</b>	<b>26,717,307</b>
Impairment losses	10	(35,603,607)	(19,787,009)
General administrative expenses	11	(3,641,092)	(2,842,274)
<b>(Loss)/profit before income tax</b>		<b>(20,115,581)</b>	<b>4,088,024</b>
Income tax benefit/(expense)	12	3,113,650	(1,861,866)
<b>(Loss)/profit for the year</b>		<b>(17,001,931)</b>	<b>2,226,158</b>
<b>Other comprehensive income</b>			
Net change in fair value of available-for-sale financial assets	18	(33,749,924)	1,557,863
Net change in fair value of available-for-sale financial assets transferred to profit or loss		111,753	(953,736)
Net unrealised gain on hedging instruments, net of tax of KZT 11,094 thousand (31 December 2010: KZT 94,098 thousand)		44,379	504,832
Net unrealised loss on hedging instruments, net of tax of KZT 74,623 thousand transferred to profit or loss	31(b)	298,490	-
<b>Other comprehensive (loss)/income for the year</b>		<b>(33,295,302)</b>	<b>1,108,959</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(50,297,233)</b>	<b>3,335,117</b>

The consolidated financial statements as set out on pages 5 to 73 were approved by the Management Board of the Bank on 28 February 2012 and were signed on its behalf by:

  
 Kussainov Nurlan Zhetpisovich  
*Chairman of the Management Board*

  
 Mamekova Saule Mamyrova  
*Chief Accountant*

*Development Bank of Kazakhstan JSC*  
*Consolidated Statement of Financial Position as at 31 December 2011*

	Note	2011 KZT'000	2010 KZT'000
<b>ASSETS</b>			
Cash and cash equivalents	13	143,500,233	198,229,869
Placements with banks and other financial institutions	14	23,416,538	25,030,901
Amounts receivable under reverse repurchase agreements	15	42,300,979	33,194,707
Loans to customers	16	275,447,425	320,890,895
Finance lease receivables	17	22,704,741	24,565,877
Available-for-sale financial assets			
- Held by the Group	18	358,285,039	335,703,432
- Pledged under foreign currency swap	18	3,460,811	2,931,290
Held-to-maturity investments	19	2,934,619	2,707,099
Equipment and intangible assets	20	235,572	190,157
Advances for finance leases		638,486	333,124
Assets to be transferred under finance lease agreements		1,230,219	1,411,789
Other assets	21	6,013,445	6,732,447
Current tax asset		162,418	188,248
Deferred tax assets	22	8,989,106	6,058,441
Derivative financial instruments	31	590,271	442,500
<b>Total assets</b>		<b>889,909,902</b>	<b>958,610,776</b>
<b>LIABILITIES</b>			
Current accounts and deposits from customers	23	1,255,592	1,706,272
Loans from the Government of the Republic of Kazakhstan	24	25,908,867	24,023,328
Loans from the Parent Company	25	12,868,576	2,420,070
Loans from banks and other financial institutions	26	440,203,216	517,302,044
Government grants	27	11,517,777	11,133,326
Debt securities issued	28	164,855,253	117,706,938
Subordinated debt	29	5,050,819	4,542,761
Other liabilities	30	9,242,252	4,428,201
Derivative financial instruments	31	7,916,263	7,466,820
<b>Total liabilities</b>		<b>678,818,615</b>	<b>690,729,760</b>
<b>EQUITY</b>			
Share capital	32	255,975,958	255,975,958
Reserve capital	33	17,712,311	17,712,311
Hedging reserve		-	(342,869)
Revaluation reserve for available-for-sale financial assets		3,030,286	36,668,457
Accumulated losses		(65,627,268)	(42,132,841)
<b>Total equity</b>		<b>211,091,287</b>	<b>267,881,016</b>
<b>Total liabilities and equity</b>		<b>889,909,902</b>	<b>958,610,776</b>
Commitments and Contingencies	36, 38		

*Development Bank of Kazakhstan JSC*  
*Consolidated Statement of Cash Flows for the year ended 31 December 2011*

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	44,601,521	33,467,933
Interest payments	(33,012,393)	(23,295,685)
Fee and commission receipts	932,683	205,670
Fee and commission payments	(2,099,866)	(97,160)
Net receipts from foreign exchange	165,223	389,191
Net receipts for derivative financial instruments	332,291	147,073
Other receipts, net	41,373	331,391
Other general administrative payments	(3,427,093)	(2,572,825)
	<b>7,533,739</b>	<b>8,575,588</b>
<b>(Increase)/decrease in operating assets</b>		
Placements with banks and other financial institutions	1,200,774	19,399,107
Amounts receivable under reverse repurchase agreements	(6,786,996)	(33,184,254)
Loans to customers	25,284,262	(128,630,607)
Finance lease receivables	(1,670,419)	(976,275)
Advances for finance leases	(305,362)	150,827
Assets to be transferred under finance lease agreements	(83,974)	(52,305)
Derivative financial instruments	37,090	(1,883)
Other assets	(2,022,807)	2,308,339
<b>Increase/(decrease) in operating liabilities</b>		
Loans from the Government of the Republic of Kazakhstan	1,885,539	(6,862,759)
Loans from the Parent Company	15,000,000	5,000,000
Loans from banks and other financial institutions	(81,314,268)	81,910,334
Current accounts and deposits from customers	(401,852)	(42,990,907)
Other liabilities	293,340	(259,994)
<b>Net cash used in operating activities before taxes paid</b>	<b>(41,350,934)</b>	<b>(95,614,789)</b>
Income tax paid	(28,126)	(71,021)
<b>Cash flows used in operating activities</b>	<b>(41,379,060)</b>	<b>(95,685,810)</b>

*Development Bank of Kazakhstan JSC*  
*Consolidated Statement of Cash Flows for the year ended 31 December 2011*

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment and intangible assets	(145,733)	(98,324)
Disposal of equipment and intangible assets	2,196	2,070
Acquisition of held-to-maturity investments	(2,084,395)	-
Acquisition of available-for-sale financial assets	(94,900,314)	(180,139,967)
Disposal and redemption of available-for-sale financial assets	41,292,124	79,451,937
<b>Cash flows used in investing activities</b>	<b>(55,836,122)</b>	<b>(100,784,284)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from subordinated debt issued	2,084,395	37,926,074
Other distributions	(6,220,845)	(3,565,885)
Proceeds from debt securities issued	46,696,592	72,836,537
Repurchase of debt securities issued	(914,743)	(5,740,750)
<b>Cash flows from financing activities</b>	<b>41,645,399</b>	<b>101,455,976</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(55,569,783)</b>	<b>(95,014,118)</b>
Effect of changes in exchange rates on cash and cash equivalents	840,147	(72,227)
Cash and cash equivalents at the beginning of the year	198,229,869	293,316,214
<b>Cash and cash equivalents at the end of the year (Note 13)</b>	<b>143,500,233</b>	<b>198,229,869</b>

*Development Bank of Kazakhstan JSC*  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2011*

	Share capital KZT'000	Reserve capital KZT'000	Hedging reserve KZT'000	Revaluation reserve for available-for-sale financial assets KZT'000	Accumulated losses KZT'000	Total equity KZT'000
<b>Balance at 1 January 2010</b>	255,975,958	17,666,734	(847,701)	36,064,330	(39,817,384)	269,041,937
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	2,226,158	2,226,158
<b>Other comprehensive income</b>						
Net change in fair value of available-for-sale financial assets	-	-	-	1,557,863	-	1,557,863
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(953,736)	-	(953,736)
Net unrealised gain on hedging instruments, net of tax of KZT 94,098 thousand	-	-	504,832	-	-	504,832
Total other comprehensive income	-	-	504,832	604,127	-	1,108,959
<b>Total comprehensive income for the year</b>	-	-	504,832	604,127	2,226,158	3,335,117
<b>Transactions with owners, recorded directly in equity</b>						
Other distributions (Note 29)	-	-	-	-	(4,496,038)	(4,496,038)
Transfer to reserve capital	-	45,577	-	-	(45,577)	-
<b>Total transactions with owners</b>	-	45,577	-	-	(4,541,615)	(4,496,038)
<b>Balance at 31 December 2010</b>	255,975,958	17,712,311	(342,869)	36,668,457	(42,132,841)	267,881,016



*Development Bank of Kazakhstan JSC*  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2011*

	Share capital KZT'000	Reserve capital KZT'000	Hedging reserve KZT'000	Revaluation reserve for available-for-sale financial assets KZT'000	Accumulated losses KZT'000	Total equity KZT'000
<b>Balance at 1 January 2011</b>	255,975,958	17,712,311	(342,869)	36,668,457	(42,132,841)	267,881,016
<b>Total comprehensive income</b>						
Loss for the year	-	-	-	-	(17,001,931)	(17,001,931)
<b>Other comprehensive income</b>						
Net change in fair value of available-for-sale financial assets	-	-	-	(33,749,924)	-	(33,749,924)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	111,753	-	111,753
Net unrealised gain on hedging instruments, net of tax of KZT 11,094 thousand	-	-	44,379	-	-	44,379
Net unrealised loss on hedging instruments, net of tax of KZT 74,623 thousand transferred to profit or loss	-	-	298,490	-	-	298,490
Total other comprehensive income	-	-	342,869	(33,638,171)	-	(33,295,302)
<b>Total comprehensive loss for the year</b>	-	-	<b>342,869</b>	<b>(33,638,171)</b>	<b>(17,001,931)</b>	<b>(50,297,233)</b>
<b>Transactions with owners, recorded directly in equity</b>						
Other distributions (Note 29)	-	-	-	-	(6,492,496)	(6,492,496)
<b>Total transactions with owners</b>	-	-	-	-	<b>(6,492,496)</b>	<b>(6,492,496)</b>
<b>Balance at 31 December 2011</b>	<b>255,975,958</b>	<b>17,712,311</b>	<b>-</b>	<b>3,030,286</b>	<b>(65,627,268)</b>	<b>211,091,287</b>

## **1 Background**

### **(a) Principal activities**

These consolidated financial statements include the financial statements of Development Bank of Kazakhstan JSC (the “Bank”) and its subsidiary, DBK Leasing JSC (together referred to as the “Group”).

Development Bank of Kazakhstan JSC was established in the Republic of Kazakhstan as a joint-stock company in 2001 in accordance with the Law of the Republic of Kazakhstan “On the Development Bank of Kazakhstan” # 178-II dated 25 April 2001 as amended as at the date of preparation of these consolidated financial statements (the “Law”). The Bank operates according to the Law, the Charter of the Development Bank of Kazakhstan and the Memorandum on the crediting policy, approved by the decision of the Sovereign Wealth Fund “Samruk-Kazyna” JSC #63/09 dated 18 June 2009 amended as at the date of the consolidated financial statements.

The Bank is a national development institution. The main purpose of the Bank is to improve and increase the efficiency of state investment activity, promote the development of production infrastructure and processing industry and assistance in attraction of external and internal investments to the national economy.

The Bank’s registered office is: 10, Orynbor Street, “Kazyna Tower” Building, Yesil district, Astana, Republic of Kazakhstan.

The Bank is the parent company of a wholly owned consolidated subsidiary, DBK Leasing JSC. DBK Leasing JSC (the “Subsidiary”) was established on 6 September 2005 in accordance with legislation of the Republic of Kazakhstan. The principal activity of the Subsidiary is financial lease operations.

Eurobonds issued by the Bank are listed on London Stock Exchange, Luxembourg Stock Exchange and Kazakhstan Stock Exchange (the “KASE”).

The Bank is a member of Association of Development Financing Institutions in Asia and the Pacific (“ADFIAP”) and SCO Interbank Consortium.

### **(b) Shareholders**

As at 31 December 2011 and 2010 the sole shareholder of the Bank was Sovereign Wealth Fund “Samruk-Kazyna” JSC, the “Parent Company”. In accordance with the Decree of the President of the Republic of Kazakhstan signed on 10 August 2011 the entire amount of ordinary shares of the Bank were transferred into the trust management by the Ministry of Industry and New Technologies of the Republic of Kazakhstan. The ultimate controlling party is the Government of the Republic of Kazakhstan. Related party transactions are detailed in Note 39.

### **(c) Kazakhstan business environment**

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

## **2 Basis of preparation**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

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

### **(c) Functional and presentation currency**

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

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

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

### **(d) Use of estimates and judgments**

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the Note 12 “Income tax benefit/(expense)”, Note 16 “Loans to customers”, Note 17 “Finance lease receivables” and Note 31 “Derivative financial instruments”.

### **(e) Changes in accounting policies and presentation**

With effect from 1 January 2011, the Group retrospectively applied the revised version of IAS 24 (issued in 2009) *Related Party Disclosures*. This change has not had a significant impact on the related party disclosures.

## **3 Significant accounting policies**

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, except as explained in Note 2(e), which addresses changes in accounting policies.

### **(a) Basis of consolidation**

#### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

### **3 Significant accounting policies, continued**

#### **(a) Basis of consolidation, continued**

##### **(ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### **(b) Foreign currency transactions**

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

#### **(c) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan (the "NBRK") and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### **(d) Placements with banks and other financial institutions**

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Amounts due from credit institutions are carried net of an allowance for impairment losses, if any.

#### **(e) Financial instruments**

##### **(i) Classification**

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

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

### **3 Significant accounting policies, continued**

#### **(e) Financial instruments, continued**

##### **(i) Classification, continued**

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

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

##### **(ii) Recognition**

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

### **3 Significant accounting policies, continued**

#### **(e) Financial instruments, continued**

##### **(iii) Measurement**

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

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

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments which are measured at amortised cost using the effective interest method and,
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

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

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value on transactions with the Parent Company at origination is credited or charged to equity. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

##### **(iv) Fair value measurement principles**

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

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

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

### **3 Significant accounting policies, continued**

#### **(e) Financial instruments, continued**

##### **(iv) Fair value measurement principles, continued**

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

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

##### **(v) Gains and losses on subsequent measurement**

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

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

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

##### **(vi) Derecognition**

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

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

### **3 Significant accounting policies, continued**

#### **(e) Financial instruments, continued**

##### **(vi) Derecognition, continued**

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

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

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

The Group writes off assets deemed to be uncollectible.

##### **(vii) Repurchase and reverse repurchase agreements**

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

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

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

##### **(viii) Derivative financial instruments**

Derivative financial instruments include swap, forward, futures and spot transactions.

According to existing policy of the Group, some derivative instruments qualify for hedge accounting.

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

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

The method of recognising the gain or loss on changes in the fair value of derivatives depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedge). A fair value hedge is a hedge of changes in the fair value of a recognised asset or liability, an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedge instrument is measured at fair value with changes in fair value recognised in profit or loss;



### **3 Significant accounting policies, continued**

#### **(e) Financial instruments, continued**

##### **(viii) Derivative financial instruments, continued**

- A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, that could affect profit or loss. The hedging instrument is measured at fair value with the effective portion of changes in its fair value recognised as other comprehensive income in equity and the ineffective portion recognised in profit or loss.

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

##### **(ix) Offsetting**

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

#### **(f) Leases**

The Group’s lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The indicators for finance lease classification are:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset or,
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group’s net investment in the finance lease.

### **3 Significant accounting policies, continued**

#### **(g) Foreclosed assets**

Foreclosed assets are measured at the lower of cost and net realisable value. The cost of foreclosed assets is based on the specific identification principle, and recorded at net book value of the underlying lease base at foreclosure date.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### **(h) Equipment**

##### **(i) Owned assets**

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

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

##### **(ii) Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Computers and equipment	3 to 5 years;
Vehicles	6 to 7 years;
Furniture and other equipment	1 to 10 years.

#### **(i) Intangible assets**

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

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

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

#### **(j) Impairment**

##### **(i) Financial assets carried at amortised cost**

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

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

### **3 Significant accounting policies, continued**

#### **(j) Impairment, continued**

##### **(i) *Financial assets carried at amortised cost, continued***

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

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

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

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

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

##### **(ii) *Financial assets carried at cost***

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

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

##### **(iii) *Available-for-sale financial assets***

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

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

### **3 Significant accounting policies, continued**

#### **(j) Impairment, continued**

##### **(iii) Available-for-sale financial assets, continued**

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

##### **(iv) Non financial assets**

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

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

##### **(k) Government grants**

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and the grants will be received. If there are conditions that may require repayment, the grant is recognised as a "deferred income" in other liabilities.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined as described in Note 3(e) (iii) and the proceeds received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

##### **(l) Provisions**

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

### **3 Significant accounting policies, continued**

#### **(m) Credit related commitments**

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

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

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss;
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

#### **(n) Taxation**

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

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

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

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

#### **(o) Share capital**

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

### **3 Significant accounting policies, continued**

#### **(p) Income and expense recognition**

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

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

Finance lease organisation fees, lease servicing fees and other fees that are considered to be integral to the overall profitability of a finance lease, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service provided.

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

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

#### **(q) Segment reporting**

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

#### **(r) New standards and interpretations not yet adopted**

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008).

### **3 Significant accounting policies, continued**

#### **(r) New standards and interpretations not yet adopted, continued**

When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

## 4 Net interest income

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>Interest income</b>		
Loans to customers	28,649,486	23,760,605
Available-for-sale financial assets	24,920,974	20,188,491
Amounts receivable under reverse repurchase agreements	2,812,573	81,641
Placements with banks and other financial institutions	1,923,942	7,846,258
Finance lease receivables	1,891,467	1,929,471
Held-to-maturity investments	204,258	149,638
	<b>60,402,700</b>	<b>53,956,104</b>
<b>Interest expense</b>		
Loans from banks and other financial institutions	(24,959,236)	(26,171,415)
Debt securities issued	(9,449,463)	(3,468,664)
Loans from the Parent Company	(319,772)	(119,685)
Subordinated debt	(204,258)	(149,638)
Loans from the Government of the Republic of Kazakhstan	(79,378)	(79,447)
Amounts payable under repurchase agreements	(55,834)	(6,770)
Current accounts and deposits from customers	(59)	(1,088)
	<b>(35,068,000)</b>	<b>(29,996,707)</b>

Included within various line items under interest income for the year ended 31 December 2011 is a total of KZT 13,159,441 thousand (2010: KZT 10,217,342 thousand) accrued on impaired financial assets.

## 5 Fee and commission income

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Expert commission on loans not entered to	150,902	129,644
Foreign exchange fees	20,564	39,333
Transfer services	3,581	12,896
Commission on finance lease	7,686	7,163
Letters of credit	1,721	1,825
Other	16,529	12,347
	<b>200,983</b>	<b>203,208</b>



## 6 Fee and commission expense

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Loan prepayment fees	2,406,692	-
Undrawn loan arrangement fee	1,866,659	-
Fees and commissions related to eurobonds	93,594	465
Securities operations	46,481	53,871
Custodial services	9,485	9,248
Credit card maintenance	5,124	4,852
Maintenance of current accounts	4,890	16,252
Transfer services	666	1,249
Other	186	517
	<b>4,433,777</b>	<b>86,454</b>

Loan prepayment fees relate to the prepayment of a USD 500,000 thousand loan from the Export-Import Bank of China (Note 26) and comprise the unamortised portion of loan origination fees equivalent to KZT 937,092 thousand and a prepayment fee of 2% of the principal equivalent to KZT 1,469,600 thousand.

Undrawn loan arrangement fee relates to the undrawn part of a USD 5,000,000 thousand credit facility provided by the Export-Import Bank of China (Note 21).

## 7 Net foreign exchange gain

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Dealing, net	130,666	365,927
Translation differences, net	112,986	29,486
	<b>243,652</b>	<b>395,413</b>

## 8 Net (loss)/gain on derivative financial instruments

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Realised gain on derivative financial instruments	332,291	147,073
Unrealised loss from inefficiency of cash flow hedge	(4,371)	(42,362)
Unrealised (loss)/gain from revaluation of derivative financial instruments	(2,509,378)	295,262
	<b>(2,181,458)</b>	<b>399,973</b>

## 9 Other income, net

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Fines and penalties	93,128	393,091
Income from decrease in value added tax rate	-	8,900
Other expense	(12,969)	(8,223)
Other (loss)/income from non-banking activity	(49,395)	20,804
	<b>30,764</b>	<b>414,572</b>

## 10 Impairment losses

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Loans to customers (Note 16)	33,338,809	18,834,236
Finance lease receivables (Note 17)	2,050,135	295,088
Assets to be transferred under finance lease agreements	121,055	-
Other assets (Note 21)	93,608	657,685
	<b>35,603,607</b>	<b>19,787,009</b>

## 11 General administrative expenses

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Payroll and related taxes	2,052,887	1,903,250
Occupancy	313,849	287,096
Professional services	307,346	91,163
Taxes other than on income	226,616	124,693
Insurance	108,134	17,107
Communication and information services	107,601	106,725
Depreciation and amortisation	98,124	58,915
Business travel	84,828	55,890
Training and seminars	71,266	13,345
Advertising and marketing	48,943	20,402
Rating services	40,744	33,730
Repair and maintenance	39,390	45,393
Office supplies	27,988	26,021
Conferences	24,526	-
Representative expenses	16,842	9,741
Transportation	15,411	16,072
Security	11,969	10,988
Other	44,628	21,743
	<b>3,641,092</b>	<b>2,842,274</b>

## 12 Income tax benefit/(expense)

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
<b>Current tax expense</b>		
Current year	(28,126)	(71,021)
Over provided in prior years	125,394	57,590
	<b>97,268</b>	<b>(13,431)</b>
<b>Deferred tax benefit/(expense)</b>		
Origination and reversal of temporary differences	3,512,596	(1,720,508)
Change in unrecognised deferred tax assets	(496,214)	(127,927)
	<b>3,016,382</b>	<b>(1,848,435)</b>
<b>Total income tax benefit/(expense)</b>	<b>3,113,650</b>	<b>(1,861,866)</b>

The Group's applicable tax rate for current and deferred tax is 20% (2010: 20%).

## 12 Income tax benefit/(expense), continued

### Reconciliation of effective tax rate:

	2011 KZT'000	%	2010 KZT'000	%
<b>(Loss)/profit before income tax</b>	<b>(20,115,581)</b>	<b>100</b>	<b>4,088,024</b>	<b>100</b>
Income tax at the applicable tax rate	4,023,116	(20)	(817,605)	20
Non-taxable income on securities (Other non-deductible expense)/non-taxable income	2,288,199 (706,694)	(11) 4	- 275,477	- (7)
Effect of change in rate applicable to deferred taxes	-	-	860,292	(21)
Income tax withheld at source	(28,126)	-	(71,021)	2
Over provided in prior years	125,394	(1)	57,590	(1)
Non-deductible impairment losses	(2,125,809)	11	(2,038,672)	50
Change in unrecognised deferred tax assets	(462,430)	2	(127,927)	3
	<b>3,113,650</b>	<b>(15)</b>	<b>(1,861,866)</b>	<b>46</b>

Non-deductible impairment losses arose in respect of loans to related parties and securities that will not be deductible for tax purposes in the future.

## 13 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows comprise the following:

	2011 KZT'000	2010 KZT'000
<b>Demand deposits</b>		
<i>National Bank of the Republic of Kazakhstan</i>		
Rated BBB+	847,162	-
Rated BBB	-	97,946,556
<i>Other banks</i>		
Rated from AA- to AA+	-	16,225,090
Rated from A- to A+	-	22,225,595
Rated from B- to B+	500,167	47,567,461
<b>Total demand deposits</b>	<b>1,347,329</b>	<b>183,964,702</b>
<b>Cash at current bank accounts</b>		
<i>National Bank of the Republic of Kazakhstan</i>		
Rated BBB+	75,268,514	-
Rated BBB	-	8,191,536
<i>Other banks</i>		
Rated from AA- to AA+	58,973,530	2,864,211
Rated from A- to A+	1,345,138	716,213
Rated from BBB- to BBB+	646,624	221,311
Rated from BB- to BB+	8,384	-
Rated from B- to B+	5,910,666	2,271,488
<b>Total cash at current bank accounts</b>	<b>142,152,856</b>	<b>14,264,759</b>
Cash on hand	48	408
	<b>143,500,233</b>	<b>198,229,869</b>

None of cash equivalents are impaired or past due.

### Concentration of cash and cash equivalents

As at 31 December 2011 the Group had two banks (31 December 2010: two banks), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2011 and 2010 was KZT 127,709,119 thousand and KZT 150,404,686 thousand, respectively.

## 14 Placements with banks and other financial institutions

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
<i>Not impaired or past due</i>		
<b>Loans and deposits</b>		
Rated from AA- to AA+	112,004	297,733
Rated from B- to B+	23,304,534	24,733,168
	<b>23,416,538</b>	<b>25,030,901</b>

As at 31 December 2011 placements with banks included a deposit of KZT 112,004 thousand, which served as a margin deposit on a foreign currency swap with Morgan Stanley (31 December 2010: KZT 297,733 thousand).

## 15 Amounts receivable under reverse repurchase agreements

In December 2010 the Group concluded reverse repurchase agreements with Alliance Bank JSC in the amount of KZT 29,996,250 thousand maturing in July 2012 and on the “automatic repo” market on the KASE in the amount of KZT 1,450,000, which matured in January 2011.

In October 2011 the Group concluded additional reverse repurchase agreements with Alliance Bank JSC in the amount of KZT 9,975,000 thousand maturing in April 2013.

As at 31 December 2011, included in amounts receivable under reverse repurchase agreements is accrued interest income of KZT 2,329,729 thousand (31 December 2010: KZT 10,453 thousand).

### Collateral

As at 31 December 2011 and 2010 amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Bonds of the Sovereign Wealth Fund “Samruk-Kazyna” JSC	37,392,720	28,745,003
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	3,480,304
	<b>37,392,720</b>	<b>32,225,307</b>

## 16 Loans to customers

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Loans to large corporates	375,899,260	394,412,955
Mortgage loans	630,400	673,905
Interest accrued	24,145,486	16,968,281
<b>Gross loans to customers</b>	<b>400,675,146</b>	<b>412,055,141</b>
Impairment allowance	(125,227,721)	(91,164,246)
<b>Net loans to customers</b>	<b>275,447,425</b>	<b>320,890,895</b>

Movements in the loan impairment allowance for the year ended 31 December 2011 and 2010 are as follows:

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Balance at the beginning of the year	(91,164,246)	(79,540,418)
Net charge for the year	(33,338,809)	(18,834,236)
Effect of foreign currency movements	(599,223)	509,583
Recovery of accrued interest previously written-off	(125,443)	-
Write-offs	-	6,700,825
<b>Balance at the end of the year</b>	<b>(125,227,721)</b>	<b>(91,164,246)</b>

The following table provides information on the credit quality of the loan portfolio at 31 December 2011:

	<b>Gross loans</b> <b>KZT'000</b>	<b>Impairment</b> <b>KZT'000</b>	<b>Net loans</b> <b>KZT'000</b>	<b>Impairment</b> <b>to gross loans</b> <b>%</b>
Loans without individual signs of impairment	184,901,998	(7,396,695)	177,505,303	4.00
Impaired loans:				
- not past due	28,728,333	(5,236,833)	23,491,500	18.23
- overdue less than 90 days	4,131,470	(2,197,271)	1,934,199	53.18
- overdue more than 90 days and less than 360 days	35,325,431	(14,497,310)	20,828,121	41.04
overdue more than 360 days	147,587,914	(95,899,612)	51,688,302	64.98
Total impaired loans	215,773,148	(117,831,026)	97,942,122	54.61
<b>Total loans</b>	<b>400,675,146</b>	<b>(125,227,721)</b>	<b>275,447,425</b>	<b>31.25</b>

## 16 Loans to customers, continued

### (a) Credit quality of loan portfolio

The following table provides information on the credit quality of the loan portfolio at 31 December 2010:

	<b>Gross loans KZT'000</b>	<b>Impairment KZT'000</b>	<b>Net loans KZT'000</b>	<b>Impairment to gross loans %</b>
Loans without individual signs of impairment	208,906,622	(6,348,264)	202,558,358	3.04
Impaired loans:				
- not past due	58,288,337	(12,989,951)	45,298,386	22.29
- overdue less than 90 days	35,636,521	(21,803,839)	13,832,682	61.18
- overdue more than 90 days and less than 360 days	67,287,448	(24,279,753)	43,007,695	36.08
- overdue more than 360 days	41,936,213	(25,742,439)	16,193,774	61.38
Total impaired loans	203,148,519	(84,815,982)	118,332,537	41.75
<b>Total loans</b>	<b>412,055,141</b>	<b>(91,164,246)</b>	<b>320,890,895</b>	<b>22.12</b>

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to large corporates based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to large corporates, management made the following key assumptions:

- historic annual loss rate adjusted to reflect the effects of current conditions of 4.00%;
- a discount of between 20% and 70% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. If the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to customers as of 31 December 2011 would be KZT 2,754,474 thousand (31 December 2010: KZT 3,208,909 thousand) lower or higher.

As at 31 December 2011 included in the loan portfolio are two renegotiated loans that would otherwise be past due or impaired of KZT 9,549,669 thousand (31 December 2011: five loans of KZT 23,036,253 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

## 16 Loans to customers, continued

### (a) Credit quality of loan portfolio, continued

#### *Analysis of collateral*

The following table provides an analysis of the commercial loan portfolio, net of impairment, by types of collateral:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>KZT'000</b>	<b>%</b>	<b>KZT'000</b>	<b>%</b>
Mixed types of collateral	126,242,306	46	142,150,507	45
Motor vehicles and equipment	64,577,804	23	70,256,951	22
Guarantees of other companies	62,266,307	23	62,348,621	19
Guarantees of financial institutions	9,135,947	3	26,414,550	8
Guarantees of the Government of the Republic of Kazakhstan	7,348,452	3	7,533,187	2
Cash	2,608,560	1	9,341,651	3
Real estate	1,958,677	1	2,845,428	1
Guarantees of the Parent company	1,309,372	-	-	-
<b>Total</b>	<b>275,447,425</b>	<b>100</b>	<b>320,890,895</b>	<b>100</b>

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral. Mixed types of collateral include property complexes, equipment, vehicles, land, guarantees, construction in progress, and other.

#### *Loans to corporate customers that are past due or impaired*

Impaired or overdue loans to corporate customers are secured by collateral with a fair value of KZT 74,891,113 thousand (2010: KZT 40,016,647 thousand), excluding the effect of overcollateralisation.

#### *Loans to corporate customers that are neither past due nor impaired*

As at 31 December 2011 the fair value of cash balances, serving as collateral for loans to corporate customers, is KZT 2,968,000 thousand (2010: nil).

For remaining loans to corporate customers with a net carrying amount of KZT 175,908,487 thousand (2010: KZT 201,919,599 thousand), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

As at 31 December 2011, for loans to corporate customers that are neither past due nor impaired with a carrying amount of KZT 92,900,002 thousand (2010: KZT 95,592,408 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts.

#### *Collateral obtained*

During the year ended 31 December 2011 the Group did not obtain any assets by taking control of collateral accepted as security for loans.

During the year ended 31 December 2010 the Group performed collection activities in relation to certain impaired loans, as a result of which, the Group received securities that were classified as available-for-sale with an initial fair value of KZT 3,422,345 thousand and cash of KZT 7,128,769 thousand by exercising guarantees of financial institutions in relation to certain loans past due. The remaining amount after collection activities in the amount of KZT 5,273,626 thousand was written-off as uncollectible. In addition to these loans the Group also wrote off loans of KZT 1,427,199 thousand determined as non-recoverable.

## 16 Loans to customers, continued

### (b) Industry and geographical analysis of the loan portfolio

Loans to customers are issued primarily to customers located within the Republic of Kazakhstan and the Russian Federation, who operate in the following economic sectors:

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Mining, metallurgy and mineral resources	86,306,230	96,242,661
Agriculture	67,499,209	52,359,990
Oil and gas	51,026,583	49,006,284
Textile	35,675,480	34,485,127
Transportation and warehousing	33,015,847	33,167,233
Energy and electricity distribution	26,756,753	36,255,912
Construction materials	26,359,473	25,342,668
Chemical	20,929,904	20,389,255
Manufacturing	19,688,108	18,501,516
Paper-pulp	13,520,883	13,200,958
Food processing	9,409,527	9,588,780
Machinery-producing	7,765,793	7,782,737
Mortgage	630,400	673,905
Telecommunication	559,011	925,643
Fishery	306,568	295,000
Electric equipment	146,454	284,383
Other	1,078,923	13,553,089
	<b>400,675,146</b>	<b>412,055,141</b>
Impairment allowance	(125,227,721)	(91,164,246)
<b>Total loans to customers</b>	<b>275,447,425</b>	<b>320,890,895</b>

### (c) Significant credit exposures

As at 31 December 2011 and 2010 the Group had two borrowers whose balances exceeded 10% of equity. The gross value of these loans as of 31 December 2011 was KZT 108,248,541 thousand (31 December 2010: KZT 105,868,724 thousand).

### (d) Loan maturities

The maturity of the Group's loan portfolio is presented in Note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.



## 17 Finance lease receivables

The components of net investments in finance lease as at 31 December 2011 and 2010 are as follows:

	<b>2011</b> <b>'000 KZT</b>	<b>2010</b> <b>'000 KZT</b>
Within one year	11,373,816	10,622,229
More than one year, but less than five years	15,215,622	14,777,275
More than five years	4,666,446	5,132,758
<b>Minimum lease payments</b>	<b>31,255,884</b>	<b>30,532,262</b>
Less unearned finance income		
Less than one year	(1,496,893)	(1,207,267)
From one to five years	(3,472,710)	(3,133,657)
More than five years	(517,800)	(430,918)
<b>Less unearned finance income, total</b>	<b>(5,487,403)</b>	<b>(4,771,842)</b>
Less impairment allowance	(3,063,740)	(1,194,543)
<b>Net investment in finance lease</b>	<b>22,704,741</b>	<b>24,565,877</b>
	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Leases to large corporates	24,664,557	24,575,361
Leases to small and medium size companies	1,103,924	1,185,059
Less impairment allowance	(3,063,740)	(1,194,543)
<b>Net investment in finance lease</b>	<b>22,704,741</b>	<b>24,565,877</b>

In 2011 the Group clarified classification of certain lessees between “leases to small and medium size companies” and “leases to large corporate” categories based on updated information. Net investment in finance lease as at 31 December 2010 reflects a transfer from “leases to small and medium size companies” to “leases to large corporate” in the amount of KZT 5,003,213 thousand made for consistency of presentation.

Movements in the lease impairment allowance for the years ended 31 December 2011 and 2010 are as follows:

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Balance at the beginning of the year	(1,194,543)	(1,054,685)
Net charge for the year	(2,050,135)	(295,088)
Transfer to other assets	159,081	-
Write-offs for the year	21,857	155,230
<b>Balance at the end of the year</b>	<b>(3,063,740)</b>	<b>(1,194,543)</b>

### Embedded derivative

The repayment of investment in finance leases of KZT 23,304,265 thousand (2010: KZT 22,874,662 thousand) is in part linked to any appreciation in the rate of the USD or EUR against the KZT. If these foreign currencies appreciate, the amount receivable is increased by the respective index. If these foreign currencies depreciate, the amount receivable is not adjusted below the original outstanding amount in KZT.

These embedded derivatives recorded at fair value in the financial statements. The estimated amount of the embedded derivative, which is included in finance lease receivables as at 31 December 2011 is KZT 2,204,756 thousand (31 December 2010: KZT 4,025,336 thousand). Fair value is calculated using a model based on the Black-Scholes option pricing model (Note 41).

## 17 Finance lease receivables, continued

### Embedded derivative, continued

The management uses the following assumptions for valuation of the embedded derivative:

- risk-free rates are estimated using yield curves for respective currencies and ranged from 0.47% to 1.09% for USD, from 1.40% to 1.46% for EUR, and from 2.17% to 3.09% for KZT;
- volatility in the model is defined based on the historical one-year observations of fluctuations in actual foreign exchange rates;
- no transaction cost is included in the model.

If the spreads between KZT and USD (or EUR as appropriate) risk-free rates narrowed by 0.5% across all the contracts the fair value of derivative would have decreased by KZT 74,120 thousand. Increase of volatility by 50% would result in increase of the fair value of derivative by KZT 13,966 thousand.

### Credit quality of finance lease portfolio

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2011:

	<b>Gross finance leases KZT'000</b>	<b>Impairment KZT'000</b>	<b>Net finance leases KZT'000</b>	<b>Impairment as a percentage of gross finance lease %</b>
<b>Leases to large corporates</b>				
Leases for which no impairment has been identified:				
- not overdue	14,235,293	(571,107)	13,664,186	4.01
-overdue more than 5 days and less than 90 days	958,090	(38,438)	919,652	4.01
- overdue more than 90 days and less than 360 days	167,447	(6,718)	160,729	4.01
- overdue more than 360 days	426,649	(17,117)	409,532	4.01
Impaired leases:				
- overdue more than 90 days and less than 360 days	616,262	(70,750)	545,512	11.48
- overdue more than 360 days	8,260,816	(2,058,325)	6,202,491	24.92
<b>Total leases to large corporate customers</b>	<b>24,664,557</b>	<b>(2,762,455)</b>	<b>21,902,102</b>	<b>11.20</b>
<b>Leases to small and medium size companies</b>				
Leases for which no impairment has been identified:				
- not overdue	155,636	(6,244)	149,392	4.01
Impaired leases:				
- overdue more than 360 days	948,288	(295,041)	653,247	31.11
<b>Total leases to small and medium size companies</b>	<b>1,103,924</b>	<b>(301,285)</b>	<b>802,639</b>	<b>27.29</b>
<b>Total finance leases</b>	<b>25,768,481</b>	<b>(3,063,740)</b>	<b>22,704,741</b>	<b>11.89</b>

## 17 Finance lease receivables, continued

### Credit quality of finance lease portfolio, continued

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2010:

	<b>Gross finance leases KZT'000</b>	<b>Impairment KZT'000</b>	<b>Net finance leases KZT'000</b>	<b>Impairment as a percentage of gross finance lease %</b>
<b>Leases to large corporates</b>				
Leases for which no impairment has been identified:				
- not overdue	17,128,677	(384,720)	16,743,957	2.25
- overdue more than 90 days and less than 360 days	597,854	(13,452)	584,402	2.25
- overdue more than 360 days	5,029,240	(113,158)	4,916,082	2.25
Impaired leases:				
- overdue more than 360 days	1,819,590	(520,832)	1,298,758	28.62
<b>Total leases to large corporate customers</b>	<b>24,575,361</b>	<b>(1,032,162)</b>	<b>23,543,199</b>	<b>4.20</b>
<b>Leases to small and medium size companies</b>				
Leases for which no impairment has been identified:				
- not overdue	305,380	(6,874)	298,506	2.25
- overdue more than 90 days and less than 360 days	594,865	(13,355)	581,510	2.25
Impaired leases:				
- overdue more than 360 days	284,814	(142,152)	142,662	49.91
<b>Total leases to small and medium size companies</b>	<b>1,185,059</b>	<b>(162,381)</b>	<b>1,022,678</b>	<b>13.70</b>
<b>Total finance leases</b>	<b>25,760,420</b>	<b>(1,194,543)</b>	<b>24,565,877</b>	<b>4.64</b>

The Group has estimated impairment for finance leases based on an analysis of the future cash flows for impaired lease receivables and based on current economic conditions for portfolios of finance leases for which no indications of impairment has been identified.

In determining the collective impairment allowance for finance lease receivables, the management has assumed an annual loss rate of 4.01% and 2.25% for 2011 and 2010, respectively, which is based on historic loss experience adjusted for current economic conditions.

Changes in these estimates could affect the lease impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment provision on finance leases as at 31 December 2011 would be KZT 227,047 thousand lower/higher (31 December 2010: KZT 245,659 thousand).

During the year ended 31 December 2011 the Group renegotiated leases that would otherwise be past due or impaired of KZT 4,201,588 thousand (31 December 2010: KZT 3,310,859 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

## 17 Finance lease receivables, continued

### Analysis of collateral

The following table provides the analysis of financial lease portfolio, net of impairment, by types of collateral as at 31 December 2011 and 2010:

	2011		2010	
	'000 KZT	% of loan portfolio	'000 KZT	% of loan portfolio
Transport vehicles and equipment	12,944,698	57	13,732,723	56
Mixed type of collateral	9,760,043	43	10,833,154	44
	<b>22,704,741</b>	<b>100</b>	<b>24,565,877</b>	<b>100</b>

#### *Financial leases that are past due or impaired*

Impaired or overdue financial leases are secured by collateral with a fair value of KZT 8,819,786 thousand (2010: KZT 14,386,734 thousand), excluding the effect of overcollateralisation.

#### *Financial leases that are neither past due nor impaired*

For remaining leases with a net carrying amount of KZT 13,813,578 thousand (2010: KZT 17,042,463 thousand), which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the leases and was not adjusted for subsequent changes to the reporting date. The recoverability of these leases is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

#### *Collateral obtained*

During the year ended 31 December 2011 the Group obtained assets with the carrying amount of KZT 207,092 thousands by taking control of collateral securing leases (2010: nil).

## 18 Available-for-sale financial assets

	2011 KZT'000	2010 KZT'000
<i>Held by the Group</i>		
<b>Debt instruments</b>		
Corporate bonds	186,265,455	211,788,248
Bonds of Kazakh banks	80,281,155	36,677,694
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC	43,200,679	28,282,315
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	31,360,325	43,120,388
Bonds of Kazakh credit institutions, other than banks	9,112,176	9,340,988
Bonds of OECD banks	7,070,881	5,981,680
Treasury bills of the Treasury Department of the United States	757,993	83,487
Recovery notes of Kazakh banks	236,375	428,632
	<b>358,285,039</b>	<b>335,703,432</b>
<i>Pledged under foreign currency swap</i>		
<b>Debt instruments</b>		
Treasury bills of the Treasury Department of the United States	3,460,811	2,931,290
	<b>3,460,811</b>	<b>2,931,290</b>

## 18 Available-for-sale financial assets, continued

The following table presents information on the credit quality of available-for-sale financial assets:

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Rated AAA	4,218,804	3,014,777
Rated A- to A+	7,070,881	5,981,680
Rated BBB- to BBB+	221,970,260	235,575,397
Rated from BB- to BB+	89,736,948	52,357,384
Rated from B- to B+	34,721,041	38,203,640
Rated C	236,375	-
Not rated	3,791,541	3,501,844
	<b>361,745,850</b>	<b>338,634,722</b>

During the year ended 31 December 2011 the Group has revised assumptions regarding discount rates applied in determination of fair value of bonds of National Company “Kazmunaigaz” JSC and Kazakhtelecom JSC following changes in appropriate observable market inputs. As a result a loss of KZT 31,672,142 thousand has been recognised in other comprehensive income as part of revaluation reserve for available-for-sale financial assets.

On 18 April 2011 the Group purchased bonds of the Parent Company with a nominal value of KZT 18,000,000 thousand. These bonds are denominated in KZT, pay a coupon of 5.89% p.a. and mature in September 2017. These bonds were purchased at 100.39 per cent of par.

### *Reclassifications out of available-for-sale financial assets*

With effect from October 2010, the Group reclassified bonds of the Parent Company classified as available-for-sale to held-to-maturity investments following the lapse of the tainting period. For reclassified available-for-sale financial assets that would have met the definition of held-to-maturity investments, the Group has the intention and ability to hold them for foreseeable future or until maturity. As at the date of reclassification, fair value of those assets amounted to KZT 2,175,533 thousand.

### *Unquoted debt and equity securities*

As at 31 December 2011 included in available-for-sale financial assets are unquoted debt securities with a fair value of KZT 174,721,623 thousand (31 December 2010: KZT 210,790,358 thousand).

### *Analysis of movements in the impairment allowance*

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Balance at the beginning of the year	-	(4,731,504)
Write-offs	-	4,731,504
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

During the year ended 31 December 2010 the Group wrote-off impairment allowances in relation to defaulted bonds of BTA Bank JSC, which were disposed of or replaced with ordinary shares, bonds and recovery notes upon the completion of its restructuring program, and Alliance Bank JSC, which were replaced with bonds upon the completion of its restructuring program.

## 19 Held-to-maturity investments

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC		
Rated BBB+	2,934,619	-
Rated BBB	-	2,707,099
	<b>2,934,619</b>	<b>2,707,099</b>

During the year ended 31 December 2011 the Group purchased bonds of the Parent Company for their nominal value of KZT 2,084,395 thousand. The bonds have a term of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 32,149 thousand by applying an appropriate market interest rate. The receipt occurred simultaneously with the issue of subordinated securities for the same consideration under terms discussed in Note 29.

During the year ended 31 December 2010 the Group received bonds of the Parent Company with a nominal value of KZT 37,926,074 thousand. The bonds have a term of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 745,577 thousand by applying an appropriate market interest rate. The receipt occurred simultaneously with issue of subordinated securities for the same consideration under terms discussed in Note 29.

## 20 Equipment and intangible assets

<b>KZT'000</b>	<b>Computers and equipment</b>	<b>Vehicles</b>	<b>Intangible assets</b>	<b>Other</b>	<b>Total</b>
<i>Cost</i>					
At 1 January 2010	126,231	61,804	219,784	126,894	534,713
Additions	16,522	20,828	50,400	10,574	98,324
Disposals	(4,821)	(10,511)	-	(158)	(15,490)
At 31 December 2010	137,932	72,121	270,184	137,310	617,547
Additions	78,726	5,535	43,401	18,071	145,733
Disposals	(15,174)	(5,798)	(8,844)	(15,246)	(45,062)
Transfer	2,615	-	-	(2,615)	-
<b>At 31 December 2011</b>	<b>204,099</b>	<b>71,858</b>	<b>304,741</b>	<b>137,520</b>	<b>718,218</b>
<i>Depreciation/amortisation</i>					
At 1 January 2010	(102,925)	(40,597)	(168,577)	(71,866)	(383,965)
Depreciation and amortisation charge	(12,223)	(7,231)	(24,151)	(15,310)	(58,915)
Disposals	4,821	10,511	-	158	15,490
At 31 December 2010	(110,327)	(37,317)	(192,728)	(87,018)	(427,390)
Depreciation and amortisation charge	(30,915)	(9,017)	(44,337)	(13,855)	(98,124)
Disposals	15,167	5,798	8,725	13,178	42,868
Transfer	(2,094)	-	-	2,094	-
<b>At 31 December 2011</b>	<b>(128,169)</b>	<b>(40,536)</b>	<b>(228,340)</b>	<b>(85,601)</b>	<b>(482,646)</b>
<i>Net book value</i>					
At 1 January 2010	23,306	21,207	51,207	55,028	150,748
At 31 December 2010	27,605	34,804	77,456	50,292	190,157
<b>At 31 December 2011</b>	<b>75,930</b>	<b>31,322</b>	<b>76,401</b>	<b>51,919</b>	<b>235,572</b>

## 21 Other assets

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Loan arrangement fee prepaid	5,001,288	4,883,763
Fines and penalties accrued	899,082	896,768
Accrued commission income	560,893	1,306,056
Foreclosed assets	361,450	31,678
Prepayments	162,073	87,031
Taxes recoverable other than income tax	150,140	268,274
Materials and supplies	27,412	27,290
Trade and other receivables	16,903	85,758
Equity investments	2,809	2,806
Other	13,572	2,198
	<b>7,195,622</b>	<b>7,591,622</b>
Impairment allowance	(1,182,177)	(859,175)
	<b>6,013,445</b>	<b>6,732,447</b>

Loan arrangement fee prepaid is a paid commitment charge attributable to the undrawn part of a credit facility provided by the Export-Import Bank of China (Note 26), deferred pending recognition as an adjustment to the effective interest rate of the loan at receipt. During the year ended 31 December 2011 the Group accrued an additional commitment fee of KZT 1,984,184 thousand and identified that the drawdown of a certain portion of the undrawn part of this facility is not probable and recognised KZT 1,866,659 thousand in “fee and commission expense” (Note 6).

Included in other assets are non-quoted ordinary equity shares of KASE, which are carried at cost of KZT 2,200 thousand (2010: KZT 2,200 thousand), and the global depository receipts on ordinary shares of Alliance Bank JSC with a carrying value of KZT 609 thousand (2010: KZT 606 thousand), the fair value of which cannot be reliably determined. There is no market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

### Analysis of movements in the impairment allowance

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Balance at the beginning of the year	(859,175)	(806,128)
Net charge for the year	(93,608)	(657,685)
Transfer from finance lease receivables	(159,081)	-
Recovery of other assets previously written-off	(108,120)	-
Write-offs	37,807	604,638
<b>Balance at the end of the year</b>	<b>(1,182,177)</b>	<b>(859,175)</b>

As at 31 December 2011, included in other assets are overdue receivables of KZT 66,142 thousand (2010: KZT 48,401 thousand), of which, KZT 13,420 thousand (2010: KZT 2,444 thousand) are overdue for less than 90 days, KZT 13,180 thousand (2010: KZT 9,402 thousand) are overdue for more than 90 days but less than 360 days and KZT 39,542 thousand (2010: KZT 36,555 thousand) are overdue for more than 360 days.

## 22 Deferred tax assets

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2011 and 2010. These deferred tax assets have been recognised in these consolidated financial statements except for temporary differences of KZT 748,241 thousand (2010: KZT 285,811 thousand) relating to the Subsidiary that have not been recognised due to uncertainties concerning their realisation. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2019 and 2020.

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

<b>KZT'000</b>	<b>Balance 1 January 2011</b>	<b>Recognised in income</b>	<b>Recognised in equity</b>	<b>Balance 31 December 2011</b>
Equipment and intangible assets	9,585	1,168	-	10,753
Loans to customers	(14,237,818)	3,084,140	-	(11,153,678)
Other assets	169,903	34,781	-	204,684
Placements with banks	-	(147,565)	-	(147,565)
Accrued interest written-off	492,957	-	-	492,957
Loans from banks and other financial institutions	(2,149,154)	102,966	-	(2,046,188)
Government grants	2,226,665	76,890	-	2,303,555
Loans from the Parent Company	(516,458)	(910,482)	-	(1,426,940)
Debt securities issued	(41,268)	8,926	-	(32,342)
Derivative financial instruments	(94,235)	1,648,184	(85,717)	1,468,232
Tax loss carry-forwards	20,034,607	(1,771,116)	-	18,263,491
Other liabilities	163,657	888,490	-	1,052,147
<b>Net deferred tax assets</b>	<b>6,058,441</b>	<b>3,016,382</b>	<b>(85,717)</b>	<b>8,989,106</b>



## 22 Deferred tax assets, continued

KZT'000	Balance 1 January 2010	Recognised in income	Recognised in equity	Balance 31 December 2010
Equipment and intangible assets	9,316	269	-	9,585
Loans to customers	(2,963,877)	(11,273,941)	-	(14,237,818)
Other assets	-	169,903	-	169,903
Accrued interest written-off	-	492,957	-	492,957
Loans from banks and other financial institutions	(1,972,330)	(176,824)	-	(2,149,154)
Government grants	1,891,899	334,766	-	2,226,665
Loans from the Parent Company	-	(516,458)	-	(516,458)
Debt securities issued	(48,267)	6,999	-	(41,268)
Derivative financial instruments	179,815	(179,952)	(94,098)	(94,235)
Tax loss carry-forwards	10,729,739	9,304,868	-	20,034,607
Other liabilities	174,679	(11,022)	-	163,657
<b>Net deferred tax assets</b>	<b>8,000,974</b>	<b>(1,848,435)</b>	<b>(94,098)</b>	<b>6,058,441</b>

## 23 Current accounts and deposits from customers

	2011 KZT'000	2010 KZT'000
Current accounts and demand deposits	428,617	340,209
Advances received as collateral on liabilities of customers	826,975	1,366,063
	<b>1,255,592</b>	<b>1,706,272</b>

The Group carries out functions of an agent of an authorised government body servicing state and municipal budget investment projects (programs) financed on a repayable basis and projects financed on behalf of loans, which are guaranteed by the government and included in the list of priority investment projects approved by the Government of the Republic of Kazakhstan.

## 24 Loans from the Government of the Republic of Kazakhstan

	2011 KZT'000	2010 KZT'000
Loans from the Government of the Republic of Kazakhstan	24,023,328	24,023,328
Advances for project finance	1,885,539	-
	<b>25,908,867</b>	<b>24,023,328</b>

As at 31 December 2011 and 2010 the loans from the Government of the Republic of Kazakhstan comprised long-term loans granted from the state budget that were received as part of a Government program to support certain industries, including textile, gas processing and chemicals. The funds were used to provide loans to these entities at below market rates. Although these loans carry lower-than-market interest rate, upon initial recognition they were recognised at their nominal amount, as it was allowed under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

## 24 Loans from the Government of the Republic of Kazakhstan, continued

As at 31 December 2011 advances for project finance represent an unutilised part of the loan from the Ministry of Finance of the Republic of Kazakhstan intended for financing of Joint Kazakhstan-Russian Entity “Baiterek” JSC for construction of an air space complex. The loan will be repaid in equal parts from 2011 until 2023. The Group acts as an agent and is not liable for any misuse of the loan by the borrower or any other risks related to the loan.

As of 31 December 2011, included in loans from the Government of the Republic of Kazakhstan is accrued interest expense of KZT 12,522 thousand (31 December 2010: KZT 12,522 thousand).

## 25 Loans from the Parent Company

As at 31 December 2011 the loans from the Parent Company were represented by two long-term loans granted by Sovereign Wealth Fund “Samruk-Kazyna” JSC.

The loan of KZT 5,000,000 thousand was granted in April 2010 with an interest rate of 0.2% per annum and maturity in November 2029. The loan was provided to finance restructuring of certain borrowers. At initial recognition the loan was recognised at fair value measured by applying a relevant market interest rate. The difference of KZT 2,694,615 thousand between the fair value and the consideration received was recognised as a government grant (Note 27).

The loan of KZT 15,000,000 thousand was granted in August 2011 with an interest rate of 0.2% per annum and maturity in June 2021. The loan was provided to finance restructuring of finance lease receivables by the Group in accordance with the Government Program “Productivity 2020”. At initial recognition the loan was recognised at fair value measured by applying a relevant market interest rate. The difference of KZT 4,855,135 thousand between the fair value and the consideration received was recognised as a “deferred income” in other liabilities (Note 30) as there are conditions that may require repayment of the portion of loan not issued to and utilised by the Group.

## 26 Loans from banks and other financial institutions

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
<b>Loans with fixed interest rate</b>		
Loans from OECD banks	78,511,325	97,264,859
Loans from non-OECD banks	298,627,275	69,347,355
<b>Total loans with fixed interest rate</b>	<b>377,138,600</b>	<b>166,612,214</b>
<b>Loans with floating interest rate</b>		
Loans from OECD banks	4,675,296	19,247,202
Loans from non-OECD banks and other financial institutions	67,715,654	295,162,566
Syndicated loan facility	-	44,505,976
<b>Total loans with floating interest rate</b>	<b>72,390,950</b>	<b>358,915,744</b>
Less unamortised portion of borrowing costs	(9,326,334)	(8,225,914)
	<b>440,203,216</b>	<b>517,302,044</b>

## 26 Loans from banks and other financial institutions, continued

On 20 January 2011 the Group prepaid a loan of USD 500,000 thousand from the Export-Import Bank of China. Upon the prepayment, the Group recognised the unamortised portion of loan origination fees related to this loan equivalent to KZT 937,092 thousand and a prepayment fee of 2% of the principal equivalent to KZT 1,469,600 thousand in “fee and commission expense” (Note 6).

On 21 July 2011 the contract terms of USD 1,000,000 thousand loan facility from the Export-Import Bank of China were modified as follows. Interest rate was modified from a floating rate of six-months LIBOR plus 5.5% p.a. to a fixed rate of 5.8% p.a. The grace period until commencement of redemption of principal was prolonged from January 2012 to January 2017. All costs incurred to modify the original term of the remaining facility have been adjusted in the carrying value of the loan and are amortised over the remaining term of the modified loan.

On 21 June 2011 the Group received a loan of USD 500,000 thousand from the Export-Import Bank of China. The loan bears an interest rate of 5.8% p.a. and matures in July 2019. The principal is repayable in three years starting from January 2017.

During the year ended 31 December 2011 the Group repaid a syndicated loan facility of USD 300,000 thousand from HSBC Bank Plc., ING Bank N.V. and Sumitomo Mitsui Banking Corporation Europe Limited, a loan of USD 100,000 thousand from Bayerische Landesbank and principal amount of USD 128,888 thousand on loans from Credit Suisse and USD 13,000 thousand on loans from China Development Bank.

During the year ended 31 December 2010 the Group received two loans from the Export-Import Bank of China of USD 400,000 thousand and USD 156,000 thousand. The Group also received loans from the Japan Bank for International Cooperation and the Bank of Tokyo Mitsubishi of JPY 2,748,200 thousand and EUR 30,000 thousand, respectively. As at 31 December 2011 these loans bear interest rates ranging from 3% p.a. to 3.55% p.a. and mature between September 2013 and May 2025.

As at 31 December 2011, included in loans from banks and other financial institutions is accrued interest expense of KZT 9,244,471 thousand (31 December 2010: KZT 10,266,417 thousand).

## 27 Government grants

The Group recorded as government grants the benefits provided by means of a low interest rate on the loan from Fund of Distressed Assets JSC of KZT 11,035,227 thousand and on the loan from the Parent Company of KZT 2,694,615 thousand (Note 25).

Subsequent to initial recognition the Group allocates to profit or loss an amount corresponding to the debt relief provided to the borrowers. During the year ended 31 December 2011 the amount of government grants transferred from profit or loss was KZT 384,451 thousand (31 December 2010: the amount of government grants transferred to profit or loss was KZT 1,020,786 thousand) and is included in “interest expenses”.

## 28 Debt securities issued

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
<b>Debt securities with fixed interest rate</b>		
Eurobonds denominated in USD	159,836,594	118,983,235
Bonds denominated in KZT	4,987,880	-
	<b>164,824,474</b>	<b>118,983,235</b>
Unamortised discount, net	(761,123)	(1,860,272)
	<b>164,063,351</b>	<b>117,122,963</b>
Accrued interest	791,902	583,975
	<b>164,855,253</b>	<b>117,706,938</b>

## 28 Debt securities issued, continued

On 8 February 2011 the Group issued non-secured coupon bonds bearing fixed rate of 8% per annum with a nominal value of KZT 5,000,000 thousand on KASE. The bonds mature in February 2016.

On 1 February 2011 the Group issued USD 277,000 thousand medium-term notes for an amount equivalent to KZT 41,593,783 thousand, which bear a coupon rate of 5.5% p.a. and mature in December 2015.

On 20 December 2010 the Group issued USD 500,000 thousand medium-term notes for an amount equivalent to KZT 72,836,537 thousand, which bear a coupon rate of 5.5% p. a. and mature in December 2015.

The aforementioned two USD issues form a single series.

## 29 Subordinated debt

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>Subordinated debt with fixed coupon</b>		
Nominal in KZT	93,152,839	91,068,444
	<b>93,152,839</b>	<b>91,068,444</b>
Unamortised discount, net	(90,221,247)	(88,363,971)
	<b>2,931,592</b>	<b>2,704,473</b>
Accrued interest	2,119,227	1,838,288
	<b>5,050,819</b>	<b>4,542,761</b>

The entire amount of the subordinated debt is represented by subordinated bonds issued to the Parent Company. The bonds are denominated in KZT, mature in September 2059 and bear a fixed interest rate of 0.01% per annum. In addition, the bonds have a discretionary coupon of 6.99% per annum which the Group can unilaterally and unconditionally waive with no further obligation. The discretionary coupon for the year ended 31 December 2011 of KZT 6,492,496 thousand (31 December 2010: KZT 4,496,038 thousand) was recognised as “other distributions” in equity.

During the year ended 31 December 2011 the Group issued additional subordinated bonds to the Parent Company with a nominal value of KZT 2,084,395 thousand. At initial recognition these bonds were measured at fair value of KZT 32,149 thousand applying an appropriate market interest rates ranging between 8.65% and 9.60% p.a.

During the year ended 31 December 2010 the Group issued additional subordinated bonds with the same characteristics as above to the Parent Company with a nominal value of KZT 37,926,074 thousand. At initial recognition these bonds were measured at fair value of KZT 745,577 thousand by applying an appropriate market interest rates ranging between 7.00% and 9.17% p.a.

In case of bankruptcy, the repayment of the subordinated debt will be made after repayment in full of all other liabilities of the Group.

### 30 Other liabilities

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
Deferred income	4,859,566	10,855
Prepayments	2,022,553	1,129,148
Payables to employees	706,975	774,570
Advances received for finance lease	593,623	807,078
Accrued commission expenses	501,962	970,481
Advances on letters of credit	214,064	408,005
Payables to suppliers	105,805	100,769
Vacation reserve	87,410	89,003
Tax liabilities other than income tax	41,509	31,050
Other accrued expenses and accounts payable	108,785	107,242
	<b>9,242,252</b>	<b>4,428,201</b>

In August 2011 the Group recorded as deferred income the benefits provided by means of a low interest rate on the loan from the Parent Company of KZT 4,855,135 thousand (Note 25) to be allocated further to the Bank's Subsidiary and utilises in restructuring of finance lease receivables.

### 31 Derivative financial instruments

The Group had the following derivative financial instruments as at 31 December 2011 and 2010. Embedded derivatives are described in Note 17.

	<b>Notional amount</b>	<b>Maturity</b>	<b>Payments made by Group</b>	<b>Payments received by Group</b>	<b>Fair value Asset</b>	<b>Fair value Liability</b>
<b>31 December 2011</b>						
Foreign currency swap	USD 160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	-	(3,988,012)
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	-	(3,357,706)
Non-deliverable foreign currency forward	USD 100,000,000	31/05/12	USD 100,000,000 at maturity	KZT'000 14,435,000 at maturity	-	(286,999)
Non-deliverable foreign currency forward	USD 50,000,000	07/06/12	USD 50,000,000 at maturity	KZT'000 7,221,000 at maturity	-	(283,546)
Non-deliverable foreign currency forward	USD 100,000,000	31/05/12	KZT'000 14,415,000 at maturity	USD 100,000,000 at maturity	293,410	-
Non-deliverable foreign currency forward	USD 50,000,000	07/06/12	KZT'000 7,211,000 at maturity	USD 50,000,000 at maturity	296,861	-
					<b>590,271</b>	<b>(7,916,263)</b>

<b>Type of instrument</b>	<b>Notional amount</b>	<b>Maturity</b>	<b>Payments made by Group</b>	<b>Payments received by Group</b>	<b>Fair value Asset</b>	<b>Fair value Liability</b>
<b>31 December 2010</b>						
Foreign currency swap	USD 160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	-	(3,862,600)
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	-	(3,199,220)
Non-deliverable foreign currency forward	USD 150,000,000	10/01/11	USD 150,000,000 at maturity	KZT'000 21,690,000 at maturity	-	(405,000)
Non-deliverable foreign currency forward	KZT'000 21,652,500	10/01/11	KZT'000 21,652,500 at maturity	USD 150,000,000 at maturity	442,500	-
					<b>442,500</b>	<b>(7,466,820)</b>

## **31 Derivative financial instruments, continued**

### **(a) Group's approach to derivative transactions**

The Group may enter into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions for hedging purposes. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the Group's swap positions would increase or decrease depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Group's investments.

The Group's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of a counterparty's insolvency.

### **(b) Significant foreign currency transactions**

On 16 February 2007 the Group entered into a foreign currency swap agreement to exchange KZT for USD 160,000,000 and exchange back on 16 February 2014, the transaction closure date. On 22 June 2007 the Group entered into another foreign currency swap agreement to exchange KZT for USD 122,349,103 and exchange back USD on 27 June 2014, the transaction closure date.

Those swap agreements were designed as cash flow hedges principally to minimise the exchange rate risk associated with the future cash inflows from loans to customers in US dollars financed out of tenge funds borrowed by the Group. The length of the swap agreements was chosen as seven years since the average duration of a pool of loans being hedged was seven years.

The designated hedged risk is the forward exchange rate risk and, therefore, the changes in fair value of the swaps was recorded initially in the hedging reserve to the extent the hedge is effective. During the year ended 31 December 2010 a spot element of the foreign currency swaps was recognised in profit or loss as "unrealised gain/(loss) from revaluation of derivative financial instruments" of KZT 271,055 thousand. For cash flow hedging relationships, the initial and ongoing prospective effectiveness is assessed by comparing movements in the fair value of a hypothetical derivative with movements in the fair value of the hedging foreign currency swaps (the "hypothetical derivative method"). Prospective effectiveness is measured on a cumulative basis i.e. over the entire life of the hedge relationship. The hypothetical derivative method assumes there will be one forecasted cash inflow based on the weighted average duration of the pool of loans to be received on the date of maturity of the hedging instruments, whereas the actual cash inflows from the loans are expected during 2013 and 2014. Retrospective effectiveness is assessed by comparing the movements in the fair value of the cash flows of hypothetical derivative and actual movements in the fair value of the foreign currency swaps over the life to date of the hedging relationship.

During the year ended 31 December 2011 the hedging relationship was identified to be no longer effective as a result of the significant change in the cash flow profile of the pool of loans being hedged. Hedge accounting was discontinued prospectively from the last date when the hedge was proven to be effective. As a result a cumulative loss of KZT 298,490 thousand, net of tax of KZT 74,623 thousand, previously recognised in other comprehensive income was reclassified to profit or loss as "unrealised gain/(loss) from revaluation of derivative financial instruments".

## **31 Derivative financial instruments, continued**

### **(b) Significant foreign currency transactions, continued**

During 2011 management revised the assumptions used to value the foreign currency swaps following the changes in underlying market conditions. In determining the fair value of the swaps management assumed that the following rates are appropriate for the Group: 2.87% in KZT and 0.70% in USD (2010: 3.82% and 2.00%, respectively).

During the year ended 31 December 2011 the Group entered into a number of non-deliverable foreign currency forward agreements. These forward agreements are designated at fair value through profit or loss and were primarily designed as arbitrage transactions.

## **32 Share capital**

### **(a) Issued capital**

As at 31 December 2011 and 2010 the authorised, issued and outstanding share capital comprised 1,819,519 ordinary shares with a nominal value of KZT 50,000 and 247,006 ordinary shares with a nominal value of KZT 668,000.

### **(b) Dividends**

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to legislation of the Republic of Kazakhstan. No dividends were declared during the years ended 31 December 2011 and 2010.

## **33 Reserve capital**

Reserve capital is formed in accordance with the Bank's charter out of the net profit for the year following the approval of the consolidated financial statements at the shareholder's general meeting.

## **34 Risk management**

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

### **(a) Risk management policies and procedures**

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

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

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

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit and Investment Committees and Assets and Liabilities management committee.



## **34 Risk management, continued**

### **(a) Risk management policies and procedures, continued**

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain judgments in their areas of expertise.

### **(b) Market risk**

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis.

The management of interest rates risk, component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

### **(i) Interest rate risk**

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

## 34 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Interest rate gap analysis*

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

<b>KZT'000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>Carrying amount</b>
<b>31 December 2011</b>							
<b>ASSETS</b>							
Cash and cash equivalents	143,500,233	-	-	-	-	-	143,500,233
Placements with banks and other financial institutions	507,333	-	8,193,646	14,715,559	-	-	23,416,538
Amounts receivable under reverse repurchase agreements	-	-	32,209,117	10,091,862	-	-	42,300,979
Loans to customers	30,568,519	9,431,092	712,398	41,872,161	159,166,588	33,696,667	275,447,425
Finance lease receivables	1,285,022	-	2,824,745	10,939,864	3,930,690	3,724,420	22,704,741
Available-for-sale financial assets	193,149,400	13,081,046	9,536,372	69,490,705	76,488,327	-	361,745,850
Held-to-maturity investments	-	-	-	-	2,934,619	-	2,934,619
	<b>369,010,507</b>	<b>22,512,138</b>	<b>53,476,278</b>	<b>147,110,151</b>	<b>242,520,224</b>	<b>37,421,087</b>	<b>872,050,385</b>
<b>LIABILITIES</b>							
Current accounts and deposits from customers	428,613	-	-	50,065	776,914	-	1,255,592
Loans from the Government of the Republic of Kazakhstan	1,885,539	-	-	-	24,023,328	-	25,908,867
Loans from the Parent Company	-	-	-	-	12,868,576	-	12,868,576
Loans from banks and other financial institutions	25,838,393	44,517,208	-	70,761,044	299,086,571	-	440,203,216
Debt securities issued	157,395	-	-	135,367,763	29,330,095	-	164,855,253
Subordinated debt	-	-	-	-	5,050,819	-	5,050,819
	<b>28,309,940</b>	<b>44,517,208</b>	<b>-</b>	<b>206,178,872</b>	<b>371,136,303</b>	<b>-</b>	<b>650,142,323</b>
	<b>340,700,567</b>	<b>(22,005,070)</b>	<b>53,476,278</b>	<b>(59,068,721)</b>	<b>(128,616,079)</b>	<b>37,421,087</b>	<b>221,908,062</b>

**34 Risk management, continued****(b) Market risk, continued****(i) Interest rate risk, continued****Interest rate gap analysis, continued**

<b>KZT'000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>Carrying amount</b>
<b>31 December 2010</b>							
<b>ASSETS</b>							
Cash and cash equivalents	198,229,869	-	-	-	-	-	198,229,869
Placements with banks and other financial institutions	9,982,112	-	10,668,889	4,379,900	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	3,189,127	-	-	30,005,580	-	-	33,194,707
Loans to customers	33,516,511	9,962,682	9,026,357	47,638,136	188,415,952	32,331,257	320,890,895
Finance lease receivables	1,327,462	1,029,441	2,243,806	11,274,931	4,599,772	4,090,465	24,565,877
Available-for-sale financial assets	220,130,108	15,674,123	11,303,504	38,839,420	52,687,567	-	338,634,722
Held-to-maturity investments	-	-	-	-	2,707,099	-	2,707,099
	<b>466,375,189</b>	<b>26,666,246</b>	<b>33,242,556</b>	<b>132,137,967</b>	<b>248,410,390</b>	<b>36,421,722</b>	<b>943,254,070</b>
<b>LIABILITIES</b>							
Current accounts and deposits from customers	340,168	-	-	52,577	1,313,527	-	1,706,272
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	24,023,328	-	24,023,328
Loans from the Parent Company	-	-	-	-	2,420,070	-	2,420,070
Loans from banks and other financial institutions	98,192,366	30,947,678	-	89,821,371	298,340,629	-	517,302,044
Debt securities issued	-	-	-	87,632,671	30,074,267	-	117,706,938
Subordinated debt	-	-	-	-	4,542,761	-	4,542,761
	<b>98,532,534</b>	<b>30,947,678</b>	<b>-</b>	<b>177,506,619</b>	<b>360,714,582</b>	<b>-</b>	<b>667,701,413</b>
	<b>367,842,655</b>	<b>(4,281,432)</b>	<b>33,242,556</b>	<b>(45,368,652)</b>	<b>(112,304,192)</b>	<b>36,421,722</b>	<b>275,552,657</b>

## 34 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Average interest rates*

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

	2011			2010		
	Average effective interest rate			Average effective interest rate		
	KZT	USD	Other currencies	KZT	USD	Other currencies
<b>Interest bearing assets</b>						
Cash and cash equivalents	0.76%	0.03%	0.02%	1.48%	0.93%	0.69%
Placements with banks and other financial institutions	6.57%	-	-	8.37%	6.86%	-
Amounts receivable under reverse repo agreements	7.13%	-	-	6.85%	-	-
Available-for-sale financial assets	6.71%	8.51%	-	6.78%	9.16%	5.90%
Held-to-maturity investments	7.35%	-	-	7.33%	-	-
Loans to customers	8.20%	8.63%	7.11%	8.46%	9.46%	6.76%
Finance lease receivables	10.03%	-	-	9.22%	-	-
<b>Interest bearing liabilities</b>						
Current accounts and deposits from customers	-	0.01%	-	-	0.02%	-
Loans from the Government of the Republic of Kazakhstan	0.33%	-	-	0.33%	-	-
Loans from the Parent Company	4.95%	-	-	7.00%	-	-
Loans from banks and other financial institutions	7.00%	5.36%	3.40%	7.00%	5.12%	3.38%
Debt securities issued	7.50%	6.04%	-	-	6.15%	-
Subordinated debt	7.35%	-	-	7.33%	-	-

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

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

### 34 Risk management, continued

(b) **Market risk, continued**

(i) *Interest rate risk, continued*

**Cash flow interest rate sensitivity analysis**

An analysis of sensitivity of profit or loss for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

KZT'000	2011		2010	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	1,271,209	1,271,209	1,323,421	1,323,421
100 bp parallel decrease	(1,271,209)	(1,271,209)	(1,323,421)	(1,323,421)

The above analysis assumes all available-for-sale financial assets are held one year from the statement of financial position date.

**Fair value interest rate sensitivity analysis**

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

	2011		2010	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	-	(11,912,568)	-	(12,844,675)
100 bp parallel decrease	-	12,548,364	-	13,153,540

(ii) *Currency risk*

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

## 34 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

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

	<b>KZT KZT'000</b>	<b>USD KZT'000</b>	<b>EUR KZT'000</b>	<b>Other KZT'000</b>	<b>Total KZT'000</b>
<b>Assets</b>					
Cash and cash equivalents	8,053,125	134,039,701	1,383,450	23,957	143,500,233
Placements with banks and other financial institutions	23,304,534	112,004	-	-	23,416,538
Amounts receivable under reverse repurchase agreements	42,300,979	-	-	-	42,300,979
Loans to customers	41,043,960	226,491,111	3,056,804	4,855,550	275,447,425
Finance lease receivables*	22,704,741	-	-	-	22,704,741
Available-for-sale financial assets	128,886,982	232,858,868	-	-	361,745,850
Held-to-maturity investments	2,934,619	-	-	-	2,934,619
Equipment and intangible assets	235,572	-	-	-	235,572
Advances for finance leases	638,486	-	-	-	638,486
Assets to be transferred under finance lease agreements	1,230,219	-	-	-	1,230,219
Other assets	2,683,942	3,329,446	-	57	6,013,445
Current tax asset	162,418	-	-	-	162,418
Deferred tax assets	8,989,106	-	-	-	8,989,106
Derivative financial instruments	-	590,271	-	-	590,271
<b>Total assets</b>	<b>283,168,683</b>	<b>597,421,401</b>	<b>4,440,254</b>	<b>4,879,564</b>	<b>889,909,902</b>
<b>Liabilities</b>					
Current accounts and deposits from customers	82,991	1,170,223	1,374	1,004	1,255,592
Loans from the Government of the Republic of Kazakhstan	25,908,867	-	-	-	25,908,867
Loans from the Parent Company	12,868,576	-	-	-	12,868,576
Loans from banks and other financial institutions	10,015,244	416,121,023	8,326,104	5,740,845	440,203,216
Government grants	11,517,777	-	-	-	11,517,777
Debt securities issued	5,220,518	159,634,735	-	-	164,855,253
Subordinated debt	5,050,819	-	-	-	5,050,819
Other liabilities	6,396,252	2,572,647	269,789	3,564	9,242,252
Derivative financial instruments	-	7,916,263	-	-	7,916,263
<b>Total liabilities</b>	<b>77,061,044</b>	<b>587,414,891</b>	<b>8,597,267</b>	<b>5,745,413</b>	<b>678,818,615</b>
<b>Net on balance sheet positions as at 31 December 2011</b>	<b>206,107,639</b>	<b>10,006,510</b>	<b>(4,157,013)</b>	<b>(865,849)</b>	<b>211,091,287</b>
Notional amount of derivative liabilities as at 31 December 2011	36,232,712	(41,900,607)	-	-	(5,667,895)
<b>Net on and off balance sheet position positions as at 31 December 2011</b>	<b>242,340,351</b>	<b>(31,894,097)</b>	<b>(4,157,013)</b>	<b>(865,849)</b>	<b>205,423,392</b>

\* These assets contain embedded derivatives which become effective if the USD or EUR appreciates against KZT.

## 34 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

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

	<b>KZT</b> <b>KZT'000</b>	<b>USD</b> <b>KZT'000</b>	<b>EUR</b> <b>KZT'000</b>	<b>Other</b> <b>KZT'000</b>	<b>Total</b> <b>KZT'000</b>
<b>Assets</b>					
Cash and cash equivalents	111,702,900	84,007,092	2,290,696	229,181	198,229,869
Placements with banks and other financial institutions	16,394,993	8,635,908	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	33,194,707	-	-	-	33,194,707
Loans to customers	66,017,737	247,169,138	3,570,754	4,133,266	320,890,895
Finance lease receivables*	24,565,877	-	-	-	24,565,877
Available-for-sale financial assets	116,941,933	215,711,109	-	5,981,680	338,634,722
Held-to-maturity investments	2,707,099	-	-	-	2,707,099
Equipment and intangible assets	190,157	-	-	-	190,157
Advances for finance leases	333,124	-	-	-	333,124
Assets to be transferred under finance lease agreements	1,411,789	-	-	-	1,411,789
Other assets	4,635,126	2,090,043	7,107	171	6,732,447
Current tax asset	188,248	-	-	-	188,248
Deferred tax assets	6,058,441	-	-	-	6,058,441
Derivative financial instruments	-	442,500	-	-	442,500
<b>Total assets</b>	<b>384,342,131</b>	<b>558,055,790</b>	<b>5,868,557</b>	<b>10,344,298</b>	<b>958,610,776</b>
<b>Liabilities</b>					
Current accounts and deposits from customers	40,832	1,627,560	34,114	3,766	1,706,272
Loans from the Government of the Republic of Kazakhstan	24,023,328	-	-	-	24,023,328
Loans from the Parent Company	2,420,070	-	-	-	2,420,070
Loans from banks and other financial institutions	9,545,938	494,579,653	8,300,315	4,876,138	517,302,044
Government grants	11,133,326	-	-	-	11,133,326
Debt securities issued	-	117,706,938	-	-	117,706,938
Subordinated debt	4,542,761	-	-	-	4,542,761
Other liabilities	1,859,774	2,146,183	417,782	4,462	4,428,201
Derivative financial instruments	-	7,466,820	-	-	7,466,820
<b>Total liabilities</b>	<b>53,566,029</b>	<b>623,527,154</b>	<b>8,752,211</b>	<b>4,884,366</b>	<b>690,729,760</b>
<b>Net on balance sheet positions as at 31 December 2010</b>	<b>330,776,102</b>	<b>(65,471,364)</b>	<b>(2,883,654)</b>	<b>5,459,932</b>	<b>267,881,016</b>
Notional amount of derivative liabilities as at 31 December 2010	36,240,212	(41,646,493)	-	-	(5,406,281)
<b>Net on and off balance sheet position positions as at 31 December 2010</b>	<b>367,016,314</b>	<b>(107,117,857)</b>	<b>(2,883,654)</b>	<b>5,459,932</b>	<b>262,474,735</b>

\* These assets contain embedded derivatives which become effective if the USD or EUR appreciates against KZT.

### 34 Risk management, continued

#### (b) Market risk, continued

##### (ii) Currency risk, continued

An analysis of sensitivity of profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions, and embedded derivatives, existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in USD, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2011		2010	
	Profit or loss	Equity	Profit or loss	Equity
5% appreciation of USD against KZT	(1,275,764)	(1,275,764)	(4,284,714)	(4,284,714)
5% depreciation of USD against KZT	1,275,764	1,275,764	4,284,714	4,284,714
5% appreciation of EUR against KZT	(166,281)	(166,281)	(115,346)	(115,346)
5% depreciation of EUR against KZT	166,281	166,281	115,346	115,346
5% appreciation of Other currencies against KZT	(34,634)	(34,634)	218,397	218,397
5% depreciation of Other currencies against KZT	34,634	34,634	(218,397)	(218,397)

#### (c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance position and off balance position exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. Loans to customers, finance lease receivables, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, available-for-sale financial assets and accounts receivable are subject to credit risk. The Group's exposure is monitored on an ongoing basis.

The Group continuously monitors the performance of individual credit exposures, and regularly reassesses the creditworthiness of its customers. The review is based on the most recent financial statements and other information submitted by the borrower or otherwise obtained by the Group.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2011 KZT'000	2010 KZT'000
<b>ASSETS</b>		
Cash and cash equivalents	143,500,233	198,229,869
Placements with banks and other financial institutions	23,416,538	25,030,901
Amounts receivable under reverse repurchase agreements	42,300,979	33,194,707
Loans to customers	275,447,425	320,890,895
Finance lease receivables	22,704,741	24,565,877
Available-for-sale financial assets	361,745,850	338,634,722
Held-to-maturity investments	2,934,619	2,707,099
Other assets	6,013,445	6,732,447
Derivative financial instruments	590,271	442,500
<b>Total maximum exposure</b>	<b>878,654,101</b>	<b>950,429,017</b>



### 34 Risk management, continued

#### (c) Credit risk, continued

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

#### (d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The Risk Department mitigates this risk by analysing liquidity gaps and maturity on an ongoing basis.

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2011. Unrecognised commitments are discussed in the Note 36.

	<b>On demand and less than 1 month KZT'000</b>	<b>1 to 3 months KZT'000</b>	<b>3 months to 6 months KZT'000</b>	<b>6 months to 12 months KZT'000</b>	<b>More than 1 year KZT'000</b>	<b>Total KZT'000</b>	<b>Book value KZT'000</b>
<b>Non-derivative liabilities</b>							
Current accounts and deposits from customers	428,613	-	-	-	826,979	1,255,592	1,255,592
Loans from the Government of the Republic of Kazakhstan	1,887,838	10,160	2,150	64,769	24,753,269	26,718,186	25,908,867
Loans from the Parent Company	-		20,000	20,000	20,350,000	20,390,000	12,868,576
Loans from banks and other financial institutions	7,880,380	9,089,738	6,974,952	24,254,338	533,670,862	581,870,270	440,203,216
Debt securities issued	-	645,009	4,200,536	4,845,545	205,604,134	215,295,224	164,855,253
Subordinated debt	-	2,328,821	-	2,328,821	312,450,146	317,107,788	5,050,819
Other liabilities	961,777	59,025	676,214	835,155	6,710,081	9,242,252	9,242,252
<b>Derivative financial instruments</b>							
Inflow	-	-	(30,000)	-	(36,202,712)	(36,232,712)	(590,271)
Outflow	-	-	-	-	41,900,607	41,900,607	7,916,263
<b>Total liabilities</b>	<b>11,158,608</b>	<b>12,132,753</b>	<b>11,843,852</b>	<b>32,348,628</b>	<b>1,110,063,366</b>	<b>1,177,547,207</b>	<b>666,710,567</b>
<b>Loan and credit line commitments</b>	<b>150,958,476</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150,958,476</b>	<b>150,958,476</b>

## 34 Risk management, continued

### (d) Liquidity risk, continued

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2010. Unrecognised commitments are discussed in the Note 36.

	<b>On demand and less than 1 month KZT'000</b>	<b>1 to 3 months KZT'000</b>	<b>3 months to 6 months KZT'000</b>	<b>6 months to 12 months KZT'000</b>	<b>More than 1 year KZT'000</b>	<b>Total KZT'000</b>	<b>Book value KZT'000</b>
<b>Non-derivative liabilities</b>							
Current accounts and deposits from customers	340,168	-	-	-	1,366,104	1,706,272	1,706,272
Loans from the Government of the Republic of Kazakhstan	2,300	10,160	2,150	64,769	24,726,552	24,805,931	24,023,328
Loans from the Parent	-	-	5,000	5,000	5,105,000	5,115,000	2,420,070
Loans from banks and other financial institutions	82,440,356	69,029,778	4,664,356	20,812,202	476,330,912	653,277,604	517,302,044
Debt securities issued	-	471,997	3,051,480	3,523,477	171,174,045	178,220,999	117,706,938
Subordinated debt	-	3,990,244	-	3,187,396	401,520,769	408,698,409	4,542,761
Other liabilities	403,100	531,953	692,818	1,457,723	1,342,607	4,428,201	4,428,201
<b>Derivative financial instruments</b>							
Inflow	(37,500)	-	-	-	(36,202,712)	(36,240,212)	(442,500)
Outflow	-	-	-	-	41,646,493	41,646,493	7,466,820
<b>Total liabilities</b>	<b>83,148,424</b>	<b>74,034,132</b>	<b>8,415,804</b>	<b>29,050,567</b>	<b>1,087,009,770</b>	<b>1,281,658,697</b>	<b>679,153,934</b>
<b>Loan and credit line commitments</b>	<b>154,182,507</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>154,182,507</b>	<b>154,182,507</b>

## 34 Risk management, continued

### (e) Maturity

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2011.

	<b>On demand KZT'000</b>	<b>Less than 1 month KZT'000</b>	<b>1 to 3 months KZT'000</b>	<b>3 months to 1 year KZT'000</b>	<b>1 to 5 years KZT'000</b>	<b>More than 5 years KZT'000</b>	<b>No maturity KZT'000</b>	<b>Overdue KZT'000</b>	<b>Total KZT'000</b>
<b>Assets</b>									
Cash and cash equivalents	136,466,756	7,033,477	-	-	-	-	-	-	143,500,233
Placements with banks and other financial institutions	-	7,333	500,000	8,193,646	14,715,559	-	-	-	23,416,538
Amounts receivable under reverse repurchase agreements	-	-	-	32,209,117	10,091,862	-	-	-	42,300,979
Loans to customers	-	-	28,409	898,472	41,872,160	198,951,717	-	33,696,667	275,447,425
Finance lease receivables	-	373,810	911,212	2,824,745	10,939,864	3,930,690	-	3,724,420	22,704,741
Available-for-sale financial assets	-	1,024,107	-	12,349,327	81,348,386	267,024,030	-	-	361,745,850
Held-to-maturity investments	-	-	-	-	-	2,934,619	-	-	2,934,619
Equipment and intangible assets	-	-	-	-	-	-	235,572	-	235,572
Advances for finance leases	-	149	55,090	581,816	1,431	-	-	-	638,486
Assets to be transferred under finance lease	-	-	536,412	693,807	-	-	-	-	1,230,219
Other assets	61,663	12,394	413,855	3,395,422	49,825	2,011,335	2,809	66,142	6,013,445
Current tax asset	162,418	-	-	-	-	-	-	-	162,418
Deferred tax assets	-	-	-	-	-	8,989,106	-	-	8,989,106
Derivative financial instruments	-	-	-	590,271	-	-	-	-	590,271
<b>Total assets</b>	<b>136,690,837</b>	<b>8,451,270</b>	<b>2,444,978</b>	<b>61,736,623</b>	<b>159,019,087</b>	<b>483,841,497</b>	<b>238,381</b>	<b>37,487,229</b>	<b>889,909,902</b>

## 34 Risk management, continued

### (e) Maturity, continued

	<b>On demand KZT'000</b>	<b>Less than 1 month KZT'000</b>	<b>1 to 3 months KZT'000</b>	<b>3 months to 1 year KZT'000</b>	<b>1 to 5 years KZT'000</b>	<b>More than 5 years KZT'000</b>	<b>No maturity KZT'000</b>	<b>Overdue KZT'000</b>	<b>Total KZT'000</b>
<b>Liabilities</b>									
Current accounts and deposits from customers	428,613	-	-	-	50,065	776,914	-	-	1,255,592
Loans from the Government of the Republic of Kazakhstan	1,885,539	-	-	-	-	24,023,328	-	-	25,908,867
Loans from banks and other financial institutions	-	-	-	-	70,761,043	369,442,173	-	-	440,203,216
Loans from the Parent	-	-	-	-	-	12,868,576	-	-	12,868,576
Government grants	-	-	-	-	-	11,517,777	-	-	11,517,777
Debt securities issued	-	-	157,395	-	135,367,763	29,330,095	-	-	164,855,253
Subordinated debt	-	-	-	-	-	5,050,819	-	-	5,050,819
Other liabilities	357,893	603,884	59,025	1,511,369	270,421	6,439,660	-	-	9,242,252
Derivative financial instruments	-	-	-	570,546	7,345,717	-	-	-	7,916,263
<b>Total liabilities</b>	<b>2,672,045</b>	<b>603,884</b>	<b>216,420</b>	<b>2,081,915</b>	<b>213,795,009</b>	<b>459,449,342</b>	<b>-</b>	<b>-</b>	<b>678,818,615</b>
<b>Net position as at 31 December 2011</b>	<b>134,018,792</b>	<b>7,847,386</b>	<b>2,228,558</b>	<b>59,654,708</b>	<b>(54,775,922)</b>	<b>24,392,155</b>	<b>238,381</b>	<b>37,487,229</b>	<b>211,091,287</b>

## 34 Risk management, continued

### (e) Maturity, continued

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2010.

	<b>On demand KZT'000</b>	<b>Less than 1 month KZT'000</b>	<b>1 to 3 months KZT'000</b>	<b>3 months to 1 year KZT'000</b>	<b>1 to 5 years KZT'000</b>	<b>More than 5 years KZT'000</b>	<b>No maturity KZT'000</b>	<b>Overdue KZT'000</b>	<b>Total KZT'000</b>
<b>Assets</b>									
Cash and cash equivalents	85,932,716	112,297,153	-	-	-	-	-	-	198,229,869
Placements with banks and other financial institutions	-	-	1,643,938	19,007,063	4,379,900	-	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	-	3,189,127	-	-	30,005,580	-	-	-	33,194,707
Loans to customers	-	1,201,137	2,698,639	9,780,454	47,638,135	227,241,273	-	32,331,257	320,890,895
Finance lease receivables	-	300,418	1,027,044	3,273,247	11,274,931	4,599,772	-	4,090,465	24,565,877
Available-for-sale financial assets	-	822,356	4,303,520	5,820,236	58,665,170	269,023,440	-	-	338,634,722
Held-to-maturity investments	-	-	-	-	-	2,707,099	-	-	2,707,099
Equipment and intangible assets	-	-	-	-	-	-	190,157	-	190,157
Advances for finance leases	-	378	2,392	330,354	-	-	-	-	333,124
Assets to be transferred under finance lease agreements	-	-	144,489	1,267,300	-	-	-	-	1,411,789
Other assets	144,720	10,417	1,070,926	4,354,262	56,208	1,044,745	2,806	48,363	6,732,447
Current tax asset	188,248	-	-	-	-	-	-	-	188,248
Deferred tax assets	-	-	-	-	-	6,058,441	-	-	6,058,441
Derivative financial instruments	-	442,500	-	-	-	-	-	-	442,500
<b>Total assets</b>	<b>86,265,684</b>	<b>118,263,486</b>	<b>10,890,948</b>	<b>43,832,916</b>	<b>152,019,924</b>	<b>510,674,770</b>	<b>192,963</b>	<b>36,470,085</b>	<b>958,610,776</b>

## 34 Risk management, continued

### (e) Maturity, continued

	<b>On demand KZT'000</b>	<b>Less than 1 month KZT'000</b>	<b>1 to 3 months KZT'000</b>	<b>3 months to 1 year KZT'000</b>	<b>1 to 5 years KZT'000</b>	<b>More than 5 years KZT'000</b>	<b>No maturity KZT'000</b>	<b>Overdue KZT'000</b>	<b>Total KZT'000</b>
<b>Liabilities</b>									
Current accounts and deposits from customers	340,168	-	-	-	52,577	1,313,527	-	-	1,706,272
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	24,023,328	-	-	24,023,328
Loans from banks and other financial institutions	-	-	59,292,311	-	89,821,372	368,188,361	-	-	517,302,044
Loans from the Parent	-	-	-	-	-	2,420,070	-	-	2,420,070
Government grants	-	-	-	-	-	11,133,326	-	-	11,133,326
Debt securities issued	-	-	-	-	87,632,671	30,074,267	-	-	117,706,938
Subordinated debt	-	-	-	-	-	4,542,761	-	-	4,542,761
Other liabilities	256,713	138,141	531,954	2,144,486	417,601	939,306	-	-	4,428,201
Derivative financial instruments	-	405,000	-	-	7,061,820	-	-	-	7,466,820
<b>Total liabilities</b>	<b>596,881</b>	<b>543,141</b>	<b>59,824,265</b>	<b>2,144,486</b>	<b>184,986,041</b>	<b>442,634,946</b>	<b>-</b>	<b>-</b>	<b>690,729,760</b>
<b>Net position as at 31 December 2010</b>	<b>85,668,803</b>	<b>117,720,345</b>	<b>(48,933,317)</b>	<b>41,688,430</b>	<b>(32,966,117)</b>	<b>68,039,824</b>	<b>192,963</b>	<b>36,470,085</b>	<b>267,881,016</b>

### 35 Capital management

The Group defines capital as its total equity measured in accordance with IFRS.

In accordance with amendments introduced into the Law “On the securities market”, as at 31 December 2011 the Bank was not subject to capital requirements set by the National Bank of the Republic of Kazakhstan.

The Group is subject to minimum capital and maximum debt-to-equity ratio requirements established by covenants under certain liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2011 and 2010.

### 36 Commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities and are cancellable on certain conditions. The Group plans to fund these commitments with the issue of debt securities, loans from the Parent Company and a number of foreign counterparties in 2011.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for letters of credit represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparties failed completely to perform as contracted.

	<b>2011</b> <b>KZT'000</b>	<b>2010</b> <b>KZT'000</b>
<b>Contracted amount</b>		
Loan, credit line and finance lease commitments	150,958,476	154,182,507
Letters of credit and other commitments related to settlement operations	107,530,998	108,864,530

The Group uses the same credit control and management policies in undertaking unrecognised commitments as it does for recognised operations.

Included in letters of credit and other commitments related to settlement operations is the amount of KZT 106,642,054 thousand related to a single borrower, which, if aggregated with current amount of loans in the amount of KZT 48,900,743 thousand, will comprise a significant credit exposure.

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

### 37 Operating leases

#### Leases as lessee

As at 31 December 2011 and 2010 the Group did not have significant non-cancelable operating lease rentals payable.

During the current year KZT 313,849 thousand was recognised as an expense in profit or loss in respect of operating leases (2010: KZT 287,096 thousand).

## **38 Contingencies**

### **(a) Insurance**

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

### **(b) Litigation**

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

### **(c) Taxation contingencies**

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

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

## **39 Related party transactions**

### **(a) Control relationships**

The Bank's sole shareholder is Sovereign Wealth Fund "Samruk-Kazyna" JSC. The party with ultimate control over the Group is the Government of the Republic of Kazakhstan.

Publicly available financial statements are produced by the Group's Parent Company, however, no publicly available financial statements are produced by the Group's ultimate controlling party.

### **(b) Transactions with the members of the Board of Directors and the Management Board**

Total remuneration included in payroll and related taxes (refer Note 11):

	<b>2011</b>	<b>2010</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Members of the Board of Directors and the Management Board	<u>285,624</u>	<u>286,156</u>

The above amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

### **(c) Transactions with other related parties**

Other related parties comprise the State, national companies and organisations, including the National Bank of the Republic of Kazakhstan, the Ministry of Finance of the Republic of Kazakhstan, Fund of Distressed Assets JSC and companies where the Group has significant influence.

The outstanding balances and the related average contractual interest rates as at 31 December 2011 and 2010 and related profit or loss amounts of transactions for the years ended 31 December 2011 and 2010 with other related parties are as follows.



### 39 Related party transactions, continued

#### (c) Transactions with other related parties, continued

31 December 2011	The Parent Company		Other subsidiaries of the Parent Company		Associates of the Parent Company		Other state companies and organisations		Total
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000
<b>Statement of Financial Position</b>									
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	-	8,384	-	76,115,676	0.56	76,124,060
Loans to customers	-	-	60,727,393	7.29	-	-	22,756,546	5.16	83,483,939
Finance lease receivables	-	-	2,627,179	9.70	-	-	-	-	2,627,179
Amounts receivable under reverse repurchase agreements	-	-	42,300,979	7.13	-	-	-	-	42,300,979
Available-for-sale financial assets	43,200,679	6.24	182,152,631	8.70	31,769,042	7.83	40,472,501	6.56	297,594,853
Held-to-maturity investments	2,934,619	0.01	-	-	-	-	-	-	2,934,619
Other assets	-	-	451,882	-	78	-	43,931	-	495,891
Current tax asset	-	-	-	-	-	-	162,418	-	162,418
Deferred tax assets	-	-	-	-	-	-	8,989,106	-	8,989,106
<b>LIABILITIES</b>									
Current accounts and deposits from customers	-	-	345,196	-	-	-	786,678	-	1,131,874
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	-	25,908,867	0.33	25,908,867
Loans from banks and other financial institutions	-	-	-	-	-	-	10,015,245	1.00	10,015,245
Government grants	2,241,201	-	-	-	-	-	9,276,576	-	11,517,777
Loan from the Parent Company	12,868,576	0.20	-	-	-	-	-	-	12,868,576
Subordinated debt	5,050,819	0.01	-	-	-	-	-	-	5,050,819
Other liabilities	4,513,419	-	2,160,142	-	-	-	3	-	6,673,564

### 39 Related party transactions, continued

#### (c) Transactions with other related parties, continued

31 December 2011	<b>The Parent Company</b>	<b>Other subsidiaries of the Parent Company</b>	<b>Associates of the Parent Company</b>	<b>Other state companies and organisations</b>	<b>Total</b>
	<b>KZT'000</b>	<b>KZT'000</b>	<b>KZT'000</b>	<b>KZT'000</b>	<b>KZT'000</b>
<b>Profit/(loss)</b>					
Interest income	2,538,509	24,353,390	966,442	3,263,894	31,122,235
Interest expense	(527,481)	(59)	-	(748,685)	(1,276,225)
Fee and commission income	-	31,038	-	12,392	43,430
Fee and commission expense	-	-	(2,907)	(2)	(2,909)
Net realised gain on available-for-sale financial assets	5,394	97,939	112,846	56,649	272,828
Net gain on derivative financial instruments	-	1,731	-	-	1,731
Income on purchase/sale of foreign currency	39,218	1,293,093	-	-	1,332,311
Impairment losses	-	(576,967)	-	(1,522,323)	(2,099,290)
General administrative expenses	(165,167)	(89,549)	(456)	(226,616)	(481,788)
Other (expenses)/income	-	(24,086)	-	6,134	(17,952)
Income tax benefit	-	-	-	3,113,650	3,113,650

### 39 Related party transactions, continued

#### (c) Transactions with other related parties, continued

31 December 2010	The Parent Company		Other subsidiaries of the Parent Company		Associates of the Parent Company		Other state companies and organisations		Total
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000
<b>Statement of Financial Position</b>									
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	-	44,266,594	1.50	106,138,092	1.00	150,404,686
Loans to customers	-	-	67,953,878	8.29	-	-	25,476,872	9.17	93,430,750
Finance lease receivables	-	-	2,967,414	9.83	-	-	-	-	2,967,414
Amounts receivable under reverse repurchase agreements	-	-	30,005,580	7.50	-	-	-	-	30,005,580
Available-for-sale financial assets	28,282,315	5.93	210,270,581	7.28	5,242,826	7.34	52,461,372	7.49	296,257,094
Held-to-maturity investments	2,707,099	0.01	-	-	-	-	-	-	2,707,099
Other assets	-	-	1,105,293	-	-	-	522,271	-	1,627,564
Current tax asset	-	-	-	-	-	-	188,248	-	188,248
Deferred tax assets	-	-	-	-	-	-	6,058,441	-	6,058,441
<b>LIABILITIES</b>									
Current accounts and deposits from customers	-	-	316,802	-	-	-	1,339,957	-	1,656,759
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	-	24,023,328	0.28	24,023,328
Loans from banks and other financial institutions	-	-	-	-	-	-	9,545,939	1.00	9,545,939
Government grants	1,807,306	-	-	-	-	-	9,326,020	-	11,133,326
Loan from Parent Company	2,420,070	0.20	-	-	-	-	-	-	2,420,070
Subordinated debt	4,542,761	0.10	-	-	-	-	-	-	4,542,761
Other liabilities	-	-	934,331	-	-	-	27,375	-	961,706

### 39 Related party transactions, continued

#### (c) Transactions with other related parties, continued

31 December 2010	<b>The Parent Company</b>	<b>Other subsidiaries of the Parent Company</b>	<b>Associates of the Parent Company</b>	<b>Other state companies and organisations</b>	<b>Total</b>
	<b>KZT'000</b>	<b>KZT'000</b>	<b>KZT'000</b>	<b>KZT'000</b>	<b>KZT'000</b>
<b>Profit/(loss)</b>					
Interest income	581,049	19,498,918	2,477,946	3,961,469	26,519,382
Interest expense	(4,765,359)	(1,088)	-	(530,780)	(5,297,227)
Fee and commission income	828	49,217	-	63,241	113,286
Fee and commission expense	-	-	(3,037)	(8)	(3,045)
Net realised gain on available-for-sale financial assets	535	171,260	-	317,951	489,746
Net loss on derivative financial instruments	-	(65,794)	-	-	(65,794)
Income/(loss) on purchase/sale of foreign currency	54,997	107,270	-	(131,777)	30,490
Impairment losses	-	(1,412)	-	(155,599)	(157,011)
General administrative expenses	(198,200)	(18,606)	-	-	(216,806)
Other income	-	35,854	-	-	35,854
Income tax expense	-	-	-	(1,790,845)	(1,790,845)

### 40 Analysis by segment

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

## 41 Fair value of financial instruments

### (a) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(e) (viii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The estimated fair values of all financial instruments except for loans to customers, finance lease receivables, held-to-maturity investments, loans from the Government of the Republic of Kazakhstan, loans from Parent Company, debt securities issued and subordinated debt approximates their carrying values.

	<b>2011</b> <b>KZT'000</b> <b>Fair</b> <b>value</b>	<b>2011</b> <b>KZT'000</b> <b>Carrying</b> <b>value</b>	<b>2010</b> <b>KZT'000</b> <b>Fair</b> <b>value</b>	<b>2010</b> <b>KZT'000</b> <b>Carrying</b> <b>value</b>
<b>ASSETS</b>				
Loans to customers	265,489,674	275,447,425	310,917,155	320,890,895
Finance lease receivables	20,139,689	22,704,741	22,787,922	24,565,877
Held-to-maturity investments	2,567,457	2,934,619	1,633,373	2,707,099
<b>LIABILITIES</b>				
Loans from the Government of the Republic of Kazakhstan	18,173,251	25,908,867	13,496,310	24,023,328
Loans from Parent Company	12,829,093	12,868,576	2,420,070	2,420,070
Debt securities issued	162,760,946	164,855,253	119,327,101	117,706,938
Subordinated debt	4,686,684	5,050,819	3,499,035	4,542,761

### (b) Valuation of financial instruments

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

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

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair value using valuation techniques.

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

## 41 Fair value of financial instruments, continued

### (b) Valuation of financial instruments, continued

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Instruments involving significant unobservable inputs are presented by certain securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

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

	Note	Level 1 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
<b>Assets</b>					
Available-for-sale financial assets	18	4,966,429	308,962,328	47,817,093	361,745,850
Embedded derivative	17	-	-	2,204,756	2,204,756
Derivative financial instruments	31	-	590,271	-	590,271
		<b>4,966,429</b>	<b>309,552,599</b>	<b>50,021,849</b>	<b>364,540,877</b>
<b>Liabilities</b>					
Derivative financial instruments	31	-	7,916,263	-	7,916,263
		-	<b>7,916,263</b>	-	<b>7,916,263</b>

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

	Note	Level 1 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
<b>Assets</b>					
Available-for-sale financial assets	18	3,745,986	279,827,113	55,061,623	338,634,722
Embedded derivative	17	-	-	4,025,336	4,025,336
Derivative financial instruments	31	-	442,500	-	442,500
		<b>3,745,986</b>	<b>280,269,613</b>	<b>59,086,959</b>	<b>343,102,558</b>
<b>Liabilities</b>					
Derivative financial instruments	31	-	7,466,820	-	7,466,820
		-	<b>7,466,820</b>	-	<b>7,466,820</b>

## 41 Fair value of financial instruments, continued

### (b) Valuation of financial instruments, continued

The available-for-sale financial assets with fair values determined using valuation techniques that use observable inputs were classified into Level 2. Observable inputs included transaction prices in markets that are active for similar, but not identical, instruments and transaction prices in markets that are not active for identical instruments. Although all the instruments are listed on KASE, management believes that the market for these identical instruments is not active.

The Group applies discounted cash flow methodology in respect of valuation of impaired available-for-sale financial assets and available-for-sale financial assets for which fair values cannot be determined based on observable market inputs.

For impaired debt securities cash flow projections were based on publicly available information on expected post-restructuring payoff schedule for each respective type of security. Assumptions on discount rates were made based on issuers' credit risk premiums implied by market quotes of the issues on which the trades were not suspended.

Certain available-for-sale financial assets that do not have observable market prices and cannot be valued based on observable market inputs were also valued applying discounted cash flow methodology. Cash flow projections for these securities were derived from contractual payment schedules. Assumptions regarding discount rates were made based on quoted prices in active markets of similar instruments of an issuer with adjacent credit rating adjusted to the difference in credit ratings.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2011:

	<u>Available-for-sale financial assets</u>	<u>Embedded derivative</u>
<b>Balance as at 1 January</b>	<b>55,061,623</b>	<b>4,025,336</b>
Total gains or losses:		
in profit or loss	4,185,103	(1,453,315)
in other comprehensive income	(7,194,933)	-
Settlements	(4,234,700)	(367,265)
<b>Balance at 31 December</b>	<b>47,817,093</b>	<b>2,204,756</b>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2010:

	<u>Available-for-sale financial assets</u>	<u>Embedded derivative</u>
<b>Balance as at 1 January</b>	<b>57,201,199</b>	<b>4,331,208</b>
Total gains or losses:		
in profit or loss	4,247,170	81,563
in other comprehensive income	(1,416,104)	-
Settlements	(3,024,818)	(387,435)
Disposed of	(1,945,824)	-
<b>Balance at 31 December</b>	<b>55,061,623</b>	<b>4,025,336</b>

## 41 Fair value of financial instruments, continued

### (b) Valuation of financial instruments, continued

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2011:

<b>KZT'000</b>	<b>Effect on profit or loss</b>		<b>Effect on other comprehensive income</b>	
	<b>Favourable</b>	<b>Unfavourable</b>	<b>Favourable</b>	<b>Unfavourable</b>
Available-for-sale financial assets - Debt and other fixed income instruments	-	-	3,902,508	(3,635,504)
<b>Total</b>	-	-	<b>3,902,508</b>	<b>(3,635,504)</b>

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2010:

<b>KZT'000</b>	<b>Effect on profit or loss</b>		<b>Effect on other comprehensive income</b>	
	<b>Favourable</b>	<b>Unfavourable</b>	<b>Favourable</b>	<b>Unfavourable</b>
Available-for-sale financial assets - Debt and other fixed income instruments	-	-	2,016,969	(1,903,041)
<b>Total</b>	-	-	<b>2,016,969</b>	<b>(1,903,041)</b>

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values. Key inputs and assumptions used to calculate favourable and unfavourable changes include changing the estimated discount rate by 100 basis points.



**JSC DEVELOPMENT BANK OF KAZAKHSTAN**  
**RM1.5 BILLION ISLAMIC MEDIUM TERM NOTE PROGRAMME**

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**PRINCIPAL TERMS AND CONDITIONS OF THE ISLAMIC MEDIUM TERM NOTE PROGRAMME**

**1. BACKGROUND INFORMATION ON THE ISSUER**

- (i) **Name:** JSC Development Bank of Kazakhstan (“**DBK**” or “**the Issuer**”)
- (ii) **Address:** 10, Orynbor Street, “Kazyna Tower” Building, Yesil District, Astana, Republic of Kazakhstan
- (iii) **Business registration no.:** No. 4686-1900-AO
- (iv) **Date and place of incorporation:** 31 May 2001 in the Republic of Kazakhstan
- (v) **Date of listing:** DBK's common shares are not listed on the Kazakhstan Stock Exchange or any other stock exchange
- (vi) **Status:** Non-resident controlled company
- (vii) **Principal activities:** The Issuer provides commercial banking services such as:
- Financing for investment projects
  - Leasing
  - Project, mezzanine, bridge, working capital financing
  - Agent services for investment projects financed by the government or government guaranteed debt
- (viii) **Board of directors:** As at 1 May 2012, the board of directors consists of
- AsetIssekeshv
  - Ulf Wokurka
  - Kay Zwingenberger
  - KuandykBishimbayev
  - KanatDosmukametov
  - Jacek Brzezinski
  - NurlanKussainov
- (ix) **Structure of shareholdings and names of shareholders or, in the case of a public company, names of all substantial shareholders:** As at 1 May 2012, DBK is wholly owned by the Government of Kazakhstan via JSC "Sovereign Wealth Fund “Samruk-Kazyna”
- (x) **Authorised and paid-up capital:** The authorised and paid-up capital of the Issuer as at 1 April 2012 is KZT 256 billion divided into 1,819,519 ordinary shares of KZT50,000 each and 247,006 ordinary shares of KZT 668,000 each.

**JSC DEVELOPMENT BANK OF KAZAKHSTAN**  
**RM1.5 BILLION ISLAMIC MEDIUM TERM NOTE PROGRAMME**

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**2. PRINCIPAL TERMS AND CONDITIONS**

**(a) Name of parties involved in the proposed transaction (where applicable)**

- |  |  |
|--|--|
| <b>(i) Joint Principal advisers</b>  | The Royal Bank of Scotland Berhad (“ <b>RBS Berhad</b> ”) and HSBC Amanah Malaysia Berhad (“ <b>HSBC Berhad</b> ”) (collectively the “ <b>JPs</b> ”)   |
| <b>(ii) Joint Lead arrangers</b>   | RBS Berhad and HSBC Berhad<br><br>The JPs and the Joint Lead Arrangers are collectively referred to as the “ <b>JLAs</b> ”   |
| <b>(iii) Co-arranger</b>   | Not applicable   |
| <b>(iv) Legal Counsels</b>   | (a) Messrs. Wong & Partners (“ <b>Wong &amp; Partners</b> ” or “ <b>Legal Counsels</b> ”) as the JLAs’ Malaysian Counsel;<br><br>(b) Messrs Norton Rose (“ <b>Norton Rose</b> ”) as Issuer/ the Obligor’s International Counsel. |
| <b>(v) Financial adviser</b>   | Not applicable   |
| <b>(vi) Technical adviser</b>  | Not applicable   |
| <b>(vii) Trustee</b>   | Deutsche Trustees Malaysia Berhad  |
| <b>(viii) Guarantor</b>  | Not applicable   |
| <b>(ix) Valuer</b>   | Not applicable   |
| <b>(x) Facility agent</b>  | RBS Berhad   |
| <b>(xi) Primary subscriber (under a bought-deal arrangement) and amount subscribed</b> | Not applicable   |
| <b>(xii) Underwriter(s) and amount underwritten</b>                                    | Not applicable   |
| <b>(xiii) Shariah advisers</b>   | <ul style="list-style-type: none"> <li>• The Shariah Committee of HSBC Amanah Malaysia Berhad</li> <li>• Amanie Advisors Sdn Bhd - Dr.Mohd Daud Bakar</li> </ul> (collectively referred to as “ <b>Joint Shariah Advisers</b> ”) |
| <b>(xiv) Central depository</b>  | Bank Negara Malaysia (“ <b>BNM</b> ”)  |
| <b>(xv) Paying agent</b>   | BNM  |
| <b>(xvi) Reporting accountant</b>  | KPMG   |
| <b>(xvii) Tax adviser</b>  | Not applicable   |
| <b>(xviii) Calculation agent</b>   | Not applicable   |

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**(xix) Others**

Joint Lead Managers for the offering in Malaysia (the “**Malaysia JLMs**”)

HSBC Berhad and RBS Berhad

Lead Manager for the offering in Kazakhstan (the “**Kazakhstan Lead Manager**”)

JSC Halyk Finance (“**Halyk Finance**”)

The Malaysia JLMs and the Kazakhstan Lead Manager shall collectively be referred to as the “**JLMs**”.

Process Agent

Deutsche Trustees Malaysia Berhad

**(b) Facility description**

An Islamic Medium Term Note Programme of up to RM1.5 billion in nominal value (“**Sukuk Programme**”) for the issuance of Islamic medium term notes (“**Sukuk Commodity Murabahah**”).

The issuance of Sukuk Commodity Murabahah under the Sukuk Programme shall be made via the Shariah principle of Murabahah utilising commodities as underlying assets which is one of the Shariah principles and concepts approved by the Shariah Advisory Council of the Securities Commission of Malaysia (“**SC**”).

The issuance for the Sukuk Commodity Murabahah from time to time under the Sukuk Programme shall be effected as follows:

1. The Trustee, on behalf of the investors of the Sukuk Commodity Murabahah (“**Sukukholders**”), and DBK shall enter into a Service Agency Agreement, pursuant to which DBK (in such capacity, the “**Purchase Agent**”) is appointed as the agent of the Sukukholders for the purchase and sale of Shariah compliant commodities (“**Commodities**”). The Purchase Agent will then enter into a Facility Agency Agreement to appoint the Facility Agent as the sub-agent (in such capacity, the “**Sub-Purchase Agent**”) for the purchase and sale of Commodities under the Sukuk Programme.
2. Pursuant to a Commodity Murabahah Master Agreement, prior to the date on which the relevant Series of Sukuk Commodity Murabahah is issued, DBK (acting as purchaser for itself) shall issue a purchase order (“**Purchase Order**”) in relation to the said Series to the Purchase Agent and the Sub-Purchase Agent. In the Purchase Order, DBK (acting as purchaser for itself) will request the Purchase Agent and the Sub-Purchase Agent to purchase the Commodities and will irrevocably undertake to purchase the Commodities from the Sukukholders via the Purchase Agent and the Sub-Purchase Agent.
3. Based on the Purchase Order, the Sub-Purchase Agent, as the Commodity Trading Participant (“**CTP**”), will purchase on a spot basis the

Commodities from commodity vendor(s) in the Bursa Suq Al-Sila' commodity market (through a CTP) at a purchase price ("**Purchase Price**") which shall be an amount equivalent to the Sukuk Commodity Murabahah proceeds. The Purchase Price of the Commodities shall be in line with the Asset pricing requirement stipulated under the Islamic Securities Guidelines dated 12 July 2011 ("**Sukuk Guidelines**") issued by the Securities Commission Malaysia ("**SC**").

4. DBK (acting as the Issuer) shall then issue Sukuk Commodity Murabahah to the Sukukholders whereby the proceeds thereof shall be used to pay for the Purchase Price of the Commodities. The Sukuk Commodity Murabahah shall evidence, amongst others, the Sukukholders' ownership of the Commodities and subsequently once the Commodities are sold to DBK (as the Purchaser for itself), the entitlement to receive the deferred sale price ("**Deferred Sale Price**") which shall be the Purchase Price plus the profit ("**Profit Payment**").
5. Thereafter, pursuant to the sale and purchase agreement, the Purchase Agent and the Sub-Purchase Agent shall sell the Commodities to DBK (acting as Purchaser for itself) at the Deferred Sale Price ("**Sale and Purchase Agreement**").
6. Upon completion of such purchase, DBK (pursuant to the CTP Sale Agreement entered into between DBK (acting as Purchaser for itself) and the CTP) shall sell the Commodities to Bursa Malaysia Islamic Services Sdn. Bhd. (through the CTP) on a spot basis for an amount equal to the Purchase Price. The CTP Sale Agreement will provide for the CTP to directly sell the Commodities into Bursa Malaysia Islamic Services Sdn. Bhd. upon notice by the Sub-Purchase Agent that the Sale and Purchase Agreement has been completed and executed.
7. During the tenure of the Sukuk Commodity Murabahah, DBK shall make periodic payments to the Sukukholders. On the date of maturity of the Sukuk Commodity Murabahah, DBK shall pay all amounts then outstanding on the Deferred Sale Price to the Sukukholders whereupon the Sukuk Commodity Murabahah shall be cancelled.

The transaction structure is set out in the Appendix 1.

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| (c) | <b>Issue/ programme size</b>                       | The size of the Sukuk Programme is up to RM1.5 billion.  |
| (d) | <b>Tenor of issue/debt programme (or facility)</b> | <p><u>Tenor of the Sukuk Programme</u><br/>           Up to twenty (20) years from the date of first issuance of the Sukuk Commodity Murabahah, which shall be within 2 years from the date of the approval from the SC.</p> <p><u>Tenor of the Sukuk Commodity Murabahah to be issued</u><br/>           Each issuance of the Sukuk Commodity Murabahah shall</p> |

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have a tenor of more than one (1) year, provided always that the tenor of any Sukuk Commodity Murabahah issued shall not exceed the remaining tenor (as may be applicable in relation to such Sukuk Commodity Murabahah) of the Sukuk Programme.

- (e) **Availability period of debt programme (or facility)** The Sukuk Programme shall be available upon compliance of all the conditions precedent for the establishment of the Sukuk Programme, until the expiry of the Tenor of the Sukuk Programme (as described in paragraph 2(d) above).
- (f) **Profit rate (%)** The profit rate shall be determined and agreed prior to each issuance of the Sukuk Commodity Murabahah.
- (g) **Profit payment frequency** The profit is payable at semi-annual intervals in arrears with the first payment commencing six (6) months from the issue date of the relevant Sukuk Commodity Murabahah and the last ending on the date falling on the maturity date of the relevant Sukuk Commodity Murabahah.
- (h) **Profit/ coupon/ rental payment basis** The profit will be calculated on the basis of the actual number of days in the relevant period divided by 365 days and in any event, in accordance with the Operational Procedures for Securities Services issued by Malaysian Electronic Clearing Corporation Sdn Bhd ("**MyClear**") dated 6 May 2011, as amended or substituted from time to time ("**MyClear OPSS**").
- (i) **Security/collateral (if any)** Nil.
- (j) **Details on utilisation of proceeds by issuer/ obligor. If proceeds are to be utilised for project or capital expenditure, description of the project or capital expenditure, where applicable** The proceeds from the issuance of Sukuk Commodity Murabahah will be utilised to settle the Purchase Price of the commodities.  
The proceeds raised by DBK from the sale of the commodities in accordance with the terms and subject to the conditions as provided under the Transaction Documents shall be utilised for purposes that are Shariah-compliant only and in accordance with the Shariah Governing Manual prepared by the Joint Shariah Advisers, which may include inter-alia, financing Shariah compliant investments and/or in connection with Shariah compliant Islamic finance activities of DBK's clients and/or other companies of Samruk-Kazyna, equity capital injection into external companies, the client companies of DBK or into JSCDBK Leasing, as approved by the Joint Shariah Advisers, investing in Islamic instruments, potential development of Islamic division of DBK or founding an Islamic bank, or any Shariah compliant investment that carries a Shariah pronouncement.
- (k) **Sinking fund and designated accounts(if any)** Not applicable.
- (l) **Rating**  
• **Credit rating(s) assigned (please specify if this is an indicative rating or if** The Sukuk Commodity Murabahah have been accorded the following long-term rating:  
(i) AA2 by RAM Rating Services Berhad ("**RAM**"); and

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- the credit rating is not assigned for the full amount in the case of sukukprogramme, adequate disclosures under paragraph 7.02 of these guidelines to be made)
- **Name of rating agency** RAM  
S&P
- (m) **Mode of issue** Malaysia:  
Direct placement basis via a book building process or private placement without prospectus.
- Kazakhstan:  
Offering through the organized market of the Republic of Kazakhstan in accordance with Article 22-1 of the Law of the Republic of Kazakhstan on the Securities Market of July 02, 2003, #461-II.
- (n) **Selling restriction, including tradability (i.e. tradable or non-tradable)** The Sukuk Commodity Murabahah are tradable subject to the following selling restrictions:
- Selling Restrictions at Issuance in Malaysia
- The Sukuk Commodity Murabahah shall not be offered or sold, transferred or otherwise disposed, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons to whom the Sukuk Commodity Murabahah are issued would fall within any of the categories of persons or in the circumstances specified under:
- (i) Schedule 6 (or Section 229(1)(b));
  - (ii) Schedule 7 (or Section 230(1)(b));
- read together with Schedule 9 (or Section 257(3)) of the Capital Markets and Services Act, 2007 of Malaysia (“**CMSA**”), as amended from time to time.
- Selling Restrictions after Issuance in Malaysia
- The Sukuk Commodity Murabahah shall not be offered or sold, transferred or otherwise disposed, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons to whom an offer or invitation to purchase the Sukuk Commodity Murabahah would fall within any of the categories of persons or in the circumstances specified under:
- Schedule 6 (or Section 229(10)(b)), read together with Schedule 9 (or Section 257(3)) of the CMSA, as amended from time to time.
- Selling Restrictions at Issuance in Kazakhstan
- The Sukuk Commodity Murabahah may only be offered,

sold, transferred or otherwise disposed directly or indirectly in the Republic of Kazakhstan in compliance with the Article 22-1 of the Securities Law of the Republic of Kazakhstan.

Selling Restrictions after Issuance in Kazakhstan

The Sukuk Commodity Murabahah may only be offered, sold, transferred or otherwise disposed directly or indirectly in the Republic of Kazakhstan in compliance with the applicable securities laws and regulations of the Republic of Kazakhstan.

**(o) Listing status and types of listing** The Sukuk Commodity Murabahah will not be listed on Bursa Malaysia Securities Berhad ("**Bursa Malaysia**")

Application has been made for the Sukuk to be admitted to the "rated debt securities" category of the official list of the Kazakhstan Stock Exchange (the "**KASE**").

**(p) Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained (please specify)** The Issuer has obtained:

(1) the approval from BNM dated 3 May 2012 for the following:

- (i) the Sukuk Programme; and
- (ii) the cross currency swap arrangements by DBK;

(2) the approval from SAC for the Islamic Commodity Murabahah structure dated 24 May 2012;

(3) the consent from the Committee for Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan (the "**FMSCNBK**") to issue the Sukuk Commodity Murabahah on the territory of a foreign state vide the approval letter by FMSCNBK dated 16 April 2012; and

(4) the listing consent from the KASE for the Sukuk Commodity Murabahah to be admitted to the official list of the KASE vide the approval letter by KASE dated 18 May 2012.

The Issuer is in the process of procuring the consent from the FMSCNBK to place the Sukuk Commodity Murabahah on the territory of a foreign state.

**(q) Conditions precedent** **For the establishment of the Programme**

Conditions precedent for the establishment of the Sukuk Programme to include but not limited to the following, all of which have to be in form and substance acceptable to the JPAs/JLAs:

- (i) a certificate signed by a duly authorised officer of the Issuer that there is (a) no Material Adverse Change; (b) no event rendering untrue or incorrect any of the representations and warranties; (c) no material breach

of any of the undertakings by the Issuer; (d) no Event of Default (as defined hereinafter) or an event, which with the giving of notice or passage of time or both, would be an Event of Default has occurred and is continuing or will occur

- (ii) the Transaction Documents shall have been duly executed by the parties thereto and stamped or endorsed as exempted from stamp duty;
- (iii) all required regulatory and other approvals for the establishment of the Sukuk Programme being obtained;
- (iv) evidence that the Sukuk Programme and its proposed use of proceeds for the first utilisation have received the approval and endorsement from the Joint Shariah Advisers;
- (v) copies of all resolutions, authorisations and consents required in connection with the issuance and sale of the Sukuk Commodity Murabahah having been obtained or otherwise delivered;
- (vi) the Sukuk Programme shall have received a minimum rating of AA3 from RAM Ratings and BBB+ from S&P;
- (vii) a written opinion from Wong & Partners opining on, inter alia, the validity, legality and enforceability of the Sukuk Commodity Murabahah and the Transaction Documents which are governed by Malaysian Law and that all conditions precedent have been fulfilled;
- (viii) a written opinion from Norton Rose opining on, inter alia, the compliance of the offering and placement of the Sukuk Commodity Murabahah in Kazakhstan in accordance with the Kazakhstan legislation and authority of DBK to enter into the Transaction Documents (to which it is a party) and the validity, legality and enforceability of such Transaction Documents under Kazakhstan laws;
- (ix) a written confirmation from DBK that it has complied with the requirements imposed by Bank Negara Malaysia to hedge the proceeds of the Sukuk Commodity Murabahah by entering into a currency swap transaction; and
- (x) such other conditions precedent as set out in the Transaction Documents.

**For subsequent issuance (other than the first issuance)**

- (i) the Sukuk Programme continues to be rated by RAM;
- (ii) copies of all resolutions, authorisations and consents



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required in connection with the issuance and sale of the Sukuk Commodity Murabahah having been obtained or otherwise delivered:

- (iii) a written confirmation from DBK that it has complied with the requirements imposed by Bank Negara Malaysia to hedge the proceeds of the Sukuk Commodity Murabahah by entering into a currency swap transaction;
- (iv) a written opinion from Norton Rose opining on, inter alia, the compliance of the offering and placement of the Sukuk Commodity Murabahah in Kazakhstan accordance with the Kazakhstan legislation and authority of DBK to enter into the Transaction Documents (to which it is a party) and the validity, legality and enforceability of such Transaction Documents under Kazakhstan laws;
- (v) evidence that the proposed utilisation of the proceeds has been approved and endorsed by the Joint Shariah Advisers, an independent Shariah adviser or the Shariah Supervisory Board of DBK (if any); and
- (vi) such other conditions precedent as set out in the Transaction Documents.

**(r) Representations and warranties**

Representation and warranties shall include but are not limited to the following:

- (i) DBK is duly organised and incorporated and validly existing under the laws of the Republic of Kazakhstan and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under the Transaction Documents;
- (ii) DBK has taken all necessary corporate, legal and other action required to authorise the execution and delivery of the Transaction Documents and all other documents to be executed and delivered by it in connection with the Transaction Documents, and the performance of the Transaction Documents in accordance with its terms;
- (iii) The Transaction Documents have been duly executed and delivered by DBK and constitutes a legal, valid and binding obligation of DBK enforceable in accordance with its terms;
- (iv) the execution, delivery and performance of the Transaction Documents by DBK will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any applicable governmental, judicial or public body or authority; (ii) the constitutive documents, rules and regulations of DBK; or (iii) any agreement or other undertaking or instrument to which DBK is a party or which is binding upon DBK or any of its assets,

nor result in the creation or imposition of any Encumbrance (as defined hereinafter) on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument;

- (v) all consents, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Republic of Kazakhstan required by DBK in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Kazakh legal requirements, admissibility in evidence of the Transaction Documents have been obtained or effected and are in full force and effect;
- (vi) no event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness (as defined hereinafter) of DBK, and no such event will occur upon the making of the Transaction Documents;
- (vii) except as disclosed in the Information Memorandum and/or the relevant supplemental Information Memorandum, there are no judicial, arbitral or administrative actions, proceedings or claims pending or threatened against DBK or, to the best knowledge of DBK after due and careful enquiry, any of its Material Subsidiaries (as defined hereinafter), the adverse determination of which may have a Material Adverse Effect;
- (viii) except for Permitted Security Interests and in respect of property where the obligations of the Issuer have been secured for the benefit of the Sukukholders in accordance with paragraph 2(t)(ii)(i) below and where an Encumbrance has been approved by an Extraordinary Resolution in accordance with paragraph 2(t)(ii)(i) below, DBK and each of its Material Subsidiaries has the right of ownership (as that expression is defined under the laws of the Republic of Kazakhstan or the laws of the jurisdiction of such Material Subsidiaries) to its property free and clear of all Encumbrances and DBK's obligations under the Transaction Documents will rank at least pari passu with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law);
- (ix) the audited consolidated financial statements (including the income statement and balance sheet) of DBK have been prepared on a basis consistently applied and in accordance with International Financial Reporting Standards ("IFRS") and present a true, accurate and fair view of its financial position for that year and the state of affairs as at that date, as the case may be

- (x) except as disclosed in the Information Memorandum, since the date of its last audited financial statements of DBK there has been no Material Adverse Change;
- (xi) none of DBK or its assets, revenues or properties have any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to the Transaction Documents;
- (xii) DBK is in compliance with any applicable laws and regulations;
- (xiii) neither DBK nor any of its Material Subsidiaries has taken any corporate action nor have any other steps been taken or legal proceedings started or threatened in writing against DBK or any of its Material Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or reorganisation (save for any internal corporate reorganisation of the Group undertaken in the normal course of business) (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its or their assets, revenues or properties;
- (xiv) there are no strikes or other employment disputes against DBK or its Material Subsidiaries which are pending or, to the best of the knowledge of the management board of DBK after due and careful enquiry, threatened in writing which may have a Material Adverse Effect;
- (xv) in any proceedings taken in the Republic of Kazakhstan in relation to the Transaction Documents, Malaysian law as the governing law of the Transaction Documents will be recognized and enforced in the Republic of Kazakhstan subject to the compliance of the relevant procedural rules and legal requirements in the Republic of Kazakhstan. The submission by DBK to any arbitration is legal, valid, binding and enforceable against DBK and the arbitral awards given by such arbitral body will be recognised and enforceable by the courts of the Republic of Kazakhstan against DBK after compliance with the applicable procedural rules and all other legal requirements in Kazakhstan;
- (xvi) none of DBK and its Material Subsidiaries has overdue tax liabilities which may have a Material Adverse Effect other than those which it has disclosed in the Information Memorandum prior to the date of the Transaction Documents or which it is contesting in good faith;

- (xvii) all licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable DBK and any of its Material Subsidiaries to own their respective assets and properties and carry on their respective business are in full force and effect;
  - (xviii) DBK is subject to civil and commercial law with regard to its obligations under the Sukuk Commodity Murabahah and the Transaction Documents and the execution, delivery and performance of the Transaction Documents constitute private and commercial acts rather than governmental or public acts and neither DBK nor any of its assets, revenues or properties enjoy any immunity on the grounds of sovereignty or otherwise in respect of its obligations under the Sukuk Commodity Murabahah and the Transaction Documents; and
  - (xix) such other representations and warranties as set out in the Transaction Documents.
- (s) **Events of Default (or enforcement event, where applicable)** The Trustee at its discretion may, and if so requested in writing by the holders of not less than one fifth in principal amount of the Sukuk Commodity Murabahah then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured to its satisfaction) shall, give notice to the Issuer that the Sukuk Commodity Murabahah are and they shall immediately become due and repayable at their principal amount together with accrued profits if any of the following events (each, an “**Event of Default**”) occurs and is continuing:
- (i) the Issuer fails to pay any amount due under the Sukuk Commodity Murabahah when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of any such amount due under the Sukuk Commodity Murabahah and such default is not remedied within 7 Business Days; or
  - (ii) the Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Sukuk Commodity Murabahah or any of the Transaction Documents (other than a default or breach elsewhere specifically dealt with in this Events of Default clause) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee or the Issuer being aware of such breach, which ever is earlier; or
  - (iii) (a) any Financial Indebtedness of the Issuer or any Material Subsidiary (i) becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof or (ii) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (b) any guarantee given by the

Issuer or any Material Subsidiary in respect of Financial Indebtedness of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Financial Indebtedness exceeds U.S.\$20,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or

- (iv) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Material Subsidiary or all or (in the opinion of the Trustee) substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or (b) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its assets, revenues or property or (in the opinion of the Trustee) substantially all thereof, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Financial Indebtedness and, in any case as is specified in this Condition (iv) in relation to a Material Subsidiary, the event is (in the opinion of the Trustee) materially prejudicial to the interests of the Sukukholders; or
- (v) the Issuer makes or threatens to make any substantial change in the principal nature of its business as presently conducted which is (in the opinion of the Trustee) materially prejudicial to the interests of the Sukukholders; or
- (vi) the Issuer fails to take any action as is required of it under the DBK Law (as defined hereinafter), the Credit Policy Memorandum (as defined hereinafter) or any applicable regulations in Kazakhstan or otherwise to maintain in effect its corporate existence or fails to take any action to maintain any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations which is (in the opinion of the Trustee) materially prejudicial to the interests of the Sukukholders and such failure is not

remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or the Issuer being aware of the same, whichever is earlier; or

- (vii) the Issuer fails to comply in any (in the opinion of the Trustee) material respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable it lawfully to exercise its rights or perform or comply with its obligations under the Sukuk Commodity Murabahah or any of the Transaction Documents or to ensure that those obligations are valid legally binding and enforceable or that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect; or
- (viii) (a) the validity of the Sukuk Commodity Murabahah or any of the Transaction Documents is contested by the Issuer or the Issuer shall deny any of its obligations under the Sukuk Commodity Murabahah or any of the Transaction Documents (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (b) it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Sukuk Commodity Murabahah or any of the Transaction Documents or (c) all or any of its obligations set out in the Sukuk Commodity Murabahah or any of the Transaction Documents shall be or become unenforceable or invalid or (d) the DBK Law is repealed and, following the occurrence of any of the events specified in this Condition (viii), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Sukukholders; or
- (ix) (a) all or any substantial part of the undertaking, assets, revenues or properties of the Issuer or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (b) the Issuer or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets, revenues or properties and, following the occurrence of any of the events specified in this sub-clause (ix)(a), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Sukukholders; or
- (x) the Republic of Kazakhstan takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an agreement or composition with or for the benefit of its creditors or a moratorium is declared in respect of the payment of

any class of obligations of the Republic of Kazakhstan (such payment being due in a currency other than the lawful currency for the time being of the Republic of Kazakhstan); or

- (xi) a resolution is passed or an order of a court of competent jurisdiction is made that the Issuer be wound up or dissolved, otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction, the terms of which shall have previously been approved in writing by an Extraordinary Resolution of a meeting of the holders of the Sukuk Commodity Murabahah; or
- (xii) where a scheme of arrangement under Section 176 of the Companies Act 1965 (or the equivalent legislation of Section 176 of the Companies Act 1965 in the jurisdiction of incorporation of the Issuer) has been instituted against the Issuer; or
- (xiii) where a receiver has been appointed over the whole or a substantial part of the assets, revenues or properties of the Issuer; or
- (xiv) where there is a revocation, withholding or modification of any licence, authorisation or approval that impairs or prejudices the Issuer's ability to comply with the terms and conditions of the Sukuk Commodity Murabahah or the provisions of the Transaction Documents; And such other Events of Default as stated in the Transaction Documents.

At any time after an Event of Default has been declared the Trustee may at its discretion, by written notice to the Issuer institute such proceedings as it may think fit against the Issuer to enforce the provisions of the Transaction Documents and to enforce payment of all amounts payable under the Transaction Documents.

For the avoidance of doubt, the *ibra'* (rebate) is also applicable for calculation of the Deferred Sale Price when the Event of Default for the Sukuk is declared before the maturity date of each issue.

**(t) Covenants**

**(i) Positive Covenants**

**In respect of the Issuer under the Transaction Documents:**

The Issuer shall comply with all such applicable positive covenants as may be agreed upon, including but not limited to the following:

- (i) So long as any Sukuk Commodity Murabahah remains outstanding, the Issuer shall ensure that it is fully in compliance with the Law on Development Bank of Kazakhstan of 25 April 2001, as amended (the "**DBK Law**"), and the Memorandum on Credit Policy of the Issuer referred to in the DBK Law, as amended from time-to-time, (the "**Credit Policy**")

**Memorandum”).**

- (ii) So long as any Sukuk Commodity Murabahah remains outstanding, the Issuer shall comply, and shall ensure that each of its Subsidiaries complies, at all times with all applicable laws, regulations, orders and directives of all governmental, statutory authority body or agency including (without limitation) the National Bank of Kazakhstan;
- (iii) So long as any Sukuk Commodity Murabahah remains outstanding, the Issuer shall:
  - (a) send to the Trustee and if required, the rating agency two copies of:
    - (i) the consolidated annual financial statements of the Issuer as soon as practicable after their date of publication and in any event not more than 180 days after the end of each financial year of the Issuer;
    - (ii) the consolidated interim condensed financial statements of the Issuer as soon as practicable after their date of publication and in any event not more than 120 days after the end of the first half of each financial year of the Issuer; and
  - (b) ensure that:
    - (i) each set of annual financial statements delivered by it pursuant to sub-paragraph (a)(i) above is accompanied by an audit report of the Auditors (to be defined in the Trust Deed) which shall include opinion satisfactory to the Trustee as to the adequacy of the Issuer's financial procedures, accounting systems and management information and cost control systems;
    - (ii) each set of half yearly interim financial statements delivered by it pursuant to sub-paragraph (a)(ii) above is accompanied by a review report of the Auditors;
    - (iii) each set of financial statements delivered pursuant to sub-paragraphs (a)(i) or (a)(ii) above is prepared in accordance with International Financial Reporting Standards ("IFRS"), consistently applied, and certified for and on behalf of the Issuer as presenting fairly, in all material respects, its financial condition as at



the end of the period to which those financial statements relate and its results of operations for such period; and

- (iv) all information sent to the Trustee and made available on the Issuer's website pursuant to sub-clause (iv) is in the English language or accompanied by a certified translation thereof;
- (c) promptly upon sending any information to the Trustee pursuant to sub-clause (iv)(a), and in any event within five (5) Business Days of sending such information, make such information available on the Issuer's website.
- (iv) perform all its obligation and promptly comply with (a) all applicable provisions of the Transaction Documents to which it is a party; and (b) the Shariah governance manual to be issued by the Joint Shariah Advisers in respect of the Sukuk Programme;
- (v) redeem in full all outstanding Sukuk Commodity Murabahah in accordance with the terms and conditions of the Transaction Documents;
- (vi) shall exercise reasonable diligence in carrying out its business in a proper and efficient manner which should ensure, among others, that all necessary approvals or relevant licenses are obtained;
- (vii) at all times maintain a paying agent in Malaysia; and the Issuer shall cause and procure such paying agent to notify the Trustee (through a facility agent) in the event the paying agent does not receive payment from the Issuer on the due dates as required under the Sukuk Commodity Murabahah;
- (viii) at all times keep and maintain proper financial books and accounts in accordance with the relevant laws and to provide the Trustee and any person appointed by it (e.g. auditors) access to such books and accounts to the extent permitted by law and upon written notice from the Trustee requesting the same provided always that the Trustee undertakes to keep such information to which it has access on a confidential basis;
- (ix) utilise the issue proceeds for the purpose as represented herein;
- (x) deliver to the Trustee any information which the Trustee may reasonably require in order to discharge its duties and obligations under the trust deed governing the Sukuk Commodity Murabahah (the "**Trust Deed**") relating to the Issuer's affairs to the extent permitted by law;
- (xi) ensure that the terms in any of the applicable

Transaction Documents do not contain any matter which is inconsistent with the provisions of the information memorandum issued in relation to the Sukuk Programme;

- (xii) the Issuer shall immediately inform the Trustee in the event that the Issuer becomes aware of the following:
  - (a) any Event of Default or that such other right or remedy under the terms, provisions and covenants of the Transaction Documents have become immediately enforceable;
  - (b) any circumstance that has occurred that would materially prejudice the Issuer;
  - (c) any substantial change in the nature of the business of the Issuer;
  - (d) any change in the utilisation of proceeds of the Sukuk Commodity Murabahah;
  - (e) any other matter that may materially prejudice the interests of the Sukuk holders;
- (xiii) shall deliver to the Trustee any other accounts, report, notice, statement or circular issued to shareholders which the Trustee shall at its discretion circulate the accounts, report, notice, statement or circular to the registered Sukuk holders who fall within Schedules 6 and 7 of the CMSA as well as the rating agency of the Sukuk Programme;
- (xiv) shall deliver to the Trustee at least annually a certificate that the Issuer has complied with its obligations under the Transaction Documents and the terms and conditions of the Sukuk Programme and that there did not exist or had not existed, from the date the Sukuk Commodity Murabahah were first issued or date of the previous certificate as the case may be, any Event of Default or enforcement, where applicable and if such is not the case, to specify the same;
- (xv) shall procure the Joint Shariah Advisers or an independent Shariah adviser or the Shariah Supervisory Board of DBK (if any) to provide an annual certification certifying that the proceeds of the Sukuk Commodity Murabahah are utilized for Shariah-compliant purposes; and
- (xvi) such other positive covenants as set out in the Transaction Documents.

**(ii) Negative Covenants**

**In respect of the Issuer under Transaction Documents:**

The Issuer shall not (unless the Issuer has received the consent of the Trustee):

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- (i) permit any Material Subsidiary to create, incur, assume or permit to arise or subsist any security interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Transaction Documents are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution of Sukukholders;
- (ii) cancel, surrender, transfer, assign, relinquish or otherwise dispose of any of its rights and interest under the Transaction Documents (except as permitted under the Transaction Documents);
- (iii) change the nature of its existing business or suspend its existing business operations;
- (iv) add to, amend or substitute its memorandum and articles of association in any manner that may adversely affect the ability of the Issuer to perform any of its obligations under any of the Transaction Documents;
- (v) without prior written consent of the Trustee agree to any amendments to or any modification or waiver of, authorise any breach or proposed breach of, the terms of the Transaction Documents and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Transaction Documents. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Sukukholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Sukukholders;
- (vi) allow the proceeds from the issuance of Sukuk Commodity Murabahah be commingled in interest-bearing accounts;
- (viii) pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital:
  - (a) at any time when there exists an Event of Default (as defined in above or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default; or
  - (b) when no such Event of Default or event exists:
    - (i) more frequently than once during any calendar year; and
    - (ii) in an aggregate amount exceeding 50% of the Issuer's profit for the period

in respect of which the dividends are being paid or the distribution is being made, determined in accordance with IFRS, for which purpose, the amount of the Issuer's profit shall be determined by reference to its audited consolidated annual financial statements for the period in respect of which the dividend is being paid or the distribution is being made.

Notwithstanding anything to the contrary herein, the limitation contained in this sub-clause (viii)(b) shall not apply to the payment of (aa) any dividends in respect of any preferred share capital of the Issuer which may be outstanding from time to time or (bb) any dividends in respect of any shares of the Issuer which are paid through the issuance of additional common shares, preferred shares, rights, warrants or other similar entitlements to common or preferred shares; and

(vii) such other negative covenants set out in the Transaction Documents.

- (u) **Provisions on buy-back and early redemption of Sukuk** Early redemption  
 Early redemption is not allowed.  
 Any Sukuk Commodity Murabahah repurchased, bought back or redeemed by the Issuer or any of its subsidiaries must be cancelled and cannot be resold.
- (v) **Other principal terms and conditions for the issue**
- (i) **Yield to maturity (%)** To be determined upon each issuance.
- (ii) **Purchase and Cancellation** and The Issuer may at any time purchase the Sukuk Commodity Murabahah at any price in the open market or by private treaty but these repurchased Sukuk Commodity Murabahah shall be cancelled and cannot be reissued.
- (iii) **Redemption Maturity** on Unless previously purchased and cancelled, the Sukuk Commodity Murabahah will be redeemed by the Issuer at 100% of their nominal value on their respective maturity dates.
- (iv) **Status** The Sukuk Commodity Murabahah will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and shall at all times rank pari passu, without discrimination, preference or priority amongst themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, subject to those preferred by law and the Transaction Documents.
- (v) **Compensation for Late Payment ("Ta'widh")** In the event of any overdue payments of any amounts due under the agreement under Murabahah principle and/or the Sukuk Programme, the Issuer shall pay to the Sukuk

Commodity Murabahah holders compensation on such overdue amounts at an amount and manner prescribed by the Shariah Advisory Council of SC.

**(vi) Transaction Documents**

The issuance of Sukuk Commodity Murabahah under the Sukuk Programme shall be subject to the negotiation and execution of documentation satisfactory to all parties and as advised by the Legal Counsels. Such documentation shall include, but not be limited to, the following:

- (i) Programme Agreement;
- (ii) Trust Deed;
- (iii) Commodity Murabahah Master Agreement;
- (iv) Securities Lodgement Form for Central Securities Depository and Paying Agency Services;
- (v) transaction documents relating to the Commodity Murabahah trade transactions; and
- (vi) any other relevant documents agreed between the parties that may be required to complete the Sukuk Programme as advised by the Legal Counsels and agreed by all parties.

**(vii) Definitions**

**"Bursa Suq Al-Sila"** means a commodities trading platform with crude palm oil as its underlying assets that is Shariah-compliant. This platform serves as a medium to facilitate commodity-based Islamic financing and investment transactions under the Shariah principles. Bursa Suq Al-Sila' is operated by Bursa Malaysia Islamic Services SdnBhd, a wholly-owned subsidiary of Bursa Malaysia.

**"Business Day"** means any day from Monday to Friday but excluding any day which is a public holiday or bank holiday in Kuala Lumpur.

**"Encumbrance"** means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within ninety (90) days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

**"Extraordinary Resolution"** means a resolution passed at a meeting of Sukukholders duly convening and held in accordance with these provisions by a majority consisting of not less than 75 per cent of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than 75 per cent of the votes given on such poll.

**"Financial Indebtedness"** means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

- (a) moneys borrowed or raised (including the capitalised value of obligations under finance leases and hire purchase agreements which would, in accordance with IFRS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share

capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;

- (b) any liability under any debenture, bond, Islamic securities, loan stock or other security or under any acceptance or documentary credit, bill discounting or Islamic securities purchase facility or any similar instrument;
- (c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;
- (d) any liability under any interest rate or currency hedging agreement (and the amount of such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction (if it shows a sum owed to the counterparty of the Issuer or any of its Material Subsidiary), at the relevant time);
- (e) any liability under or in respect of any bond facility, guarantee facility or similar facility; and
- (f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Issuer or its Material Subsidiary).

**"Group"** means DBK and its Subsidiaries.

**"Material Adverse Effect"** and **"Material Adverse Change"**, mean, respectively, a material adverse effect on and material adverse change in :

- (a) the condition (financial or otherwise), results of operations, general affairs, business or prospects of DBK or any of its Material Subsidiaries; or
- (b) DBK's ability to perform or comply with any of its obligations under the Transaction Documents; or
- (c) the validity, legality or enforceability of the Transaction Documents or the rights or remedies of the Trustee, the Sukukholders, the Joint Lead Arrangers, the Malaysia JLMs under the relevant Transaction Documents;

**"Material Subsidiary"** means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 5.0% (five) of the consolidated gross assets, or, as the case may be, consolidated gross

revenues of the Issuer and its consolidated Subsidiaries (in each case, determined by reference to the Issuer's most recent consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as published at the time by the International Accounting Standards Board or its successor) or any other Subsidiary to which is transferred either (a) all or substantially all of the assets of another Subsidiary which immediately prior to the transfer was a Material Subsidiary or (b) sufficient assets of the Issuer that such Subsidiary would have been a Material Subsidiary had the transfer occurred on or before either (i) the date of the said most recent audited financial statements of the Issuer or (ii) if management accounts or other unaudited financial statements of the Issuer prepared in accordance with IFRS are available for any period subsequent to the said most recent audited financial statements, such accounts or financial statements and, for these purposes:

- (a) the gross assets and gross revenues of a Subsidiary shall be determined by reference to its then most recent audited financial statements prepared in accordance with IFRS (or, if none, its then most recent management accounts or other financial statements prepared in accordance with IFRS); and
- (b) the consolidated gross assets and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements prepared in accordance with IFRS (or, if none, its then most recent consolidated management accounts or other unaudited consolidated financial statements prepared in accordance with IFRS).

**"Permitted Security Interest"** has the meaning defined in the Transaction Documents.

**"Person"** means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof, or any other entity, whether or not having a separate legal personality.

**"Process Agent"** means Deutsche Trustees Malaysia Berhad to act as agent of the Issuer to receive service of any legal proceeding in respect of interim reliefs relating to or in connection with any Transaction Document and/or the Sukuk.

**"Relevant Indebtedness"** means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

“**Subsidiary**” means, with respect to any Person, (i) any corporation, association or other business entity of which at least 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

**(viii) Taxation**

All payments by the Issuer or on behalf of the Issuer shall be made free and clear of, and without withholding or deductions for or on account of any present or future taxes, duties, assessments or charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of either Kazakhstan or the Government of Malaysia, or any of its relevant political subdivisions, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law.

In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Sukuk holders of such amounts as would have been received by them if no such withholding or deduction had been required.

**(ix) Governing Law**

The laws of Malaysia.

**(x) Jurisdiction**

(a) All disputes, claims or proceedings between the parties relating to the validity, construction, performance breach or termination of the Transaction Documents which cannot be settled by negotiation between the parties shall be decided by arbitration to be held in Kuala Lumpur at the Kuala Lumpur Regional Centre for Arbitration ("**KLRCA**") in accordance with the Rules for Arbitration of the KLRCA and pursuant to the Arbitration Act 2005 of Malaysia. The arbitral tribunal shall consist of three arbitrators, one of whom shall be appointed by the Issuer, one of whom shall be appointed by the Joint Lead Arrangers, the Malaysia JLMs and the Facility Agent and both arbitrators shall jointly appoint the third arbitrator. In the event such arbitrators are unable to agree on the choice of the third arbitrator within thirty (30) days, the third arbitrator shall be appointed by the Director of the KLRCA.

(b) The decision of the arbitrators shall be final and binding on the parties.

(c) The language of the arbitration shall be English. To the fullest extent permitted by applicable law, the parties waive their right to any form of appeal or other similar recourse to a court of law.

(d) Subject to the KLRCA Rules and the Arbitration Act 2005 of Malaysia, all costs of the arbitration shall be borne by the party against whom the award is made



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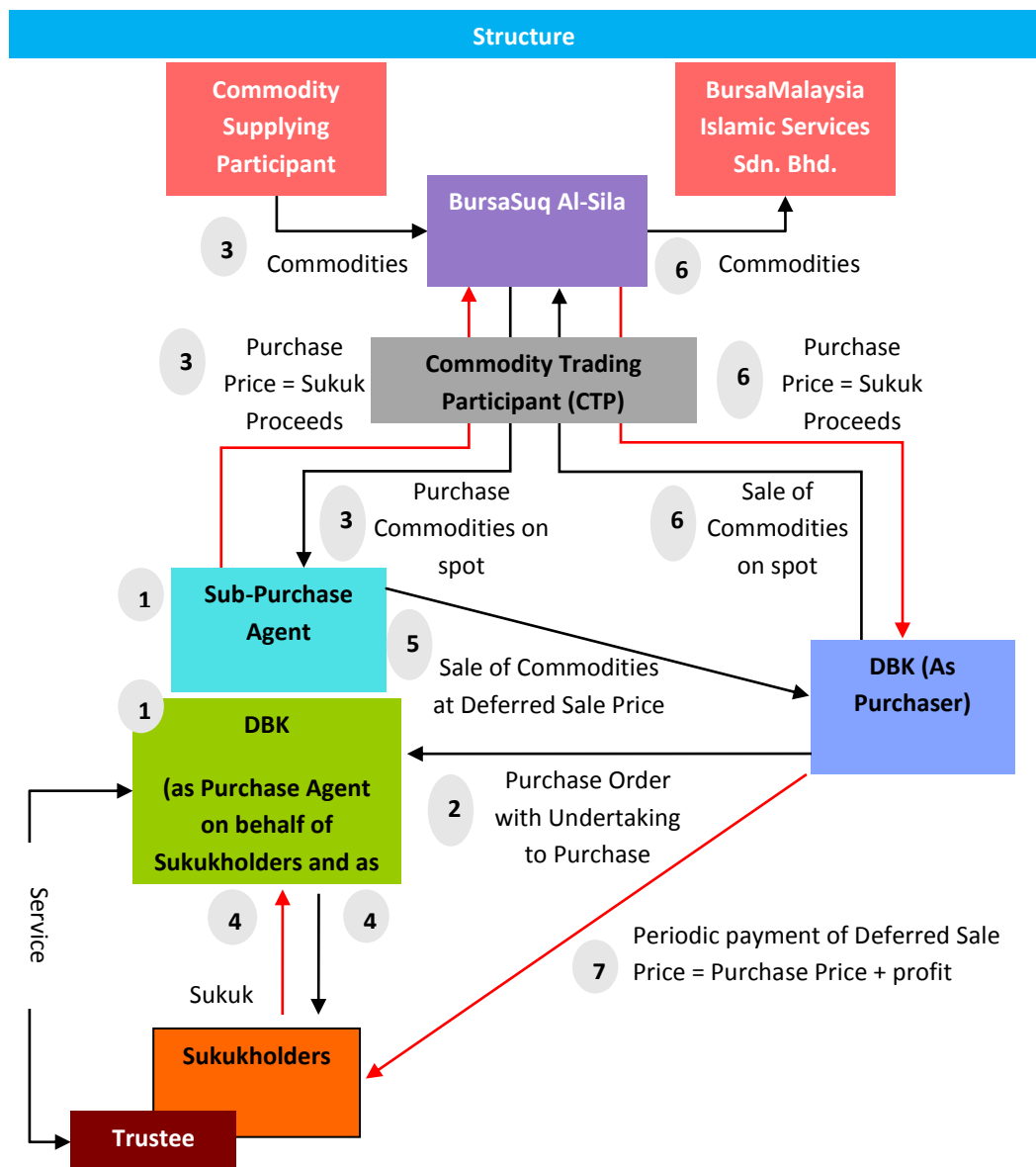
and judgment on the arbitrator's award may be entered or registered in any court of law having jurisdiction.

- (e) The reference of any dispute to arbitration under shall not excuse the parties from continuing with the performance of its other obligations under the relevant Transaction Documents which are not affected by the dispute.
- (f) Nothing contained herein shall preclude any party to the relevant Transaction Documents from any interim equitable relief, including injunctions and specific performance, in relation to a breach or threatened breach of any of the terms thereof by any of the parties hereto which may be brought in any court of competent jurisdiction including the courts of Malaysia.

**(xi) Others**

The Sukuk Programme shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and/or other relevant authority in Malaysia having jurisdiction over matters pertaining to the Sukuk Programme.

**Appendix 1**



**JSC DEVELOPMENT BANK OF KAZAKHSTAN**  
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Step	Description
1	The Trustee, on behalf of the investors of the Sukuk Commodity Murabahah (“ <b>Sukukholders</b> ”), and DBK shall enter into a Service Agency Agreement, pursuant to which DBK (in such capacity, the “ <b>Purchase Agent</b> ”) is appointed as the agent of the Sukukholders for the purchase and sale of Shariah compliant commodities (“ <b>Commodities</b> ”). The Purchase Agent will then enter into a Facility Agency Agreement to appoint the Facility Agent as the sub-agent (in such capacity, the “ <b>Sub-Purchase Agent</b> ”) for the purchase and sale of Commodities under the Sukuk Programme.
2	Pursuant to a Commodity Murabahah Master Agreement, prior to the date on which the relevant Series of Sukuk Commodity Murabahah is issued, DBK (acting as purchaser for itself) shall issue a purchase order (“ <b>Purchase Order</b> ”) in relation to the said Series to the Purchase Agent and the Sub-Purchase Agent. In the Purchase Order, DBK (acting as purchaser for itself) will request the Purchase Agent and the Sub-Purchase Agent to purchase the Commodities and will irrevocably undertake to purchase the Commodities from the Sukukholders via the Purchase Agent and the Sub-Purchase Agent.
3	Based on the Purchase Order, the Sub-Purchase Agent, as the Commodity Trading Participant (“ <b>CTP</b> ”), will purchase on a spot basis the Commodities from commodity vendor(s) in the Bursa Suq Al-Sila’ commodity market (through a CTP) at a purchase price (“ <b>Purchase Price</b> ”) which shall be an amount equivalent to the Sukuk Commodity Murabahah proceeds. The Purchase Price of the Commodities shall be in line with the Asset pricing requirement stipulated under the Islamic Securities Guidelines dated 12 July 2011 (“ <b>Sukuk Guidelines</b> ”) issued by the Securities Commission Malaysia (“ <b>SC</b> ”).
4	DBK (acting as the Issuer) shall then issue Sukuk Commodity Murabahah to the Sukukholders whereby the proceeds thereof shall be used to pay for the Purchase Price of the Commodities. The Sukuk Commodity Murabahah shall evidence, amongst others, the Sukukholders’ ownership of the Commodities and subsequently once the Commodities are sold to DBK (as the Purchaser for itself), the entitlement to receive the deferred sale price (“ <b>Deferred Sale Price</b> ”) which shall be the Purchase Price plus the profit (“ <b>Profit Payment</b> ”).
5	Thereafter, pursuant to the sale and purchase agreement, the Purchase Agent and the Sub-Purchase Agent shall sell the Commodities to DBK (acting as Purchaser for itself) at the Deferred Sale Price (“ <b>Sale and Purchase Agreement</b> ”).
6	Upon completion of such purchase, DBK (pursuant to the CTP Sale Agreement entered into between DBK (acting as Purchaser for itself) and the CTP) shall sell the Commodities to Bursa Malaysia Islamic Services Sdn. Bhd. (through the CTP) on a spot basis for an amount equal to the Purchase Price. The CTP Sale Agreement will provide for the CTP to directly sell the Commodities into Bursa Malaysia Islamic Services Sdn. Bhd. upon notice by the Sub-Purchase Agent that the Sale and Purchase Agreement has been completed and executed.
7	During the tenure of the Sukuk Commodity Murabahah, DBK shall make periodic payments to the Sukukholders. On the date of maturity of the Sukuk Commodity Murabahah, DBK shall pay all amounts then outstanding on the Deferred Sale Price to the Sukukholders whereupon the Sukuk Commodity Murabahah shall be cancelled.

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