

**JOINT STOCK COMPANY  
“INSURANCE COMPANY  
“AMANAT INSURANCE”**

**Financial Statements**  
For the Year Ended 31 December 2010

# JOINT STOCK COMPANY "INSURANCE COMPANY "AMANAT INSURANCE"

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# JOINT STOCK COMPANY "INSURANCE COMPANY "AMANAT INSURANCE"

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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Management of the Joint Stock Company "Insurance Company "Amanat Insurance" ("the Company") is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2010, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

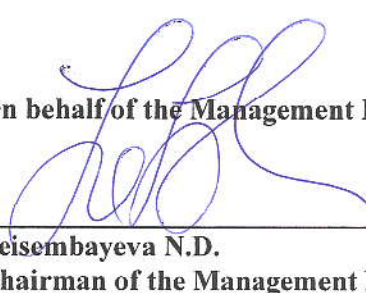
- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- making an assessment of the Company's ability to continue as a going concern

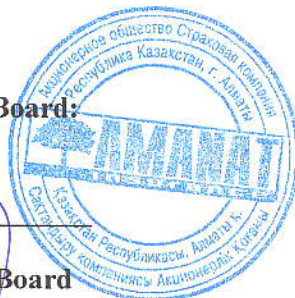
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining accounting records in compliance with legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended 31 December 2010 were authorized for issue on 8 April 2011 by the Management Board.

On behalf of the Management Board:

  
Beisembayeva N.D.  
Chairman of the Management Board



  
Khon T.E.  
Chief Accountant

8 April 2011  
Almaty, Kazakhstan

8 April 2011  
Almaty, Kazakhstan

## INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of Joint Stock Company "Insurance Company "Amanat Insurance":

We have audited the accompanying financial statements of Joint Stock Company "Insurance Company "Amanat Insurance" ("the Company"), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company "Insurance Company "Amanat Insurance" as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

As discussed in Note 3, the financial statements for the year ended 31 December 2009 have been restated.

As part of our audit of the 2010 financial statements, we also audited the adjustments described in Note 3 that were applied to amend the 2009 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2009 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2009 financial statements taken as a whole.

## Other matters

The financial statements of Joint Stock Company "Insurance Company "Amanat Insurance" for the year ended 31 December 2009, were audited by another auditor who expressed an unmodified opinion on those statements on 28 April 2010.

Mark Smith

Engagement partner  
Chartered Accountant

Institute of Chartered Accountants of  
Scotland

License #M21857  
Glasgow, Scotland



Deloitte, LLP

State license on auditing in the Republic of Kazakhstan  
Number 0000015, type MFU - 2, issued by the Ministry  
of Finance of the Republic of Kazakhstan  
dated 13 September 2006

Nurlan Bekenov  
Auditor-performer  
Qualified Auditor

Certificate of competence # 0082  
dated 13 June 1994

General Director  
Deloitte, LLP

8 April 2011  
Almaty, Kazakhstan


# JOINT STOCK COMPANY "INSURANCE COMPANY "AMANAT INSURANCE"

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

(in Kazakhstani tenge and in thousands)


	Notes	31 December 2010	31 December 2009	1 January 2009
<b>ASSETS:</b>				
Cash and cash equivalents	4	661,769	415,351	37,720
Term deposits in banks	5	396,414	668,829	249,368
Financial assets at fair value through profit or loss	6	1,375,747	1,204,666	1,589,870
Investments available-for-sale	7	17,666	17,666	17,666
Investments held-to-maturity	8	291,128	167,729	-
Insurance and reinsurance premium receivables	9	598,336	884,074	1,494,562
Other insurance and reinsurance receivables		9,248	22,481	4,426
Deferred acquisition costs		396,291	123,613	134,257
Unearned premiums reserve, reinsurers' share	10, 26	1,109,085	853,590	1,535,650
Reserves for claims and claims' adjustment expenses, reinsurers' share	11	85,332	68,386	94,994
Property, equipment and intangible assets	12	48,146	40,335	56,294
Deferred income tax asset	13	48,292	46,113	66,910
Other assets	14, 26	200,526	108,624	194,207
<b>TOTAL ASSETS</b>		<b>5,237,980</b>	<b>4,621,457</b>	<b>5,475,924</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES:</b>				
Insurance and reinsurance payable	15	99,861	360,338	178,904
Unearned premiums reserve	10, 26	2,260,382	1,674,379	3,056,708
Reserves for claims and claims' adjustment expenses	11	262,683	186,667	249,476
Current income tax liabilities		47,385	6,377	23,609
Other liabilities	16, 26	316,244	214,784	95,169
<b>Total liabilities</b>		<b>2,986,555</b>	<b>2,442,545</b>	<b>3,603,866</b>
<b>EQUITY:</b>				
Share capital	17	210,000	210,000	210,000
Retained earnings		2,041,425	1,968,912	1,662,058
<b>Total equity</b>		<b>2,251,425</b>	<b>2,178,912</b>	<b>1,872,058</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,237,980</b>	<b>4,621,457</b>	<b>5,475,924</b>

On behalf of the Management Board:

  
Beisembayeva N.D.  
Chairman of the Management Board

8 April 2011  
Almaty, Kazakhstan



  
Khon T.E.  
Chief Accountant

8 April 2011  
Almaty, Kazakhstan

The notes on pages 8-42 form an integral part of these financial statements.

# JOINT STOCK COMPANY "INSURANCE COMPANY "AMANAT INSURANCE"

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(in Kazakhstani tenge and in thousands, unless otherwise indicated)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009*
Premiums written, gross	18, 26	5,041,572	2,802,125
Ceded reinsurance premiums	18, 26	(2,785,676)	(2,693,837)
<b>PREMIUMS WRITTEN, NET OF CEDED REINSURANCE</b>		<b>2,255,896</b>	<b>108,288</b>
Change in unearned premiums reserve, net	10	(330,508)	700,269
<b>PREMIUMS EARNED, NET OF REINSURANCE</b>		<b>1,925,388</b>	<b>808,557</b>
Claims paid, gross	19, 26	(338,267)	(278,430)
Claims paid, reinsurers' share	19	53,537	59,469
Change in reserves for claims and claims' adjustment expenses, gross	19	(76,016)	62,809
Change in reserves for claims and claims' adjustment expenses, reinsurers' share	19	16,946	(26,608)
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<b>(343,800)</b>	<b>(182,760)</b>
Commission income	20	16,796	119,126
Commission expense	20	(396,128)	(345,281)
<b>NET COMMISSION EXPENSE</b>		<b>(379,332)</b>	<b>(226,155)</b>
Investment income	21	151,510	369,490
Other operating income		4,094	9,528
<b>OTHER INCOME</b>		<b>155,604</b>	<b>379,018</b>
Salaries and benefits	26	(594,421)	(372,841)
Administrative and operating expenses	22, 26	(475,365)	(252,770)
Expenses on provision for impairment losses		(23,872)	(17,171)
Depreciation and amortization		(17,132)	(14,644)
Net (loss)/gain from operations with foreign currencies	23	(81,488)	244,110
<b>OPERATING EXPENSES</b>		<b>(1,192,278)</b>	<b>(413,316)</b>
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>		<b>165,582</b>	<b>365,344</b>
Income tax expense	13	(93,069)	(58,490)
<b>NET PROFIT</b>		<b>72,513</b>	<b>306,854</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>72,513</b>	<b>306,854</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted (KZT)	24	345.30	1,461.21

\* As restated, please see Note 3

On behalf of the Management Board:

Beisembayeva N.D.  
Chairman of the Management Board

8 April 2011  
Almaty, Kazakhstan



Khon T.E.  
Chief Accountant

8 April 2011  
Almaty, Kazakhstan

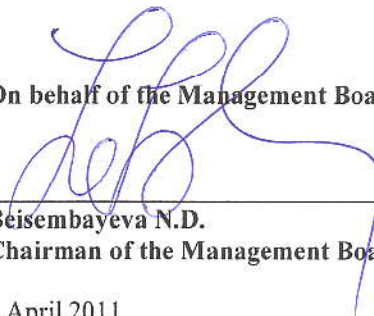
The notes on pages 8-42 form an integral part of these financial statements.

**JOINT STOCK COMPANY “INSURANCE COMPANY “AMANAT INSURANCE”**

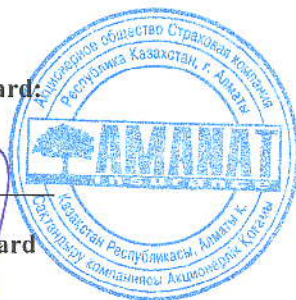
**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2010**  
*(in Kazakhstani tenge and in thousands)*

	Share capital	Retained earnings	Total equity
As at 1 January 2009	210,000	1,662,058	1,872,058
Total comprehensive income	-	306,854	306,854
As at 31 December 2009	210,000	1,968,912	2,178,912
Total comprehensive income	-	72,513	72,513
As at 31 December 2010	210,000	2,041,425	2,251,425

On behalf of the Management Board:

  
**Beisembayeva N.D.**  
Chairman of the Management Board

8 April 2011  
Almaty, Kazakhstan



  
**Khon T.E.**  
Chief Accountant

8 April 2011  
Almaty, Kazakhstan

The notes on pages 8-42 form an integral part of these financial statements.

# JOINT STOCK COMPANY "INSURANCE COMPANY "AMANAT INSURANCE"

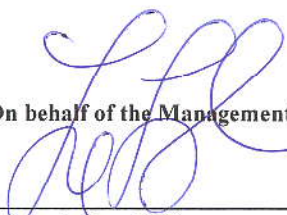
## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(in Kazakhstani tenge and in thousands)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax expense		165,582	365,344
Adjustments for:			
Change in reserves for unearned premiums, net		330,508	(700,269)
Change in reserves for claims and claims' adjustment expenses, net of reinsurers' share		59,070	(36,201)
Depreciation and amortization		17,132	14,644
Expenses on provision for impairment losses		23,872	17,171
Unrealized gain from financial assets at fair value through profit or loss		(27,062)	(133,883)
Change in deferred acquisition costs		(272,678)	10,644
Unrealized loss/(gain) on foreign exchange operations		76,586	(292,114)
Net change in accrued interest income		1,355	5,964
Cash flows from operating activities before changes in operating assets and liabilities		<u>374,365</u>	<u>(748,700)</u>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Term deposits in banks		232,817	(284,686)
Financial assets at fair value through profit or loss		(181,814)	629,748
Insurance and reinsurance premium receivables		270,781	598,640
Other insurance and reinsurance receivables		7,367	(18,055)
Other assets		(104,517)	116,738
Increase/(decrease) in operating liabilities:			
Insurance and reinsurance payable		(260,477)	181,434
Other liabilities		101,462	119,616
Cash inflow from operating activities before taxes paid		439,984	594,735
Income taxes paid		<u>(54,240)</u>	<u>(54,925)</u>
Net cash inflow from operating activities		<u>385,744</u>	<u>539,810</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, equipment and intangible assets		(25,435)	(10,989)
Proceeds on disposal of property, equipment and intangible assets		492	12,304
Purchase of investments held-to-maturity		<u>(114,383)</u>	<u>(163,494)</u>
Net cash outflow from investing activities		<u>(139,326)</u>	<u>(162,179)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		246,418	377,631
CASH AND CASH EQUIVALENTS, beginning of the year	4	<u>415,351</u>	<u>37,720</u>
CASH AND CASH EQUIVALENTS, end of the year	4	<u><u>661,769</u></u>	<u><u>415,351</u></u>

Interest received by the Company in cash during the years ended 31 December 2010 and 2009 amounted to KZT 134,327 thousand and KZT 119,230 thousand, respectively.

On behalf of the Management Board:

  
Beisembayeva N.D.  
Chairman of the Management Board

8 April 2011  
Almaty, Kazakhstan



  
Khon T.E.  
Chief Accountant

8 April 2011  
Almaty, Kazakhstan

The notes on pages 8-42 form an integral part of these financial statements.

# JOINT STOCK COMPANY "INSURANCE COMPANY "AMANAT INSURANCE"

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(in Kazakhstani tenge and in thousands, unless otherwise indicated)

### 1. ORGANISATION

Joint Stock Company "Insurance Company "Amanat Insurance" ("the Company") was incorporated in the Republic of Kazakhstan on 24 July 1997 under the laws of the Republic of Kazakhstan.

The Company possesses insurance license # 2.1.15 dated 22 July 2010 for voluntary and compulsory general insurance and reinsurance issued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations ("the FMSA"). Subsequently on 6 January 2011, the insurance license was updated due to legislative changes in classification of insurance products.

The Company offers various general insurance products in property and casualty, civil liability, personal insurance and reinsurance.

The Company's legal address is 63, Tole bi str., Almaty, Republic of Kazakhstan.

As at 31 December 2010 and 2009, the number of employees of the Company was 206 and 275, respectively.

As at 31 December 2010 and 2009, the following shareholders owned more than 5% of the outstanding shares of the Company:

	31 December 2010 %	31 December 2009 %	Ultimate shareholder
<b>Shareholders:</b>			
LLP Energo-Sbyt	9.99	9.99	Latyp Musa
LLP Transstroygroup	9.99	9.99	Saparova Gulshat
LLP Energometroservice	9.52	9.00	Zholdykhodzha Aishat
LLP Sbytovaya Kompaniya	9.50	9.50	Payiz Arman
			Mynbayev Bolat-51%
LLP Technokompleks Ontustyk	9.50	-	Nurlakov Saidburkhan-49%
LLP Bolashak-M	9.00	9.00	Abdykaimov Olzhas
LLP Kazsbytgroup	9.00	9.00	Balgozhina Madina
LLP Ontustik Energostroy-Service	9.00	9.00	Dzhumabekov Erkyn
LLP Energoservice ETL	9.00	9.00	Myrzayeva Dinara
LLP Ordabasy Group	7.75	-	Tazhikhan Aygerim
LLP Yuzhnyi Center	7.75	-	Akhmetov Alymzhan
LLP YuzhKazEnergoremont Co LTD	-	15.42	Payiz Arman
JSC Ordabasy Corporation	-	10.10	Idrisov D.A.
	<u>100.00</u>	<u>100.00</u>	

As at 8 April 2011, the ultimate shareholder of the Company was Idrisov D.A.

These financial statements were authorized for issue by the Management Board of the Company on 8 April 2011.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

### **Other basis of presentation criteria**

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Kazakhstani tenge (“KZT” or “Tenge”), unless otherwise indicated. These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 29.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

The principal accounting policies are set out below.

### **Key assumptions**

The preparation of the financial statements in accordance with IFRS requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities of the Company as well as amounts of income and expenses for the reporting periods. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the reserves for claims and claims’ adjustment expenses and determination of the fair value of financial instruments.

### **Recognition and measurement of financial instruments**

The Company recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the financial instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of the financial assets and liabilities are disclosed in the respective accounting policies set out below.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and current accounts in local and foreign currency in the second tier banks of the Republic of Kazakhstan and deposits with original maturity less than 3 months.

### **Term deposits in banks**

In the normal course of business, the Company maintains deposits for various periods of time with banks. Term deposits in banks are measured at amortized cost using the effective interest method.

### **Reinsurance**

The Company cedes insurance risk in the normal course of business. Recoverable amounts are estimated in a manner consistent with the unearned premiums reserve and reserves for claims and claims' adjustment expenses in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of comprehensive income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for non-life insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

### **Insurance receivables**

Insurance receivables are recognized when related income is earned. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

Insurance receivables are derecognized when the derecognition criteria for financial assets has been met.

### **Financial assets at fair value through profit or loss**

Financial assets are classified as at fair value through profit or loss ("FVTPL") when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in statement of comprehensive income. The net gain or loss recognised in statement of comprehensive income incorporates any dividend or interest earned on the financial asset and is included in the 'investment income' line item in the statement of comprehensive income. Fair value is determined in the manner described in Note 28.

### **Investments available-for-sale**

Investments available-for-sale represents equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold and the gain/loss previously recorded in equity recycles through the statement of comprehensive income, except for impairment losses, foreign exchange gains or losses, which are recognized directly in the statement of comprehensive income.

Non-marketable equity securities are stated at cost less impairment losses, if any, unless fair value can be reliably measured.

### **Investments held-to-maturity**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

### **Prepayments**

Prepayments include advance payments, which are charged to expense in the year, when services are provided. Prepayments are accounted for at carrying value.

### **Property and equipment**

Property and equipment are carried at historical cost less accumulated depreciation.

Depreciation is charged on the carrying value of property and equipment is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

	<b>Rates</b>
Vehicles	25%
Computer equipment	30%
Other	15%

The carrying amounts of property and equipment are reviewed at each reporting date by the Company to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Taxation**

Income tax expense represents the sum of the current income tax expense and deferred income tax expense.

## **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period.

## **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## **Operating taxes**

The Republic of Kazakhstan also has various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

## **Derecognition of financial assets and liabilities**

### *Financial assets*

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

### *Financial liabilities*

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

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

### **Underwriting income and expense**

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, reserves for claims and claims' adjustment expenses, and acquisition costs.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included as a liability in the accompanying statement of financial position.

Claims paid and the change in reserves for claims and claims' adjustment expenses are charged to the statement of comprehensive income as incurred through the reassessment of the reserves for claims and claims' adjustments expenses.

Commissions earned on ceded reinsurance contracts are recorded in the statement of comprehensive income at the date the reinsurance contract is signed and deemed enforceable.

Acquisition costs, comprising commissions paid to insurance agents and brokers, which vary and are directly related to the production of new business, are deferred and recorded in the accompanying statement of financial position and are amortized over the period in which the related written premiums are earned.

### **Liability adequacy test**

The Company applies a liability adequacy test at each reporting date to ensure that the insurance liabilities are adequate considering the estimated future cash flows. This test is performed by comparing the carrying value of the liability and the discounted projections of future cash flows (including premiums, claims, expenses, investment return and other items), using best estimate and assumptions.

If a deficiency is found in the liability (i.e. the carrying value amount of its insurance liabilities is less than the future expected cash flows) that deficiency is fully recognized in the statement of comprehensive income.

### **Reserves for claims and claims' adjustment expenses**

Reserves for claims and claims adjustment expenses is a summary of estimates of ultimate losses, and includes both claims reported but not settled ("RBNS") and claims incurred but not reported ("IBNR").

RBNS is created for significant reported claims not settled at the reporting date. Estimates are made on the basis of information received by the Company during its investigation of insured events. IBNR is estimated by the Company based on its previous history of claims/indemnification of claims using actuarial methods of calculation, which include loss triangulation for insurance classes for which there is statistical data. For lines of insurance that do not have sufficient statistical data, IBNR is calculated according to FMSA requirements as 50% of RBNS, or in the case of an absence of RBNS for certain lines of insurance, as 5% of the written premiums, net of commissions.

The reinsurers' share in the reserves for claims and claims' adjustment expenses is calculated in accordance with the reinsurers' share under the reinsurance contracts.

## **Insurance and reinsurance payables**

Payables on direct insurance business comprise insurance benefits due but not yet paid out, premium refunds not paid out and commissions due to agents.

The liabilities are shown at the amounts actually due on repayment.

Payables on reinsurance business comprise net reinsurance premiums due to reinsurers and brokers in connection with the reinsurance business ceded and obligations on claims to be paid on assumed reinsurance business.

## **Provisions**

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

## **Share capital**

Contributions to share capital are recognized at cost.

## **Recognition of interest income and other income**

Interest income includes income earned on investment securities. Interest income is recognized on an accrual basis calculated using the effective interest method. Fees, commission and other income and expenses are generally recognized on an accrual basis per the applicable contract.

## **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain from operations with foreign currencies.

## **Rates of exchange**

The exchange rates at the year end, used by the Company in the preparation of the financial statements are as follows:

	31 December 2010	31 December 2009	1 January 2009
KZT/1 US Dollar	147.50	148.46	120.79
KZT/1 Euro	196.88	213.95	170.24

## **New and revised IFRSs in issue but not yet effective**

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011)
IFRS 9 (as amended in 2010)	Financial Instruments (Effective for annual periods beginning on or after 1 January 2013)

The amendments to IFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Management of the Company does not anticipate that these amendments to IFRS 7 will have a significant effect on the Company's disclosures regarding transfers of trade receivables previously affected. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Management of the Company anticipate that IFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

All other Standards and Interpretations are not applicable to the Company's operations. Management believe the adoption of these Standards and Interpretations will not have a significant impact on the results of the Company's operations.

### **3. RESTATEMENTS AND RECLASSIFICATIONS**

During 2010, the Management of the Company determined that agent commissions previously recognized in full at the commencement of insurance (reinsurance) contracts should be charged to expenses proportionally during the term of the insurance contract, as this better reflects the substance of the agent commission.

During 2010, the Management of the Company changed the accounting policy so that any (loss)/gain from operations with foreign currencies on financial assets at fair value through profit or loss is presented in Net (loss)/gain from operations with foreign currencies rather than Investment income, as was presented in the financial statements for the year ended 31 December 2009. As such, the statement of comprehensive income for the year ended 31 December 2009 has been retrospectively restated to consider this change in accounting policy.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" these financial statements have been restated as detailed in the following paragraph.

	As previously reported Year ended 31 December 2009	Restatement amount	As restated Year ended 31 December 2009
<b>Statement of financial position</b>			
Deferred acquisition costs	-	123,613	123,613
Total assets	4,497,844	123,613	4,621,457
Retained earnings	1,845,299	123,613	1,968,912
<b>Statement of comprehensive income</b>			
Commission expenses	(334,637)	(10,644)	(345,281)
Net commission expense	(215,511)	(10,644)	(226,155)
Investment income	542,418	(172,928)	369,490
Other operating income	551,946	(172,928)	379,018
Net (loss)/gain from operations with foreign currencies	71,182	172,928	244,110
Operating expenses	(240,388)	(172,928)	(413,316)
Profit before income tax expense	375,988	(10,644)	365,344
Net profit	317,498	(10,644)	306,854

	As previously reported Year ended 31 December 2008	Restatement amount	As restated Year ended 31 December 2008
<b>Statement of financial position</b>			
Deferred acquisition costs	-	134,257	134,257
Retained earnings	1,527,801	134,257	1,662,058

Certain other reclassifications have been made to the financial statements as at 31 December 2009 and for the year then ended to conform to the presentation as at 31 December 2010 and for the year then ended. Management believes that the current period presentation provides a more accurate presentation of the financial results of the operations of the Company.

	As previously reported Year ended 31 December 2009	Reclassification amount	As reclassified Year ended 31 December 2009
Financial assets at fair value through profit or loss	4,717	(4,717)	-
Provision for impairment losses on financial assets at fair value through profit or loss	(4,717)	4,717	-
Other assets	-	4,717	4,717
Provision for impairment losses on other assets	-	(4,717)	(4,717)
Expenses on provision for impairment losses	-	(4,574)	(4,574)
Administrative and operating expenses	(4,574)	4,574	-

#### 4. CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009	1 January 2009
Current bank accounts in tenge	523,280	179,232	32,084
Current bank accounts in foreign currencies	135,149	234,701	405
Cash on hand	3,340	1,418	5,231
	<u>661,769</u>	<u>415,351</u>	<u>37,720</u>

#### 5. TERM DEPOSITS IN BANKS

	Interest rates, %	Maturity	31 December 2010
JSC Kazkommertsbank	8.40-9.50	21 December 2011	300,792
JSC Kazinvestbank	7.50	1 December 2011	80,483
JSC SB Sberbank of Russia	7.00-8.50	23 September 2011 14 December 2011	<u>15,139</u>
			<u>396,414</u>
	Interest rates, %	Maturity	31 December 2009
JSC Kazkommertsbank	8.40-9.50	15 January 2010	297,603
JSC Halyk Bank of Kazakhstan	5.00	14 December 2010	263,630
JSC AIF Bank	6.50	20 October 2010	<u>107,596</u>
			<u>668,829</u>
	Interest rates, %	Maturity	1 January 2009
JSC SB Sberbank of Russia	7.00-8.50	31 January 2009 16 June 2009	229,182
JSC BankPozitiv	10.50	22 September 2009	15,032
JSC Temirbank	11.50	28 August 2009	<u>5,154</u>
			<u>249,368</u>

As at 31 December 2010, 2009 and 1 January 2009, term deposits in banks included accrued interest amounting to KZT 1,414 thousand, KZT 2,587 thousand and KZT 14,372 thousand, respectively.

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2010	31 December 2009	1 January 2009
Kazakhstani corporate bonds	875,139	599,374	153,294
Foreign government bonds	197,640	346,158	1,102,443
Bonds of the Ministry of Finance of the Republic of Kazakhstan*	188,277	103,149	220,337
Kazakhstani corporate shares	114,691	155,985	113,796
	<u>1,375,747</u>	<u>1,204,666</u>	<u>1,589,870</u>

\* - As at 31 December 2010, 2009 and 1 January 2009, nominal interest rates on Bonds of the Ministry of Finance of the Republic of Kazakhstan amounted to 5.10% - 6.50%, 4.05% - 6.10% and 3.50% - 6.10%, respectively.

	Interest to nominal, %	31 December 2010	31 December 2009	1 January 2009
<b>Kazakhstani corporate bonds:</b>				
JSC ATF Bank	9.20-9.25	235,971	155,958	-
JSC SB Sberbank of Russia	6.50	201,288	-	-
JSC Development Bank of Kazakhstan	6.00	166,436	314,089	-
JSC MAG	12.00	151,973	129,327	138,203
JSC Halyk Bank of Kazakhstan	9.25	63,808	-	-
JSC Kazakhstan Mortgage Company	11.00	55,663	-	-
JSC MMC Kazakhalytyn	13.00	-	-	15,091
		<u>875,139</u>	<u>599,374</u>	<u>153,294</u>

	Interest to nominal, %	31 December 2010	31 December 2009	1 January 2009
<b>Foreign government bonds:</b>				
Portuguese government bonds	5.45	197,640	-	-
Spanish government bonds	5.40	-	346,158	278,573
France government bonds	4.00-5.00	-	-	541,963
Germany government bonds	5.00	-	-	281,907
		<u>197,640</u>	<u>346,158</u>	<u>1,102,443</u>

As at 31 December 2010, 2009 and 1 January 2009, financial assets at fair value through profit or loss included accrued interest amounting to KZT 51,103 thousand, KZT 32,240 thousand and KZT 30,518 thousand, respectively.

	Share, %	31 December 2010	31 December 2009	1 January 2009
<b>Kazakhstani corporate shares:</b>				
JSC Kazakhtelecom	0.01	57,966	56,072	41,254
JSC Halyk Bank of Kazakhstan	0.03	47,366	47,286	35,132
JSC Bank CenterCredit	0.01	9,359	52,627	37,410
		<u>114,691</u>	<u>155,985</u>	<u>113,796</u>

## 7. INVESTMENTS AVAILABLE-FOR-SALE

As at 31 December 2010, 2009 and 1 January 2009, investments available-for-sale included shares of JSC Insurance Payments Guarantee Fund amounting to KZT 17,666 thousand with a share of 3.304%. As these shares are not quoted in an active market, they are held at cost.

## 8. INVESTMENTS HELD-TO-MATURITY

As at 31 December 2010, 2009 and 1 January 2009, investments held-to-maturity included bonds of the Ministry of Finance of the Republic of Kazakhstan in the amount of KZT 291,128 thousand, KZT 167,729 thousand and KZT Nil with interest rates from 5.10% to 6.50% and from 4.05% to 6.10%, respectively.

As at 31 December 2010, 2009 and 1 January 2009, investments held-to-maturity included accrued interest amounting to KZT 13,251 thousand, KZT 4,235 thousand and KZT Nil, respectively.

## 9. INSURANCE AND REINSURANCE PREMIUM RECEIVABLES

	31 December 2010	31 December 2009	1 January 2009
Amounts due from policyholders	598,625	887,564	1,508,024
Assumed reinsurance premiums receivable	18,143	21,309	-
	616,768	908,873	1,508,024
Less allowance for impairment losses	(18,432)	(24,799)	(13,462)
	<u>598,336</u>	<u>884,074</u>	<u>1,494,562</u>

## 10. UNEARNED PREMIUMS RESERVE

	31 December 2010	31 December 2009	Change in unearned premiums reserve
Unearned premiums reserve (Note 18)	2,260,382	1,674,379	586,003
Unearned premiums reserve, reinsurers' share (Note 18)	(1,109,085)	(853,590)	(255,495)
Unearned premiums reserve, net of reinsurers' share	<u>1,151,297</u>	<u>820,789</u>	<u>330,508</u>
	31 December 2009	1 January 2009	Change in unearned premiums reserve
Unearned premiums reserve (Note 18)	1,674,379	3,056,708	(1,382,329)
Unearned premiums reserve, reinsurers' share (Note 18)	(853,590)	(1,535,650)	682,060
Unearned premiums reserve, net of reinsurers' share	<u>820,789</u>	<u>1,521,058</u>	<u>(700,269)</u>

## 11. RESERVES FOR CLAIMS AND CLAIMS' ADJUSTMENT EXPENSES

Reserves for claims and claims' adjustment expenses have been established on the basis of information currently available, including potential outstanding loss notifications and experience with similar claims. The reserve for claims incurred but not reported is actuarially determined by lines of business and is based on statistical claims data for the period typical for loss development of the classes and sub-classes of business, the Company's previous experience and availability of data. While management considers that the gross reserve for claims and the related reinsurance recoveries are fairly stated on the basis of the information available to them, the ultimate liability may vary as a result of subsequent information and events and may result in adjustments to the amounts provided. Any adjustments to the amount of reserves will be reflected in the financial statements in the period in which the necessary adjustments become known and estimable.

The movements in reserves for claims and claims' adjustment expenses during 2010 and 2009 were as follows:

	2010	2009
As at beginning of the year	118,281	154,482
Net change in reserve	<u>59,070</u>	<u>(36,201)</u>
As at end of the year	<u><u>177,351</u></u>	<u><u>118,281</u></u>

As at 31 December 2010 and 2009, provision for losses as at 31 December 2010 and 2009 comprised of provision for losses reported but not settled (RBNS) and the provision for losses incurred but not reported (IBNR):

	IBNR	RBNS	31 December 2010 Total
Provision for losses, gross	155,407	107,276	262,683
Reinsurers' share in reserve	<u>(61,487)</u>	<u>(23,845)</u>	<u>(85,332)</u>
Provision for losses, net of reinsurance	<u><u>93,920</u></u>	<u><u>83,431</u></u>	<u><u>177,351</u></u>
	IBNR	RBNS	31 December 2009 Total
Provision for losses, gross	84,334	102,333	186,667
Reinsurers' share in reserve	<u>(41,037)</u>	<u>(27,349)</u>	<u>(68,386)</u>
Provision for losses, net of reinsurance	<u><u>43,297</u></u>	<u><u>74,984</u></u>	<u><u>118,281</u></u>
	IBNR	RBNS	1 January 2009 Total
Provision for losses, gross	163,202	86,274	249,476
Reinsurers' share in reserve	<u>(81,916)</u>	<u>(13,078)</u>	<u>(94,994)</u>
Provision for losses, net of reinsurance	<u><u>81,286</u></u>	<u><u>73,196</u></u>	<u><u>154,482</u></u>

## 12. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Vehicles	Equipment	Other fixed assets	Intangible assets	Total
<b>At initial cost</b>					
As at 1 January 2009	29,784	20,896	22,401	4,253	77,334
Additions	-	5,182	2,497	3,310	10,989
Disposals	(14,636)	(564)	(3,024)	(148)	(18,372)
As at 31 December 2009	15,148	25,514	21,874	7,415	69,951
Additions	5,000	16,503	2,906	1,026	25,435
Disposals	-	(718)	(44)	-	(762)
As at 31 December 2010	20,148	41,299	24,736	8,441	94,624
<b>Accumulated depreciation</b>					
As at 1 January 2009	(7,161)	(6,657)	(5,838)	(1,384)	(21,040)
Charge for the year	(4,842)	(5,912)	(3,192)	(698)	(14,644)
Disposals	4,010	459	1,528	71	6,068
As at 31 December 2009	(7,993)	(12,110)	(7,502)	(2,011)	(29,616)
Charge for the year	(4,620)	(8,390)	(2,956)	(1,166)	(17,132)
Disposals	-	249	21	-	270
As at 31 December 2010	(12,613)	(20,251)	(10,437)	(3,177)	(46,478)
<b>Net book value</b>					
As at 31 December 2010	7,535	21,048	14,299	5,264	48,146
As at 31 December 2009	7,155	13,404	14,372	5,404	40,335
1 January 2009	22,623	14,239	16,563	2,869	56,294

As at 31 December 2010, 2009 and 1 January 2009, included in property, equipment and intangible assets were fully depreciated assets of KZT 455 thousand, KZT 12,363 thousand and KZT 10,174 thousand, respectively.

## 13. INCOME TAXES

The Company provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan. Under Kazakhstani tax legislation, corporate income tax is calculated on insurance premiums receivable from the insured net of the amount of premiums paid under reinsurance contracts.

The Company is subject to certain permanent tax differences due to certain revenues and expenses, including expenses on claims, commission income, broker and agent commission and other income and expenses, are not recognized for tax purposes.

Deferred tax is calculated by applying the statutory tax rate effective at the reporting date to temporary differences between the taxable basis of assets and liabilities and amounts reported in the financial statements. Temporary differences as at 31 December 2010, 2009 and 1 January 2009 are mainly related to different methods of income and expense recognition for financial and tax accounting purposes as well as to recorded values of certain assets.

	31 December 2010	31 December 2009	1 January 2009
<b>Deductible temporary differences:</b>			
Unearned premiums reserve	2,260,382	1,674,379	3,056,708
Reinsurance payables	52,310	331,646	151,691
Payables to insured	3,683	390	-
	<u>2,316,375</u>	<u>2,006,415</u>	<u>3,208,399</u>
<b>Taxable temporary differences:</b>			
Unearned premiums reserve, reinsurers' share	1,109,085	853,590	1,535,650
	<u>1,109,085</u>	<u>853,590</u>	<u>1,535,650</u>
Net deductible taxable temporary differences	<u>1,207,290</u>	<u>1,152,825</u>	<u>1,672,749</u>
<b>Net deferred income tax asset at statutory rate</b>	<u>48,292</u>	<u>46,113</u>	<u>66,910</u>

Below is a reconciliation of income tax expenses, calculated by applying the statutory tax rates to the profit before income tax recorded in the financial statements, to the income tax expense accounted for in the financial statements:

	Insurance activity	Insurance activity (affiliated parties)	Year ended 31 December 2010 Total
Premium written, gross	5,030,409	11,163	5,041,572
Ceded reinsurance premiums	<u>(2,785,676)</u>	<u>-</u>	<u>(2,785,676)</u>
Premium written, net of ceded reinsurance	2,244,733	11,163	2,255,896
Expenses paid to JSC "Insurance Payments Guarantee Fund"	(23,847)	(12)	(23,859)
Commission income	16,796	-	16,796
Adjustments:			
Change in reinsurance premium	(58,610)	-	(58,610)
Premium returns accrued, not paid	<u>5,840</u>	<u>-</u>	<u>5,840</u>
Total taxable income	2,184,912	11,151	2,196,063
Statutory tax rate	4%	8%	
Income tax calculated at statutory rate	87,396	892	88,288
Change in deferred tax asset	(2,179)	-	(2,179)
Tax expense on other activity	<u>6,960</u>	<u>-</u>	<u>6,960</u>
Income tax expense	<u>92,177</u>	<u>892</u>	<u>93,069</u>

	Insurance activity	Insurance activity (affiliated parties)	Year ended 31 December 2009 Total
Premium written, gross	2,969,128	(167,003)	2,802,125
Ceded reinsurance premiums	<u>(2,693,837)</u>	<u>-</u>	<u>(2,693,837)</u>
Premium written, net of ceded reinsurance	275,291	(167,003)	108,288
Expenses paid to JSC "Insurance Payments Guarantee Fund"	(5,354)	(5)	(5,359)
Commission income	119,122	4	119,126
Adjustments:			
Change in reinsurance premium	853,137	-	853,137
Premium returns accrued, not paid	<u>378,733</u>	<u>-</u>	<u>378,733</u>
Total taxable income	1,620,929	(167,004)	1,453,925
Statutory tax rate	4%	8%	
Income tax calculated at statutory rate	64,837	(13,360)	51,477
Change in deferred tax asset	(20,797)	-	(20,797)
Tax expense on other activity	<u>27,810</u>	<u>-</u>	<u>27,810</u>
Income tax expense	<u>71,850</u>	<u>(13,360)</u>	<u>58,490</u>

The negative amount of written premium from affiliated parties is related to the cancellation of insurance agreements in 2009.

According to the tax legislation of the Republic of Kazakhstan, the definition of affiliated parties differs from the definition per IAS 24 "Related party disclosure".

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax expense	95,248	37,693
Deferred income tax (benefit)/expense	<u>(2,179)</u>	<u>20,797</u>
Income tax expense	<u>93,069</u>	<u>58,490</u>
	<b>2010</b>	<b>2009</b>
<b>Deferred income tax asset</b>		
Beginning of the year	46,113	66,910
Change in deferred income tax asset	<u>2,179</u>	<u>(20,797)</u>
End of the year	<u>48,292</u>	<u>46,113</u>

#### 14. OTHER ASSETS

	31 December 2010	31 December 2009	1 January 2009
<b>Other financial assets:</b>			
Due from brokers	145,755	48,176	71,919
Receivable from financial operations	30,000	30,000	30,000
Amounts receivable on defaulted securities	7,927	4,717	-
Debtors on guarantees	5,207	7,916	1,861
Accrued interest on correspondent accounts	329	139	-
Other receivables	227	10,771	22,627
	<u>189,445</u>	<u>101,719</u>	<u>126,407</u>
Less allowance for impairment loss	(7,927)	(4,717)	-
<b>Total other financial assets</b>	<u>181,518</u>	<u>97,002</u>	<u>126,407</u>
<b>Other non-financial assets:</b>			
Advances paid	7,990	3,926	58,879
Inventory	5,061	91	790
Rent prepayments	3,122	-	4,647
Tax advances, except income tax	827	6,249	2,976
Other	2,008	1,356	508
	<u>19,008</u>	<u>11,622</u>	<u>67,800</u>
<b>Total other non-financial assets</b>	<u>19,008</u>	<u>11,622</u>	<u>67,800</u>
<b>Total other assets</b>	<u>200,526</u>	<u>108,624</u>	<u>194,207</u>

Receivable from financial operations represent receivable from JSC "Ordabasy Corporation".

#### 15. INSURANCE AND REINSURANCE PAYABLE

	31 December 2010	31 December 2009	1 January 2009
Reinsurance payables	52,882	331,646	154,902
Payables to agents and brokers	36,564	17,145	23,394
Claims payable to insured	10,415	11,547	608
	<u>99,861</u>	<u>360,338</u>	<u>178,904</u>

## 16. OTHER LIABILITIES

	31 December 2010	31 December 2009	1 January 2009
<b>Other financial liabilities:</b>			
Payable to related parties	73,000	100,000	-
Accounts payable for goods	18,734	3,897	5,028
Rent payable	11,644	4,043	1,719
Payable to JSC Insurance Payments Guarantee Fund	10,813	2,323	1,905
	<u>114,191</u>	<u>110,263</u>	<u>8,652</u>
<b>Other non-financial liabilities:</b>			
Advances received	56,946	12,964	43,348
Deferred income	55,834	55,880	-
Unused vacation reserve	45,192	17,846	17,217
Taxes payable, other than income tax	25,670	12,566	8,245
Payable to employees	18,411	5,221	17,707
Other	-	44	-
	<u>316,244</u>	<u>214,784</u>	<u>95,169</u>

On 24 January 2011 the amount payable to related parties was repaid in full.

## 17. SHARE CAPITAL

As at 31 December 2010, 2009 and 1 January 2009 the Company has 210,000 authorized and issued common shares with a par value of which amounted to KZT 210,000 thousand.

Each common share is entitled to one vote and shares equally in dividends.

As at 31 December 2010, the Company has 1,290,000 issued, but not paid common shares.

As at 31 December 2010, 100% of the Company's shares were pledged under a loan agreement with JSC SB Sberbank of Russia. Management believes that the loan is performing and that the pledge will not be called.

The loan term under which the ordinary share capital of the Company is pledged matures on 26 March 2017.

## 18. PREMIUM EARNED, NET OF REINSURANCE

Premium earned, net of reinsurance, for the year ended 31 December 2010 comprise the following:

	Civil responsibility for indemnification	Financial losses insurance	Civil liability of car owners	Cargo	Employer's liability	Property	Air, water, railway and other vehicle insurance	Medical insurance	Accident insurance	Other	Year ended 31 December 2010 Total
Direct insurance premiums	1,263,205	874,048	785,532	577,372	476,399	264,692	228,524	121,945	82,498	236,634	4,910,849
Reinsurance premiums assumed	7,306	2,325	35,990	5,091	21,173	31,904	19,177	210	3,190	4,357	130,723
Premiums written, gross	1,270,511	876,373	821,522	582,463	497,572	296,596	247,701	122,155	85,688	240,991	5,041,572
Ceded reinsurance premiums	(989,434)	(787,778)	(35,630)	(543,633)	(94,027)	(131,662)	(95,165)	-	(919)	(107,428)	(2,785,676)
Premiums written, net of ceded reinsurance	281,077	88,595	785,892	38,830	403,545	164,934	152,536	122,155	84,769	133,563	2,255,896
Change in unearned premiums reserve, gross	(191,231)	(295,215)	(279,820)	19,033	(161,404)	440,660	(38,415)	(35,727)	(13,519)	(30,365)	(586,003)
Change in unearned premiums reserve, reinsurers' share	253,538	204,419	9,153	(17,945)	35,341	(251,427)	18,770	-	148	3,498	255,495
Change in unearned premiums reserve, net	62,307	(90,796)	(270,667)	1,088	(126,063)	189,233	(19,645)	(35,727)	(13,371)	(26,867)	(330,508)
Premiums earned, net of reinsurance	343,384	(2,201)	515,225	39,918	277,482	354,167	132,891	86,428	71,398	106,696	1,925,388

Premium earned, net of reinsurance, for the year ended 31 December 2009 comprise the following:

	Financial losses insurance	Cargo	Property	Civil liability of car owners	Employer's liability	Air, water, railway and other vehicle insurance	Civil responsibility for indemnification	Accident insurance	Medical insurance	Other	Year ended 31 December 2009 Total
Direct insurance premiums	791,670	604,548	476,000	261,480	233,447	100,167	50,493	54,361	48,429	97,372	2,717,967
Reinsurance premiums assumed	90	(11,377)	(18,917)	-	21,755	18,870	72,960	-	-	777	84,158
Premiums written, gross	791,760	593,171	457,083	261,480	255,202	119,037	123,453	54,361	48,429	98,149	2,802,125
Ceded reinsurance premiums	(464,481)	(933,738)	(693,297)	(349)	(21,837)	(110,824)	(469,311)	-	-	-	(2,693,837)
Premiums written, net of ceded reinsurance	327,279	(340,567)	(236,214)	261,131	233,365	8,213	(345,858)	54,361	48,429	98,149	108,288
Change in unearned premiums reserve, gross	7,331	(8,548)	602,519	(27,208)	18,047	47,774	144,343	8,698	32,677	556,696	1,382,329
Change in unearned premiums reserve, reinsurers' share	(2,984)	21,967	(499,470)	24,984	(26,008)	(41,103)	(158,506)	(360)	-	(580)	(682,060)
Change in unearned premiums reserve, net	4,347	13,419	103,049	(2,224)	(7,961)	6,671	(14,163)	8,338	32,677	556,116	700,269
Premiums earned, net of reinsurance	331,626	(327,148)	(133,165)	258,907	225,404	14,884	(360,021)	62,699	81,106	654,265	808,557

## 19. CLAIMS INCURRED, NET OF REINSURANCE

Claims incurred, net of reinsurance, for the year ended 31 December 2010 comprise the following:

	Employer's liability	Civil liability of car owners	Medical insurance	Air, water, railway and other vehicle insurance	Accident insurance	Cargo	Property	Civil responsibility for indemnification	Financial losses insurance	Other	Year ended 31 December 2010 Total
Claims paid on insurance	(117,912)	(97,192)	(52,224)	(29,384)	(15,424)	(3,077)	(2,794)	(803)	-	(17,609)	(336,419)
Claims paid on assumed reinsurance	(38)	-	-	-	-	-	-	(1,379)	-	(431)	(1,848)
Claims paid, gross	(117,950)	(97,192)	(52,224)	(29,384)	(15,424)	(3,077)	(2,794)	(2,182)	-	(18,040)	(338,267)
Claims paid, reinsurers' share	45,356	7,910	-	271	-	-	-	-	-	-	53,537
Claims paid, net	(72,594)	(89,282)	(52,224)	(29,113)	(15,424)	(3,077)	(2,794)	(2,182)	-	(18,040)	(284,730)
Change in reserves for claims and claims' adjustment expenses, gross	(3,453)	(14,761)	(5,770)	(26,862)	(11,826)	1,596	(7,251)	(1,049)	(20,989)	14,349	(76,016)
Change in reserves for claims and claims' adjustment expenses, reinsurers' share	(5,255)	-	-	1,112	-	-	3,578	-	17,209	302	16,946
Net change in reserves for claims and claims' adjustment expenses	(8,708)	(14,761)	(5,770)	(25,750)	(11,826)	1,596	(3,673)	(1,049)	(3,780)	14,651	(59,070)
Claims incurred, net of reinsurance	(81,302)	(104,043)	(57,994)	(54,863)	(27,250)	(1,481)	(6,467)	(3,231)	(3,780)	(3,389)	(343,800)

Claims incurred, net of reinsurance, for the year ended 31 December 2009 comprise the following:

	Medical insurance	Civil liability of car owners	Employer's liability	Accident insurance	Financial losses insurance	Air, water, railway and other vehicle insurance	Civil responsibility for indemnification	Cargo	Property	Other	Year ended 31 December 2009 Total
Claims paid on insurance	(100,343)	(53,976)	(66,190)	(15,095)	-	(33,268)	(2,992)	(10)	(1,619)	(68)	(273,561)
Claims paid on assumed reinsurance	-	-	(48)	-	-	(4,821)	-	-	-	-	(4,869)
Claims paid, gross	(100,343)	(53,976)	(66,238)	(15,095)	-	(38,089)	(2,992)	(10)	(1,619)	(68)	(278,430)
Claims paid, reinsurers' share	-	7,944	51,269	6	-	250	-	-	-	-	59,469
Claims paid, net	(100,343)	(46,032)	(14,969)	(15,089)	-	(37,839)	(2,992)	(10)	(1,619)	(68)	(218,961)
Change in reserves for claims and claims' adjustment expenses, gross	5,028	(28)	(52,468)	3,212	(3,800)	9,030	36,025	49,863	3,931	12,016	62,809
Change in reserves for claims and claims' adjustment expenses, reinsurers' share	-	-	21,406	-	2,463	(8,262)	-	(44,419)	-	2,204	(26,608)
Net change in reserves for claims and claims' adjustment expenses	5,028	(28)	(31,062)	3,212	(1,337)	768	36,025	5,444	3,931	14,220	36,201
Claims incurred, net of reinsurance	(95,315)	(46,060)	(46,031)	(11,877)	(1,337)	(37,071)	33,033	5,434	2,312	14,152	(182,760)

**20. NET COMMISSION EXPENSE**

Net commission expense for the year ended 31 December 2010 comprises the following:

	Civil responsibility for indemnifi- cation	Property	Employer's liability	Civil liability of car owners	Accident insurance	Other obligatory insurance	Medical insurance	Cargo	Year ended 31 December 2010 Total
Commission income	242	-	16,511	-	43	-	-	-	16,796
Commission expense	(124,991)	(74,234)	(70,237)	(56,551)	(26,093)	(25,789)	(9,292)	(8,941)	(396,128)
	(124,749)	(74,234)	(53,726)	(56,551)	(26,050)	(25,789)	(9,292)	(8,941)	(379,332)

Net commission expense for the year ended 31 December 2009 comprises the following:

	Civil responsibility for indemnifi- cation	Property	Employer's liability	Civil liability of car owners	Accident insurance	Other obligatory insurance	Medical insurance	Cargo	Year ended 31 December 2009 Total
Commission income	933	112,854	-	5,339	-	-	-	-	119,126
Commission expense	(54,108)	(57,859)	(74,008)	(108,278)	(20,758)	(9,676)	(14,282)	(6,312)	(345,281)
	(53,175)	54,995	(74,008)	(102,939)	(20,758)	(9,676)	(14,282)	(6,312)	(226,155)

## 21. INVESTMENT INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
Unrealized gain from revaluation of financial assets at fair value through profit or loss	27,062	133,883
Realized (loss)/gain from revaluation of financial assets at fair value through profit or loss	(12,908)	101,169
Dividend income	4,384	5,565
Interest income	132,972	128,873
	<u>151,510</u>	<u>369,490</u>
	Year ended 31 December 2010	Year ended 31 December 2009
<b>Interest income comprised:</b>		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	59,740	30,696
Interest income on financial assets at fair value through profit or loss	73,232	98,177
	<u>132,972</u>	<u>128,873</u>
Total interest income	<u>132,972</u>	<u>128,873</u>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on term deposits in banks	39,211	16,957
Interest on investments held-to-maturity	18,201	11,355
Interest on current account	1,776	1,829
Interest on loans under reverse repurchase agreements	552	555
	<u>59,740</u>	<u>30,696</u>

## 22. ADMINISTRATIVE AND OPERATING EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Rent expense	189,459	129,564
Audit and consulting services	70,612	7,980
Advertising expenses	48,358	17,556
Payments to JSC Insurance Payments Guarantee Fund	31,718	7,971
Insurance expenses	18,072	6,489
Communication expenses	15,056	13,423
Business trip expenses	10,503	5,243
Stationery	9,301	6,714
Bank services and charges	8,712	2,091
Transportation	8,175	6,250
Utilities	7,613	5,099
Business development	7,010	2,369
Fines and penalties	5,977	137
Postal services	5,036	4,743
Repair and maintenance of property and equipment	4,255	1,104
Security expenses	3,510	3,171
Staff training	1,288	495
Taxes, other than income tax	1,231	9,227
Other	29,479	23,144
	<u>475,365</u>	<u>252,770</u>

## 23. NET (LOSS)/GAIN FROM OPERATIONS WITH FOREIGN CURRENCIES

	Year ended 31 December 2010	Year ended 31 December 2009
Translation differences, net	(76,586)	292,114
Dealing, net	<u>(4,902)</u>	<u>(48,004)</u>
Total net (loss)/gain on operations with foreign currencies	<u><u>(81,488)</u></u>	<u><u>244,110</u></u>

## 24. EARNINGS PER SHARE

	Year ended 31 December 2010	Year ended 31 December 2009
Net profit	72,513	306,854
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share	<u>210,000</u>	<u>210,000</u>
<b>Earnings per share – basic and diluted (KZT)</b>	<u><u>345.30</u></u>	<u><u>1,461.21</u></u>

On 25 August 2010 Kazakhstan Stock Exchange (“the KASE”) has introduced new rules for listed companies that require the disclosure of book value of one share per each class of shares in the listed company’s financial statements. The Company has calculated the book value of one share per each class of shares in accordance with the methodology for computation of the book value of one share, provided by KASE.

The book value of one share per each class of shares as at 31 December 2010 and 2009 is as follows:

Class of shares	Outstanding shares (number outstanding)	Year ended 31 December 2010		Outstanding shares (number outstanding)	Year ended 31 December 2009	
		Amount for calculation of book value KZT thousands	Book value of one share, KZT thousands		Amount for calculation of book value KZT thousands	Book value of one share, KZT thousands
Ordinary shares	<u>210,000</u>	<u>2,246,162</u>	10.70	<u>210,000</u>	<u>2,173,508</u>	10.35
		<u><u>2,246,162</u></u>			<u><u>2,173,508</u></u>	

The book value of one ordinary share is calculated as the ratio of the amount of net asset value of the Company for ordinary shares to the outstanding number of ordinary shares as at reporting date. The net asset value of the Company for ordinary shares is calculated as the total equity net of intangible assets and the amount of equity attributable to preference shares as at reporting date. Outstanding number of ordinary shares is calculated as outstanding shares authorized and issued net of repurchased shares by the Company as at reporting date.

The management of the Company believes that it fully complies with the requirement of the KASE as of the reporting date

## **25. COMMITMENTS AND CONTINGENCIES**

### **Legal proceedings**

From time to time and in the normal course of business, claims against the Company are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred by the Company and accordingly no provision has been made in these financial statements.

### **Taxation**

Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Company may be assessed additional taxes, penalties and interest. Management of the Company believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for five years.

### **Pensions and retirement plans**

Employees of the Company receive pension benefits from pension funds in accordance with the laws and regulations of the Republic of Kazakhstan. As at 31 December 2010 and 2009, the Company was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

### **Operating leases**

As at 31 December 2010, where the Company is lessee, the future minimum lease payments under non-cancellable operating leases are KZT 154,809 thousand within one year and KZT 8,699 thousand greater than one year.

As at 31 December 2009, where the Company is lessee, the future minimum lease payments under non-cancellable operating leases are KZT 112,734 thousand within one year.

### **Capital commitments**

As at 31 December 2010 and 2009, the Company did not have any significant capital commitments.

## 26. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures" include the following.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Company had the following transactions outstanding as at 31 December 2010 and 2009 with related parties:

	31 December 2010		31 December 2009	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Unearned premiums reserve, reinsurer's share	829,177	1,109,085	677,922	853,590
- other related parties	829,177		677,922	
Other assets	30,000	200,526	30,000	108,624
- other related parties	30,000		30,000	
Unearned premiums reserve	847,433	2,260,382	692,604	1,674,379
- other related parties	846,836		692,586	
- key management personnel of the Company	597		18	
Other liabilities	73,000	316,246	100,000	214,784
- other related parties	73,000		100,000	

Included in the statement of comprehensive income for the years ended 31 December 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Premiums written, gross	2,204,024	5,041,572	1,926,307	2,802,125
- other related parties	2,162,975		1,811,812	
- entities with joint control or significant influence over the entity	40,176		114,139	
- key management personnel of the Company	873		356	
Ceded reinsurance premiums	(2,075,927)	(2,785,676)	(1,448,896)	(2,693,837)
- other related parties	(2,075,927)		(1,448,896)	
Claims paid, gross	(933)	(338,267)	(577)	(278,430)
- other related parties	(826)		(577)	
- key management personnel of the Company	(107)		-	
Salaries and benefits	(72,550)	(594,421)	(58,414)	(372,841)
- key management personnel of the Company	(72,550)		(58,414)	
Administrative and operating expenses	(90,783)	(475,365)	(2,528)	(252,770)
- entities with joint control or significant influence over the entity	(88,165)		(983)	
- key management personnel of the Company	(2,618)		(1,545)	

Salaries and benefits paid to key management personnel represent short-term compensations.

## 27. SEGMENT REPORTING

The Company's format for reporting segment information is based on lines of business of the Company, which is the basis of the analysis provided internally to the chief operating decision maker.

### Business segments

The Company is organized on the basis of lines of business. Income and expense related to the major business of the Company by business segments are disclosed in Notes 18, 19 and 20. Assets and liabilities of the Company as well as other income and expense cannot be allocated to any specific lines of business and are not regularly provided to the chief operating decision maker. Accordingly, this information was not disclosed in the financial statements.

There are no material items of income or expense between the business segments.

### Geographical concentration

As at 31 December 2010, financial assets and liabilities of the Company were concentrated in the Republic of Kazakhstan, except for reinsurance payables in non-OECD countries amounted to KZT 2,390 thousand.

As at 31 December 2009, financial assets and liabilities of the Company were concentrated in the Republic of Kazakhstan, except for insurance and reinsurance receivables in OECD countries of KZT 833 thousand. As at 31 December 2009, insurance and reinsurance payable in OECD countries amounted to KZT 322,212 thousand.

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities approximate the corresponding carrying amount in the statement of financial position of the Company except for investments held to maturity which are as follows:

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Investments held-to-maturity	291,128	275,314	167,729	106,758

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Company has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

	31 December 2010	
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)
Financial assets at fair value through profit or loss	1,223,773	151,974
	31 December 2009	
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)
Financial assets at fair value through profit or loss	1,075,341	129,325
Investments available-for-sale are held at cost.		

## 29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the insurance business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are those related to underwriting risk, investment risk, credit risk, market risk on movements in interest and foreign exchange rates, and liquidity risk. A summary description of the Company's risk management policies in relation to those risks is described in the following section.

### Underwriting policies

The Company establishes underwriting guidelines and limits, which stipulate who may accept what risks and up to what amounts. These limits are being continuously monitored by underwriting department.

The Company insurance business is spread throughout Kazakhstan. The Company's reinsurance portfolio in terms of geographical spread is diversified through the use of overseas reinsurers.

### Reinsurance

In the normal course of business the Company enters into obligatory and facultative reinsurance agreements with Kazakhstani and foreign reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

### Insurance reserves

The Company uses actuarial methods and assumptions in insurance and reinsurance liabilities estimations. Refer to Notes 11 and 19 for details of reserves for claims and claims' adjustment expenses. The Company performs a run-off analysis of these reserves.

### Investment risks

The investment policy of the Company is based on levels of income and the Company's risk appetite at a point in time. The investment activities of Kazakhstani insurance companies are under the strict control of the FMSA and the Company does not have permission to operate as a professional participant in the equity markets, therefore a broker company performs investment activities on behalf of the Company.

The investment portfolio of the Company comprises financial instruments that are chosen according to profitability rates, maturity and the risk level of the investment. The investment portfolio is diversified so as to provide equal income receipts during the investing period. Investment income is generally reinvested to increase the investment portfolio.

## Credit risk

The Company regularly monitors the collectability of receivables from its insurance and reinsurance businesses. All doubtful amounts due are reserved in the financial statements. The counter-parties to reinsurance business are reputable insurers.

### Maximum exposure

The Company's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral.

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	31 December 2010 Net exposure after offset and collateral
Cash and cash equivalents	661,769	-	661,769	-	661,769
Term deposits in banks	396,414	-	396,414	-	396,414
Financial assets at fair value through profit and loss	1,375,747	-	1,375,747	-	1,375,747
Investments available-for-sale	17,666	-	17,666	-	17,666
Investments held-to-maturity	291,128	-	291,128	-	291,128
Insurance and reinsurance premium receivables	598,336	-	598,336	-	598,336
Other financial assets	181,518	-	181,518	-	181,518
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	31 December 2009 Net exposure after offset and collateral
Cash and cash equivalents	415,351	-	415,351	-	415,351
Term deposits in banks	668,829	-	668,829	-	668,829
Financial assets at fair value through profit and loss	1,204,666	-	1,204,666	-	1,204,666
Investments available-for-sale	17,666	-	17,666	-	17,666
Investments held-to-maturity	167,729	-	167,729	-	167,729
Insurance and reinsurance premium receivables	884,074	-	884,074	-	884,074
Other financial assets	97,002	-	97,002	-	97,002

Financial assets are graded according to the current credit rating they have been issued by international rating agencies. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Company:

	AAA	<BBB	Not rated	31 December 2010 Total
Cash and cash equivalents	-	658,429	3,340	661,769
Term deposits in banks	-	396,414	-	396,414
Financial assets at fair value through profit and loss	197,640	1,026,133	151,974	1,375,747
Investments available-for-sale	-	-	17,666	17,666
Investments held-to-maturity	-	291,128	-	291,128
Insurance and reinsurance receivables	-	6,240	592,096	598,336
Other financial assets	-	329	181,189	181,518

	AAA	<BBB	Not rated	31 December 2009 Total
Cash and cash equivalents	-	413,933	1,418	415,351
Term deposits in banks	-	668,829	-	668,829
Financial assets at fair value through profit and loss	346,158	729,183	129,325	1,204,666
Investments available-for-sale	-	-	17,666	17,666
Investments held-to-maturity	-	167,729	-	167,729
Insurance and reinsurance receivables	-	1,565	882,509	884,074
Other financial assets	-	139	48,687	48,826

The insurance industry is generally exposed to credit risk through its financial instruments. Credit risk exposure of the Company is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Company's policy are not breached.

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

	Current not impaired assets	Financial assets past due but not impaired	Impaired financial assets	31 December 2010 Total
Cash and cash equivalents	661,769	-	-	661,769
Term deposits in banks	396,414	-	-	396,414
Financial assets at fair value through profit and loss	1,375,747	-	-	1,375,747
Investments available-for-sale	17,666	-	-	17,666
Investments held-to-maturity	291,128	-	-	291,128
Insurance and reinsurance premium receivables	425,552	136,388	36,396	598,336
Other financial assets	181,518	-	-	181,518

	Current not impaired assets	Financial assets past due but not impaired	Impaired financial assets	31 December 2009 Total
Cash and cash equivalents	415,351	-	-	415,351
Term deposits in banks	668,829	-	-	668,829
Financial assets at fair value through profit and loss	1,204,666	-	-	1,204,666
Investments available-for-sale	17,666	-	-	17,666
Investments held-to-maturity	167,729	-	-	167,729
Insurance and reinsurance premium receivables	519,229	364,845	-	884,074
Other financial assets	97,002	-	-	97,002

## Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity risk through a Company's liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specify the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence in the light of changing environment in which the Company operates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>							
Term deposits in banks	-	-	396,414	-	-	-	396,414
Financial assets at fair value through profit or loss	1,261,056	-	-	-	-	-	1,261,056
Investments held-to-maturity	-	-	-	23,466	267,662	-	291,128
Total interest bearing financial assets	1,261,056	-	396,414	23,466	267,662	-	1,948,598
Cash and cash equivalents	661,769	-	-	-	-	-	661,769
Financial assets at fair value through profit or loss	114,691	-	-	-	-	-	114,691
Investments available-for-sale	-	-	-	-	-	17,666	17,666
Insurance and reinsurance premium receivables	498,907	17,584	52,495	29,350	-	-	598,336
Other financial assets	146,084	-	30,227	5,207	-	-	181,518
<b>Total financial assets</b>	<b>2,682,507</b>	<b>17,584</b>	<b>479,136</b>	<b>58,023</b>	<b>267,662</b>	<b>17,666</b>	<b>3,522,578</b>
<b>FINANCIAL LIABILITIES:</b>							
Insurance and reinsurance payable	49,367	42,415	5,723	2,356	-	-	99,861
Other financial liabilities	114,191	-	-	-	-	-	114,191
<b>Total financial liabilities</b>	<b>163,558</b>	<b>42,415</b>	<b>5,723</b>	<b>2,356</b>	<b>-</b>	<b>-</b>	<b>214,052</b>
Liquidity gap	2,518,949	(24,831)	473,413	55,667	267,662		
Interest sensitivity gap	1,261,056	-	396,414	23,466	267,662		
Cumulative interest sensitivity gap	1,261,056	1,261,056	1,657,470	1,680,936	1,948,598		
Cumulative interest sensitivity gap as a percentage of total financial assets	35.80%	35.80%	47.05%	47.72%	55.32%		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
<b>FINANCIAL ASSETS:</b>							
Term deposits in banks	297,603	-	371,226	-	-	-	668,829
Financial assets at fair value through profit or loss	1,048,681	-	-	-	-	-	1,048,681
Investments held-to-maturity	-	-	48,009	23,565	96,155	-	167,729
<b>Total interest bearing financial assets</b>	<b>1,346,284</b>	<b>-</b>	<b>419,235</b>	<b>23,565</b>	<b>96,155</b>	<b>-</b>	<b>1,885,239</b>
Cash and cash equivalents	415,351	-	-	-	-	-	415,351
Financial assets at fair value through profit or loss	155,985	-	-	-	-	-	155,985
Investments available-for-sale	-	-	-	-	-	17,666	17,666
Insurance and reinsurance premium receivables	359,436	425,148	27,025	35,768	23,539	-	884,074
Other financial assets	48,315	-	7,916	40,771	-	-	97,002
<b>Total financial assets</b>	<b>2,325,371</b>	<b>425,148</b>	<b>454,176</b>	<b>100,104</b>	<b>132,852</b>	<b>17,666</b>	<b>3,455,317</b>
<b>FINANCIAL LIABILITIES:</b>							
Insurance and reinsurance payable	-	360,338	-	-	-	-	360,338
Other financial liabilities	10,263	-	100,000	-	-	-	110,263
<b>Total financial liabilities</b>	<b>10,263</b>	<b>360,338</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>470,601</b>
Liquidity gap	2,315,108	64,810	354,176	100,104	132,852	-	-
Interest sensitivity gap	1,346,284	-	419,235	23,565	96,155	-	-
Cumulative interest sensitivity gap	1,346,284	1,346,284	1,765,519	1,789,084	1,885,239	-	-
Cumulative interest sensitivity gap as a percentage of total financial assets	38.96%	38.96%	51.10%	51.78%	54.56%	-	-

The Company does not include its insurance reserves in its liquidity and maturity analysis, including amounts due from reinsurers classified as reinsurance assets, due to the realistic maturity of such balances being undeterminable. In addition, the actual liabilities may vary from the amount reserved and as such these amounts are not included in the above table.

Discounted liabilities presented in the tables above are the same as contractual undiscounted liabilities due to their short-term nature.

### Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in interest rates and assets and liabilities in foreign currencies, all of which are exposed to general and specific market movements. The Company manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin.

### Interest rate risk

The following table presents a sensitivity analysis if interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

In the table below, interest rate sensitivity analysis is presented, which was done on the assumption of a 3% fluctuations in the variable rates as at 31 December 2010 and 2009. Management of the Company believes that in current economic conditions, fluctuations of interest rates by 3% are possible. The calculations disclosed below are used in the internal reports and presented to the key management personnel of the Company. Only existing financial assets and liabilities are included in the computations.

Impact on net profit before tax and equity is presented below:

	As at 31 December 2010		As at 31 December 2009	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Impact on net profit before tax and equity	(40,883)	37,008	(125,305)	44,755

### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

	KZT	USD USD 1 = KZT 147.50	EUR EUR 1 = KZT 196.88	Other currency	31 December 2010 Total
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	526,620	21,175	113,974	-	661,769
Term deposits in banks	396,414	-	-	-	396,414
Financial assets at fair value through profit or loss	840,124	308,328	227,295	-	1,375,747
Investments available-for-sale	17,666	-	-	-	17,666
Investments held-to-maturity	291,128	-	-	-	291,128
Insurance and reinsurance premiums receivable	596,015	1,790	-	531	598,336
Other financial assets	35,763	-	145,755	-	181,518
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,703,730</b>	<b>331,293</b>	<b>487,024</b>	<b>531</b>	<b>3,522,578</b>
<b>FINANCIAL LIABILITIES</b>					
Insurance and reinsurance payables	99,849	12	-	-	99,861
Other financial liabilities	113,733	-	458	-	114,191
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>213,582</b>	<b>12</b>	<b>458</b>	<b>-</b>	<b>214,052</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>2,490,148</b>	<b>331,281</b>	<b>486,566</b>	<b>531</b>	
	KZT	USD USD 1 = KZT 148.46	EUR EUR 1 = KZT 213.95	Other currency	31 December 2009 Total
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	180,649	234,690	-	12	415,351
Due from banks	-	297,603	371,226	-	668,829
Financial assets at fair value through profit or loss	360,564	470,046	374,056	-	1,204,666
Investments available-for-sale	17,666	-	-	-	17,666
Investments held-to-maturity	167,729	-	-	-	167,729
Insurance and reinsurance premiums receivable	883,241	246	-	587	884,074
Other financial assets	97,002	-	-	-	97,002
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,706,851</b>	<b>1,002,585</b>	<b>745,282</b>	<b>599</b>	<b>3,455,317</b>
<b>FINANCIAL LIABILITIES</b>					
Insurance and reinsurance payables	38,126	322,212	-	-	360,338
Other financial liabilities	110,263	-	-	-	110,263
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>148,389</b>	<b>322,212</b>	<b>-</b>	<b>-</b>	<b>470,601</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,558,462</b>	<b>680,373</b>	<b>745,282</b>	<b>599</b>	

## Currency risk sensitivity

The following table details the Company's sensitivity to a 10% and 15% increase and decrease in the USD and EUR, respectively, against the KZT. 10% and 15% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% and 15% change in foreign currency rates.

As at 31 December 2010 and 2009 the impact on net profit and equity based on open balance sheet position is as follows:

	31 December 2010		31 December 2009	
	KZT/USD +10%	KZT/USD -10%	KZT/USD +10%	KZT/USD -10%
Impact on profit or loss before tax and equity	33,128	(33,128)	68,037	(68,037)

	31 December 2010		31 December 2009	
	KZT/EUR +15%	KZT/EUR -15%	KZT/EUR +15%	KZT/EUR -15%
Impact on profit or loss before tax and equity	72,985	(72,985)	111,792	(111,792)

## Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Company is exposed to price risks of its products which are subject to general and specific market fluctuations.

	31 December 2010		31 December 2009	
	1% increase in equity securities price	1% decrease in equity securities price	1% increase in equity securities price	1% decrease in equity securities price
Impact on profit or loss before tax and equity	852	(852)	1,282	(1,282)

## 30. SUBSEQUENT EVENTS

On 1 April 2011, the FMSA has approved Idrisov D.A. to become a major shareholder of the Company. As at the date of these financial statements Idrisov D.A. has not yet purchased additional ordinary share capital.