

JSC Delta Bank

Financial Statements
for the year ended 31 December 2010

Contents

Independent Auditors' Report	
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Cash Flows	7
Statement of Changes in Equity	8
Notes to the Financial Statements	9-60



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

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

Independent Auditors' Report

To the Management Board of JSC Delta Bank

We have audited the accompanying financial statements of JSC Delta Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As at 31 December 2009 the Bank estimated the impairment losses on its loans to customers stated at KZT 20,591,422 thousand in accordance with regulatory requirements. In accordance with International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*, these impairment losses should be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The effects of this departure from International Financial Reporting Standards on impairment losses, taxation and profit as at and for the year ended 31 December 2010 and on loans to customers, impairment losses, taxation, profit and retained earnings as at and for the year ended 31 December 2009 have not been determined.

As at 31 December 2009 the Bank has not measured certain of its financial instruments at fair value through profit or loss stated at KZT 213,194 thousand at fair value. Subsequently, as at 31 December 2010, the Bank measured these financial instruments at fair value. Such investments should have been stated at fair value in accordance with International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The effects of this departure from International Financial Reporting Standards on financial instruments at fair value through profit or loss, net loss on financial instruments at fair value through profit or loss, taxation, profit and retained earnings as at and for the year ended 31 December 2009, and net loss on financial instruments at fair value through profit or loss, taxation, profit and retained earnings as at and for the year ended 31 December 2010 have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank 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.




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



 Alun Bowen
 Managing Partner

KPMG Audit LLC

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





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

31 March 2011


JSC Delta Bank
Statement of Comprehensive Income for the year ended 31 December 2010

	Note	2010 '000 KZT	2009 '000 KZT
Interest income	4	4,468,611	3,811,064
Interest expense	4	(1,436,920)	(1,315,002)
Net interest income		3,031,691	2,496,062
Fee and commission income	5	689,194	754,264
Fee and commission expense	6	(31,077)	(31,434)
Net fee and commission income		658,117	722,830
Net loss on financial instruments at fair value through profit or loss		(110,008)	(85,652)
Net foreign exchange income	7	93,928	10,744
Net loss on available-for-sale financial assets		(37,345)	(20,158)
Dividends received		5,502	755
Other expense	8	(61,145)	(18,261)
		3,580,740	3,106,320
Impairment losses	9	(1,725,195)	(1,423,936)
General administrative expenses	10	(1,673,507)	(1,601,243)
Profit before income tax		182,038	81,141
Income tax expense	11	(53,910)	(1,499)
Profit for the year		128,128	79,642
Basic earnings per share (in KZT)		25.80	17.90
Diluted earnings per share (in KZT)		25.80	17.90
Other comprehensive income, net of income tax			
Revaluation of property and intangible assets		69,155	
Net change in fair value of available-for-sale financial assets		85,226	55,341
Net change in fair value of available-for-sale financial assets transferred to profit or loss		37,345	20,158
Other comprehensive income		191,726	75,499
Total comprehensive income		319,854	155,141

The financial statements were approved by the Management Board on 31 March 2011 and were signed on its behalf by:


Ms. Koshkimbayeva M.A.
Chairwoman of the Management Board




Ms. Kasenova M.N.
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 -60.

JSC Delta Bank
Statement of Financial Position as at 31 December 2010

	Note	2010 '000 KZT	2009 '000 KZT
ASSETS			
Cash and cash equivalent	12	1,029,122	3,287,870
Placements with banks	13	557,637	377,794
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	188,161	313,171
- Pledged under sale and repurchase agreements	14	-	81,671
Available-for-sale financial assets			
- Held by the Bank	16	4,223,201	912,945
- Pledged under sale and repurchase agreements	16	1,439,948	416,263
Loans to customers	15	41,156,399	20,591,422
Held-to-maturity investments			
- Held by the Bank	17	1,085,299	282,081
- Pledged under sale and repurchase agreements	17	1,597,917	3,468,996
Property, equipment and intangible assets	18	558,518	605,439
Deferred tax asset	11	-	8,447
Other assets	19	61,138	105,289
Total assets		51,897,340	30,451,388
LIABILITIES			
Loans from other financial institutions	20	2,150,378	-
Amounts payable under repurchase agreements	21	2,846,066	3,378,221
Current accounts and deposits from customers	22	33,836,634	17,734,184
Subordinated debt securities issued	23	1,314,305	1,943,905
Current tax liability		22,524	3,190
Deferred tax liability	11	3,708	-
Other liabilities	24	119,394	102,399
Total liabilities		40,293,009	23,161,899
EQUITY			
Share capital	25	10,973,097	6,978,109
Reserve capital		264,832	223,099
Revaluation reserve for property, equipment and intangible assets		119,776	57,913
Revaluation reserve for available-for-sale financial assets		60,580	(61,991)
Retained earnings		186,046	92,359
Total equity		11,604,331	7,289,489
Total liabilities and equity		51,897,340	30,451,388
Book value per common share (in KZT)		1,654	1,553

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 -60.

	2010	2009
	'000 KZT	'000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	4,183,898	3,592,435
Interest payments	(997,034)	(1,444,525)
Fee and commission receipts	715,808	736,549
Fee and commission payments	(31,077)	(31,434)
Net payments from financial instruments at fair value through profit or loss	(110,008)	(85,652)
Net receipts from foreign exchange	91,754	126,344
Other expenses payments	(34,376)	(55,189)
Other general administrative expenses payment	(1,479,679)	(1,421,428)
(Increase)/decrease in operating assets		
Minimum required reserve	(248,976)	47,876
Placements with banks	69,133	(20,573)
Financial instruments at fair value through profit or loss	206,681	215,521
Amounts receivable under reverse repurchase agreements	-	4,809,011
Loans to customers	(22,270,345)	(5,896,861)
Other assets	(672)	9,657
Increase/(decrease) in operating liabilities		
Loans from other financial institutions	2,000,014	(151,875)
Amounts payable under repurchase agreements	(530,006)	2,480,211
Current accounts and deposits from customers	15,830,921	2,359,702
Other liabilities	22,166	32,434
Cash provided from operating activities before income tax paid	(2,581,798)	5,302,203
Income tax paid	(42,814)	(1,145)
Cash flows from operations	(2,624,612)	5,301,058
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(5,086,673)	(4,264,852)
Sales of available-for-sale financial assets	741,245	339,863
Redemption of available-for-sale financial assets	278,718	3,049,296
Purchases of held-to-maturity investments	(297,780)	(3,386,107)
Redemption of held-to-maturity investments	1,357,351	118,544
Purchases of property, equipment and intangible assets	(71,008)	(15,878)
Sales of property, equipment and intangible assets	5,378	32,579
Cash flows used in investing activities	(3,072,769)	(4,126,555)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of subordinated debt securities issued	(614,321)	(979,792)
Proceeds from issuance of share capital	4,027,898	1,491,878
Treasury shares acquired	(32,910)	(45,019)
Cash flows from financing activities	3,380,667	467,067
Net increase in cash and cash equivalents	(2,316,714)	1,641,570
Effect of changes in exchange rates on cash and cash equivalents	57,966	201,711
Cash and cash equivalents as at the beginning of the year	3,287,870	1,444,589
Cash and cash equivalents as at the end of the year (Note 12)	1,029,122	3,287,870

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 -60.

	Share capital '000 KZT	Reserve capital '000 KZT	Revaluation reserve for property, equipment and intangible assets '000 KZT	Revaluation reserve for available-for-sale financial assets '000 KZT	Retained earnings '000 KZT	Total '000 KZT
Balance at 1 January 2009	5,531,250	157,558	63,003	(137,490)	73,168	5,687,489
Total comprehensive income	-	-	-	-	79,642	79,642
Profit for the year	-	-	-	-	79,642	79,642
Other comprehensive income	-	-	-	55,341	-	55,341
Net change in fair value of available-for-sale financial assets	-	-	-	55,341	-	55,341
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	20,158	-	20,158
Transfer of revaluation reserve to retained earnings on usage of revalued property	-	-	(5,090)	-	5,090	-
Total other comprehensive income	-	-	-	75,499	-	75,499
Total comprehensive income	-	-	-	75,499	79,642	155,141
Shares issued	1,491,878	-	-	-	-	1,491,878
Treasury shares acquired	(45,019)	-	-	-	-	(45,019)
Transfers	-	65,541	-	-	(65,541)	-
Balance at 31 December 2009	6,978,109	223,099	57,913	(61,991)	92,359	7,289,489
Total comprehensive income	-	-	-	-	128,128	128,128
Profit for the year	-	-	-	-	128,128	128,128
Other comprehensive income	-	-	-	85,226	-	85,226
Net change in fair value of available-for-sale financial assets	-	-	-	85,226	-	85,226
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	37,345	-	37,345
Revaluation of property and equipment, net of income tax	-	69,155	-	-	-	69,155
Transfers of depreciation from property revaluation reserve	-	-	(7,292)	-	7,292	-
Total other comprehensive income	-	-	61,863	122,571	7,292	191,726
Total comprehensive income for the year	-	-	61,863	122,571	135,420	319,854
Shares issued	4,027,898	-	-	-	-	4,027,898
Treasury shares acquired	(32,910)	-	-	-	-	(32,910)
Transfers	-	41,733	-	-	(41,733)	-
Balance at 31 December 2010	10,973,097	264,832	119,776	60,580	186,046	11,604,331

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 -60.

1 Background

(a) Principal activities

JSC Delta Bank (“the Bank”) was incorporated in the Republic of Kazakhstan in 1993 as a closed joint stock company Neftebank. In February 2005 the Bank was reorganised into an open joint stock company. On moving its head office from Aktau to Almaty in May 2006, the Bank was re-registered. On 1 August 2007, the name of the Bank was changed to JSC Delta Bank and was re-registered at the Ministry of Justice of the Republic of Kazakhstan under #4270-1900-AO on 29 August 2007.

The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Agency (“the FMSA”) and the National Bank of the Republic of Kazakhstan (“the NBRK”).

The Bank operates under banking licence #213, dated 24 October 2007, from the FMSA. The principal activities of the Bank are deposit-taking and customer account maintenance, lending and issuing guarantees, cash and settlements operations with securities and foreign exchange.

The registered address of the Bank’s head office is located at 73A, Tolebi str, Almaty, Republic of Kazakhstan.

As at 31 December 2010, the Bank had 11 (2009: 9) branches operating in the Republic of Kazakhstan.

(b) Shareholders

As at 31 December 2010 and 2009, the following shareholders owned 5% or more of the issued shares of the Bank:

	31 December 2010 %	31 December 2009 %
Shareholder		
Shagizat Essenova	25.2	-
Galymzhan Essenov	-	27.2
Murat Medeuov	9.5	9.6
Ruslan Usmanov	9.2	5.7
Evgeniy Veretenov	9.0	-
Darkhan Kazibayev	8.5	-
Erbol Tymbayev	6.6	9.9
Dina Abdykalykova	5.8	8.6
Arsen Subbotin	-	8.8
Askar Brimzhanov	-	6.7
Dimash Sadykov	-	6.2
JSC SC of JSC Bank TuranAlem Pension Fund BTA Kazakhstan	-	6.2
	73.8	88.9
Shareholders owning less than 5%	26.2	11.1
	100.0	100.0

1 Background, continued

(c) Kazakhstan business environment

The Republic of Kazakhstan is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Republic of Kazakhstan involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and most of property, equipment and intangible assets are at revalued amounts.

(c) Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge ("KZT"). Management has determined the Bank's functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Bank. The KZT is also the Bank's presentation currency for the purposes of these financial statements.

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

(d) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 15 - Loans to customers,
- Note 18 – property, equipment and intangible assets revaluation estimates.

(e) Changes in accounting policy

In 2010 the Bank changed its accounting policy in regards to vehicles and started measure them at revalued amounts. Management believes that it better reflects the nature of the transactions.

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

(a) Foreign currency transactions

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

(b) Cash and cash equivalents

The Bank considers cash, nostro accounts and deposits with original maturities of less than three months to be cash and cash equivalents. The minimum reserve requirement is not considered to be a cash equivalent due to restrictions on its withdrawability.

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

- the Bank designates as available-for-sale; or
- meet the definition of loans and receivables.

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

(ii) Recognition

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

(iii) Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iv) Fair value measurement principles

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

(v) Gains and losses on subsequent measurement

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

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

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

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(viii) Offsetting

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

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land, buildings and vehicles which are stated at revalued amounts as described below.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Revaluation

Land and buildings of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in equity.

Amounts included in the revaluation reserve are transferred to retained earnings when a revalued asset is sold or as it is used.

(iii) Depreciation

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

Buildings	10 years
Computer equipment	3 years
Vehicles	7 years
Other	4 to 7 years

Leasehold improvements are amortised over the shorter of the life of the related leased asset or lease contract. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation.

(e) Intangible assets

Intangible assets, which are acquired by the Bank, are subject to revaluation on a regular basis. .

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Computer software	5 years
-------------------	---------

3 Significant accounting policies, continued

(f) Impairment

(i) *Financial assets carried at amortised cost*

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(f) Impairment, continued

(ii) *Financial assets carried at cost*

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

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

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

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

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

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

(iv) *Non financial assets*

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

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

(g) Credit related commitments

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

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

3 Significant accounting policies, continued

(g) Credit related commitments, continued

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

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction of equity, net of any tax effect.

(i) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(ii) Dividends

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

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

(i) Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences resulting from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

(j) Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

3 Significant accounting policies, continued

(j) Income and expense recognition, continued

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

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided. Dividend income is recognised in profit or loss on the date that the dividend is declared.

(k) Segment reporting

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

(l) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010 '000 KZT	2009 '000 KZT
Interest income		
Loans to customers	4,172,211	3,474,647
Held-to-maturity investments	152,656	186,860
Available-for-sale financial assets	125,467	84,199
Financial instruments at fair value through profit or loss	18,097	22,522
Placements with banks	180	1,043
Amounts receivable under reverse repurchase agreements	-	41,793
	4,468,611	3,811,064
Interest expense		
Current accounts and deposits from customers	1,071,591	967,710
Subordinated debt securities issued	183,244	255,167
Amounts payable under repurchase agreements	165,286	82,724
Loans from other financial institutions	14,123	8,865
Other	2,676	536
	1,436,920	1,315,002
	3,031,691	2,496,062

Included in various line items under interest income for the year ended 31 December 2010 is a total of KZT 167,970 thousand (2009: KZT 24,473 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2010 '000 KZT	2009 '000 KZT
Guarantee and letter of credit issuance	380,093	480,092
Cash operations	150,873	135,212
Transfer operations	102,567	90,518
Credit card and account maintenance	18,449	16,931
Cash collection	-	1,716
Other	37,212	29,795
	689,194	754,264

6 Fee and commission expense

	2010 '000 KZT	2009 '000 KZT
Transfer operations	13,568	13,904
Card services	13,031	11,606
Brokerage	2,742	3,827
Other	1,736	2,097
	31,077	31,434

7 Net foreign exchange income

	2010 '000 KZT	2009 '000 KZT
Gain on spot transactions	91,754	126,344
Gain/(loss) from revaluation of financial assets and liabilities	2,174	(115,600)
	93,928	10,744

8 Other expense

On 31 December 2010 the Bank's property and intangible assets were assessed by an independent appraisal company. A revaluation decrease of KZT 51, 613 thousand for property and equipment and KZT 6,160 thousand for intangible assets was recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity.

9 Impairment losses

	2010 '000 KZT	2009 '000 KZT
Loans to customers	1,709,187	1,408,659
Commitments	-	(398)
Other assets	16,008	15,675
	1,725,195	1,423,936

10 General administrative expenses

	2010 '000 KZT	2009 '000 KZT
Employee compensation	600,053	619,891
Payroll related taxes	57,209	58,618
Total employee costs	657,262	678,509
Rent	428,474	420,874
Depreciation and amortisation	141,226	153,327
Advertising and marketing	99,454	25,976
Taxes other than on income	88,396	75,271
Repairs and maintenance	69,910	42,134
Security	40,701	37,532
Communications and information services	39,905	47,828
Professional services	35,575	37,926
Insurance	22,918	31,226
Transportation	14,459	10,900
Membership fee	8,604	23,722
Travel expenses	8,012	7,251
Cash collection expenses	6,547	2,979
Representative expenses	3,099	2,400
Other	8,965	3,385
	1,673,507	1,601,243

11 Income tax expense

	2010 '000 KZT	2009 '000 KZT
Current tax expense		
Current year	59,052	21,784
	59,052	21,784
Deferred tax expense		
Origination and reversal of temporary differences	(5,142)	(20,285)
Total income tax expense	53,910	1,499

11 Income tax expense, continued

Reconciliation of effective tax rate:

	2010 '000 KZT	%	2009 '000 KZT	%
Profit before tax	182,038	100	81,141	100
Income tax at the applicable tax rate	36,408	20	16,228	20
Non-deductible costs/(non-taxable income)	17,502	9	(13,874)	(17)
Effect of change in tax rates	-	-	(855)	(1)
	53,910	29	1,499	2

Deferred tax assets and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities and assets as at 31 December 2010 and 2009, respectively. These deferred tax assets have been recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation.

The Bank's applicable tax rate in 2010 is the income tax rate of 20% for Kazakhstan companies (2009:20%). In 2009 the Government announced that the income tax rates for Kazakhstan companies were 20% in 2009-2012, 17.5% in 2013 and 15% in later years. These rates were used in the calculation of deferred tax assets and liabilities as at 31 December 2009. In November 2010 the Government cancelled the reduction and announced that the income tax rate will remain at 20%. The 20% tax rate has been used in the calculation of deferred tax assets and liabilities as at 31 December 2010.

Movement in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows:

'000 KZT	Balance 1 January 2010	Recognised in other comprehensive income	Recognised in profit or loss	Balance 31 December 2010
Loans to customers	10,284	-	(10,284)	-
Property, equipment and intangible assets	(9,265)	(17,297)	23,171	(3,391)
Other liabilities	7,428	-	(7,745)	(317)
	8,447	(17,297)	5,142	(3,708)

Movement in temporary differences during the year ended 31 December 2009:

'000 KZT	Balance 1 January 2009	Recognised in profit or loss	Balance 31 December 2009
Loans to customers	13,567	(3,283)	10,284
Property and equipment	(27,601)	18,336	(9,265)
Other assets	366	(366)	-
Other liabilities	1,830	5,598	7,428
	(11,838)	20,285	8,447

11 Income tax expense, continued

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December comprise the following:

	2010			2009		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
KZT'000						
Revaluation of property and equipment	86,452	(17,297)	69,155	-	-	-

12 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2010 '000 KZT	2009 '000 KZT
Cash on hand	184,946	419,581
Nostro account with the NBRK	1,176,318	2,930,734
Nostro account with other banks		
- rated below BB-	191,775	212,496
Total nostro account with other banks	191,775	212,496
Minimum reserve deposit	(523,917)	(274,941)
	1,029,122	3,287,870

No cash and cash equivalents are impaired or past due.

In placements with banks, as at 31 December 2010 the Bank has one bank (2009: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 is KZT 1,176,318 thousand (2009: KZT 2,930,734 thousand).

13 Placements with banks

	2010 '000 KZT	2009 '000 KZT
Mandatory reserve with the NBRK	523,917	274,941
Loans to local banks		
Rated BB- to BB+	33,720	102,853
Total loans and deposits	33,720	102,853
Net placements with banks	557,637	377,794

No placements with banks are impaired or past due.

Under Kazakhstan legislation, the Bank is required to maintain certain obligatory minimum reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either correspondent accounts with the NBRK or in physical cash, and maintained based on average monthly balances of the aggregate of deposits with the NBRK and physical cash. The use of such funds is, therefore, subject to certain restrictions and excluded from cash and cash equivalents.

14 Financial instruments at fair value through profit or loss

	2010 '000 KZT	2009 '000 KZT
<i>Held by the Bank assets</i>		
Debt and other fixed-income instruments		
Government bonds		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	160,312	48,561
Total government bonds	160,312	48,561
Corporate bonds		
JSC Glotur	-	213,194
JSC Corporation Ordabasy	-	1,358
Total corporate bonds	-	214,552
Equity instruments		
JSC Kazakhtelecom	27,849	50,058
Total equity instruments	27,849	50,058
	188,161	313,171
<i>Pledged under sale and repurchase agreements</i>		
Debt and other fixed-income instruments		
Government bonds		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	-	81,671
Total government bonds	-	81,671

No financial instruments at fair value at profit or loss are past due.

15 Loans to customers

	2010 '000 KZT	2009 '000 KZT
Loans to legal entities		
Loans to large corporates	33,563,030	14,759,138
Loans to small and medium size companies	3,889,521	3,992,200
Total loans to legal entities	37,452,551	18,751,338
Loans to individuals		
Consumer loans	3,797,206	1,674,904
Mortgage loans	462,523	1,006,550
Auto loans	66,991	136,631
Credit cards	4,196	21,636
JSC Damu program	162,392	-
Other	48,374	-
Total loans to individuals	4,541,682	2,839,721
Total loans to customers	41,994,233	21,591,059
Impairment allowance	(837,834)	(999,637)
Net loans to customers	41,156,399	20,591,422

15 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

	Loans to legal entities '000 KZT	Loans to individuals '000 KZT	Total '000 KZT
Balance at the beginning of the year	711,922	287,715	999,637
Net charge	1,178,101	531,086	1,709,187
Write-offs	(1,239,661)	(631,329)	(1,870,990)
Balance at the end of the year	650,362	187,472	837,834

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2009 are as follows:

	Loans to legal entities '000 KZT	Loans to individuals '000 KZT	Total '000 KZT
Balance at the beginning of the year	173,063	354,521	527,584
Net charge	934,271	474,388	1,408,659
Write-offs	(395,412)	(541,194)	(936,606)
Balance at the end of the year	711,922	287,715	999,637

15 Loans to customers, continued

(a) Credit quality of the loans to legal entities portfolio

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2010:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	29,585,945	(79,835)	29,506,110	0.3
Impaired loans:				
-not overdue	3,977,085	(397,445)	3,579,640	10.0
Total impaired loans	3,977,085	(397,445)	3,579,640	10.0
Total loans to large corporate clients	33,563,030	(477,280)	33,085,750	1.4
Loans to small and medium size companies				
Loans without individual signs of impairment	3,208,347	(8,657)	3,199,689	0.3
Impaired loans:				
-not overdue	530,196	(121,046)	409,150	22.8
-overdue with less than 90 days	150,978	(43,379)	107,599	28.7
Total impaired loans	681,174	(164,425)	516,749	24.1
Total loans to small and medium size companies	3,889,521	(173,082)	3,716,439	4.4
Total loans to legal entities	37,452,551	(650,362)	36,802,189	1.7

15 Loans to customers, continued

(a) Credit quality of the loans to legal entities portfolio, continued

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2009:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans to large corporate				
Loans without individual signs of impairment	14,759,138	-	14,759,138	-
Total loans to large corporate clients	14,759,138	-	14,759,138	-
Loans to small and medium size companies				
Loans without individual signs of impairment	2,843,849	-	2,843,849	-
Impaired loans:				
- overdue more than 90 days and less than 1 year	1,148,351	(711,922)	436,429	62.00
Total impaired loans	1,148,351	(711,922)	436,429	62.00
Total loans to small and medium size companies	3,992,200	(711,922)	3,280,278	17.83
Total loans to legal entities	18,751,338	(711,922)	18,039,416	3.80

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets.

The Bank estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management made the following key assumptions:

- historic annual loss rate of 1.74% applied to loans without individual signs of impairment adjusted for newly issued loans and loans repaid subsequently to the reporting date;
- a discount of between 30% and 50% to the annually appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

During the year ended 31 December 2010 the Bank renegotiated loans to legal entities that would otherwise be past due or impaired of KZT 396,980 thousand (2009: KZT 1,241,027 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

15 Loans to customers, continued

(a) Credit quality of the loans to legal entities portfolio, continued

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to corporate customers as at 31 December 2010 would be KZT 368,022 thousand higher/lower (2009: KZT 180,394 thousand).

(i) Analysis of collateral

The following table provides the analysis of the loans to legal entities portfolio, net of impairment, by types of collateral as at 31 December 2010 and 2009:

	31 December 2010	% of loan portfolio	31 December 2009	% of loan portfolio
	'000 KZT		'000 KZT	
Inventories	16,394,509	44.5	8,145,541	45.2
Real estate	6,064,699	16.5	4,182,494	23.2
No collateral	1,315,600	3.6	2,501,910	13.9
Motor vehicles	613,708	1.7	678,305	3.8
Deposits	293,891	0.8	671,907	3.7
Guarantees	107,598	0.3	348,097	1.9
Future contract revenues	11,853,877	32.2	-	-
Right for extraction	-	0.0	300,634	1.7
Other collateral	158,307	0.4	1,210,528	6.7
Total	36,802,189	100.0	18,039,416	100.0

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Impaired or overdue loans to corporate customers with a gross value of KZT 530,196 thousand (2009: KZT 795,384 thousand) are secured by collateral with a fair value of KZT 231,991 thousand. For the remaining impaired loans of KZT 1,186,355 thousand (2009: KZT 352,967 thousand), there is no collateral or it is impracticable to determine the fair value of collateral.

(ii) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of the loans to legal entities for the year ended 31 December 2010 were as follows:

	Loans to large corporate clients	Loans to small and medium size companies	Total
	'000 KZT	'000 KZT	'000 KZT
Balance at the beginning of the year	-	711,922	711,922
Net charge	1,233,280	(55,179)	1,178,101
Write-offs	(756,000)	(483,661)	(1,239,661)
Balance at the end of the year	477,280	173,082	650,362

15 Loans to customers, continued

(a) Credit quality of the loans to legal entities portfolio, continued

(ii) Analysis of movements in the impairment allowance, continued

Movements in the loan impairment allowance by classes of the loans to legal entities for the year ended 31 December 2009 were as follows:

	Loans to large corporate clients '000 KZT	Loans to small and medium size companies '000 KZT	Total '000 KZT
Loan impairment allowance as at 1 January	141,514	31,549	173,063
Net charge for the year	253,898	680,373	934,271
Write-offs	(395,412)	-	(395,412)
Balance at the end of the year	-	711,922	711,922

(b) Credit quality of loans to individuals

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

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans, %
Consumer loans				
- Not past due	3,238,407	(43,384)	3,195,023	1.3
- Overdue less than 30 days	381,839	(192)	381,647	0.1
- Overdue 30-89 days	134,240	(32,390)	101,850	24.1
- Overdue 90-179 days	15,062	(15,062)	-	100.0
- Overdue 180-360 days	1,939	(1,902)	37	98.1
- overdue more than 360 days	25,719	(25,719)	-	100.0
Total consumer loans	3,797,206	(118,649)	3,678,557	3.1
Mortgage loans				
- Not past due	388,415	(3,114)	385,301	0.8
- Overdue less than 30 days	12,945	-	12,945	0.0
- Overdue 30-89 days	13,108	(5,579)	7,529	42.6
- Overdue 90-179 days	28,127	(25,138)	2,989	89.4
- Overdue 180-360 days	19,928	(19,928)	-	100.0
Total mortgage loans	462,523	(53,759)	408,764	11.6
Auto loans				
- Not past due	50,634	(408)	50,226	0.8
- Overdue less than 30 days	2,334	-	2,334	-
- Overdue 30-89 days	2,139	(1,088)	1,051	50.8
- Overdue 90-179 days	2,274	(2,234)	40	98.2
- Overdue 180-360 days	9,610	(9,610)	-	100.0
Total auto loans	66,991	(13,340)	53,651	19.9
Credit cards				
- Not past due	4,196	(34)	4,162	0.8
Total credit card	4,196	(34)	4,162	0.8
JSC Damu program loans				
- not overdue	162,392	(1,302)	161,090	0.8
Total Damu program loans	162,392	(1,302)	161,090	0.8
Other loans to retail customers				
- not overdue	48,374	(388)	47,986	0.8
Total other loans to retail customers	48,374	(388)	47,986	0.8
Total loans to individuals	4,541,682	(187,472)	4,354,210	4.1

15 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

The following table provides information on the credit quality of loans to individuals as at 31 December 2009:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans, %
Consumer loans				
- Not past due	1,356,768	(43)	1,356,725	-
- Overdue less than 30 days	10,176	(205)	9,971	2.01
- Overdue 30-89 days	99,465	(43,919)	55,546	44.16
- Overdue 90-179 days	187,760	(96,825)	90,935	51.57
- Overdue 180-360 days	20,735	(20,128)	607	97.07
Total consumer loans	1,674,904	(161,120)	1,513,784	9.62
Mortgage loans				
- Not past due	865,815	-	865,815	0.00
- Overdue less than 30 days	41,273	(1,156)	40,117	2.80
- Overdue 30-89 days	6,514	(1,585)	4,929	24.33
- Overdue 90-179 days	64,229	(60,947)	3,282	94.89
- Overdue 180-360 days	28,719	(28,719)	-	100.00
Total mortgage loans	1,006,550	(92,407)	914,143	9.18
Auto loans				
- Not past due	90,197	-	90,197	0.00
- Overdue less than 30 days	7,845	(120)	7,725	1.53
- Overdue 30-89 days	15,692	(11,291)	4,401	71.95
- Overdue 180-360 days	22,897	(22,762)	135	99.41
Total auto loans	136,631	(34,173)	102,458	25.01
Credit cards				
- Not past due	21,617	-	21,617	0.00
- Overdue 180-360 days	19	(15)	4	78.95
Total credit card	21,636	(15)	21,621	0.07
Total loans to individuals	2,839,721	(287,715)	2,552,006	10.13

The Bank estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the impairment losses for loans to individuals include: loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment on loans to individuals as of 31 December 2010 would be KZT 130,626 thousand lower/higher (31 December 2009: KZT 76,560 thousand).

As at 31 December 2010 included in the loan portfolio are restructured loans to individuals of KZT 117,743 thousand (31 December 2009: KZT 118,718 thousand).

15 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

(i) *Analysis of collateral*

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and consumer loans are mostly not secured.

(ii) *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2010 were as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Total
Balance at the beginning of the year	161,120	34,173	15	92,407	287,715
Write offs	(166,095)	(7,609)	-	(457,625)	(631,329)
Net charge	125,314	(13,224)	19	418,977	531,086
Balance at the end of the year	120,339	13,340	34	53,759	187,472

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2009 were as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Total
Balance at the beginning of the year	282,015	12,428	377	59,701	354,521
Write offs	(421,666)	(37,791)	(362)	(81,375)	(541,194)
Net charge	300,771	59,536	-	114,081	474,388
Balance at the end of the year	161,120	34,173	15	92,407	287,715

15 Loans to customers, continued

(c) Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	2010 '000 KZT	2009 '000 KZT
Agriculture, forestry and timber	17,451,218	7,610,418
Trade	5,490,634	1,467,350
Manufacturing	3,686,525	4,567,113
Construction	2,898,125	655,014
Energy	2,425,935	590,334
Finance	2,001,000	119,290
Mining/metallurgy	1,736,091	2,697,598
Services	1,236,804	-
Transport services	638,974	130,287
Real estate	65,030	907,200
Hotels & restaurants	1,754	-
Other	37,386	6,734
Loans to individuals	4,324,757	2,839,721
	41,994,233	21,591,059
Impairment allowance	(837,834)	(999,637)
Total	41,156,399	20,591,422

(d) Significant credit exposures

As at 31 December 2010 the Group has 15 borrowers or groups of connected borrowers (2009: 11), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2010 is KZT 24,523,533 thousand (2009: KZT 14,176,549 thousand).

16 Available-for-sale financial assets

	2010 '000 KZT	2009 '000 KZT
<i>Held by the Bank</i>		
Debt and other fixed-income instruments		
- Government bonds		
Notes of the NBRK	299,548	484,346
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	3,881,816	302,160
Total government instruments	4,181,364	786,506
- Corporate bonds		
Rated below B+		
JSC Halyk Savings Bank of Kazakhstan	-	59,019
JSC Kazakhstan Mortgage Company	28,134	30,050
JSC Kazcat	3	23,745
Total corporate bonds	28,137	112,814
Equity investments (stated at cost)		
- Corporate shares		
JSC CNPC-Aktobemunaigas	11,500	11,425
JSC Kazakhstan Stock Exchange	2,200	2,200
Total corporate bonds	13,700	13,625
	4,223,201	912,945
<i>Pledged under sale and repurchase agreements</i>		
- Government bonds		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	1,439,948	277,946
Notes of the NBRK	-	138,317
Total pledged under sale and repurchase agreement	1,439,948	416,263

Unquoted equity securities

Available-for-sale investments stated at cost comprise unquoted equity securities in JSC CNPC-Aktobemunaigas and JSC Kazakhstan Stock Exchange. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

17 Held-to-maturity investments

	2010 '000 KZT	2009 '000 KZT
Debt and other fixed-income instruments		
- Government instruments		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	535,101	176,084
Notes of the NBRK	298,975	-
Total government instruments	834,076	176,084
- Corporate bonds		
JSC Halyk Savings Bank of Kazakhstan	132,999	69,331
JSC BankCenterCredit	118,224	36,666
Total corporate bonds	251,223	105,997
	1,085,299	282,081
 <i>Pledged under sale and repurchase agreements</i>		
Debt and other fixed-income instruments		
- Government bonds		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	1,597,917	2,799,951
Notes of the NBRK	-	523,328
Total government bonds	1,597,917	3,323,279
- Corporate bonds		
JSC Bank CenterCredit	-	81,838
JSC Halyk Savings Bank of Kazakhstan	-	63,879
Total corporate bonds	-	145,717
	1,597,917	3,468,996

18 Property, equipment and intangible assets

'000 KZT	Land and buildings	Computer equipment	Leaschold improvements	Vehicles	Other	Computer software	Total
<i>Cost</i>							
At 1 January 2010	333,776	139,689	80,125	62,259	247,183	162,023	1,025,055
Additions	7,540	13,637	23,086	1,294	13,011	12,439	71,007
Disposals	-	(7,025)	(73,664)	(13,555)	(6,895)	(17,919)	(119,058)
Revaluation	70,609	-	-	12,541	-	38,129	121,279
Impairment	(86,441)	-	-	-	-	(6,162)	(92,603)
Offset of accumulated depreciation on revaluation	(61,391)	-	-	(23,958)	-	(105,996)	(191,345)
Reclassifications	823	-	-	-	(823)	-	-
At 31 December 2010	264,916	146,301	29,547	38,581	252,476	82,514	814,335
<i>Depreciation and amortisation</i>							
At 1 January 2010	32,824	100,320	71,154	26,493	88,051	100,774	419,616
Depreciation and amortisation charge	28,349	35,793	8,999	8,972	35,972	23,141	141,226
Disposals	-	(7,022)	(73,664)	(11,507)	(3,568)	(17,919)	(113,680)
Offset of accumulated depreciation on revaluation	(61,391)	-	-	(23,958)	-	(105,996)	(191,345)
Reclassifications	218	-	-	-	(218)	-	-
At 31 December 2010	-	129,091	6,489	-	120,238	-	255,817
<i>Carrying value</i>							
At 31 December 2010	264,916	17,210	23,058	38,581	132,239	82,514	558,518

18 Property, equipment and intangible assets, continued

'000 KZT	Land and buildings	Computer equipment	Leaschold improvements	Vehicles	Other	Computer software	Total
<i>Cost</i>							
At 1 January 2009	355,190	149,819	83,998	62,530	272,313	157,950	1,081,800
Additions	333	614	-	8,286	2,572	4,073	15,878
Disposals	(21,747)	(10,744)	(3,873)	(8,557)	(27,702)	-	(72,623)
At 31 December 2009	333,776	139,689	80,125	62,259	247,183	162,023	1,025,055
<i>Depreciation and amortisation</i>							
At 1 January 2009	27,648	77,886	13,078	21,714	80,302	78,084	298,712
Depreciation and amortisation charge	7,386	30,872	59,618	9,244	23,517	22,690	153,327
Disposals	(2,210)	(8,438)	(1,542)	(4,465)	(15,768)	-	(32,423)
At 31 December 2009	32,824	100,320	71,154	26,493	88,051	100,774	419,616
<i>Carrying value</i>							
At 31 December 2009	300,952	39,369	8,971	35,766	159,132	61,249	605,439

18 Property, equipment and intangible assets, continued

Revalued assets

At 31 December 2010 land, buildings, vehicles and computer software are revalued based on the results of an independent appraisal performed by American Appraisal LLC.

The basis used for the appraisals was market and income capitalisation approach.

The market approach is based upon an analysis of the results of comparable sales of similar buildings.

The following key assumptions are used in applying the income capitalisation approach:

- Rental rates per square meter are USD 120-264, depending on the location and class
- Occupancy rate is 95%
- Operating expenses are in the range of 10%-20% of revenue from rent
- Capitalisation rate is in the range from 10% to 16%.

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information.

Changes in the estimates above could affect the value of the buildings and land. For example, to the extent that the capitalisation rate differs by plus (minus) two percent, the buildings and land valuation as at 31 December 2010 would be KZT 25,075 thousand lower (KZT 35,843 thousand higher).

As at 31 December 2009, land and buildings were revalued based on the results of an independent appraisal performed by Rice Group Central Asia. The basis used for the appraisals was market approach. The market approach was based upon an analysis of the results of comparable sales of similar buildings and land.

The carrying amount of land and buildings as of 31 December 2010, if the land and buildings would not have been revalued, would be KZT 280,749 thousand, vehicles - KZT 26,040 thousand and computer software - KZT 50,548 thousand.

19 Other assets

	2010 '000 KZT	2009 '000 KZT
Settlements with market maker	8,578	7,960
Other accounts receivable	4,674	38,647
Other	2,025	30,503
Impairment allowance	(3,324)	(7,748)
Total other financial assets	11,953	69,362
Prepayments	37,988	25,758
Materials and supplies	8,101	4,814
Prepayment of tax other than income tax	3,096	8,238
Impairment allowance	-	(2,883)
Total other non-financial assets	49,185	35,927
	61,138	105,289

19 Other assets, continued

Analysis of movements in the impairment allowance

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

	2010 <u>'000 KZT</u>	2009 <u>'000 KZT</u>
Balance at the beginning of the year	10,631	9,133
Net charge (recovery)	16,008	15,675
Write-offs	(23,315)	(14,177)
Balance at the end of the year	3,324	10,631

As at 31 December 2010, included in other assets are overdue receivables of KZT 3,324 thousand (31 December 2009: KZT 10,631 thousand) for more than 90 days but less than one year.

20 Loans from other financial institutions

	2010 <u>'000 KZT</u>	2009 <u>'000 KZT</u>
Term deposits	2,150,378	-

As at 31 December 2010 the Bank has one lender (2009: nil), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2010 is KZT 1,643,938 thousand (2009: nil).

21 Amounts payable under repurchase agreements

Securities pledged

As of 31 December 2010 and 2009, the Bank had pledged certain securities as collateral under repurchase agreements (refer to Notes 13, 16 and 17).

22 Current accounts and deposits from customers

	2010 <u>'000 KZT</u>	2009 <u>'000 KZT</u>
Current accounts and demand deposits		
- Retail	1,660,689	1,755,139
- Corporate	7,173,861	8,344,412
Term deposits		
- Retail	3,745,451	2,549,018
- Corporate	21,256,633	5,085,615
	33,836,634	17,734,184

(a) Blocked accounts

As at 31 December 2010, the Bank maintained customer deposit balances of KZT 153,238 thousand (2009: KZT 72,643 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(b) Concentrations of current accounts and customer deposits

As of 31 December 2010 and 2009, the Bank had 7 and 6 customers, respectively, whose balances exceeded 10% of total equity. These balances as of 31 December 2010 and 2009 were KZT 20,664,794 thousand and KZT 9,750,155 thousand, respectively.

23 Subordinated debt securities issued

	2010 '000 KZT	2009 '000 KZT
Par value	1,320,146	1,955,090
Discount	(35,513)	(56,136)
Accrued interest	29,672	44,951
	1,314,305	1,943,905

As at 31 December 2010 and 2009, subordinated debt securities comprise unsecured obligations of the Bank maturing in September 2012 and carry an annual interest rate 8.9%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

24 Other liabilities

	2010 '000 KZT	2009 '000 KZT
Accounts payable on government loans	62,847	-
Other	12,150	26,554
Total other financial liabilities	74,997	26,554
Vacation reserve	22,413	13,923
Taxes payable other than income tax	21,077	51,601
Payables to employees	236	482
Other	671	9,839
Total other non-financial liabilities	44,397	75,845
Total other liabilities	119,394	102,399

25 Equity

(a) Issued capital

Issued and outstanding share capital as at 31 December comprised of the following fully paid ordinary shares:

	2010 Shares	2009 Shares
Issued at KZT 3.1 per share	1,027,898	1,491,878
Issued at KZT 1.5 per share	3,000,000	-
Total issued and outstanding share capital	4,027,898	1,491,878
Change in unpaid share capital (ordinary shares)	(32,910)	(45,019)
Increase in share capital	3,994,988	1,446,859

During the year ended 31 December 2010 the Bank issued 2,331,580 ordinary shares for KZT 4,027,898. As at 31 December 2010 and 2009 the authorised share capital comprises 10,000,000 ordinary shares (5,000,000 ordinary shares in 2009). The issued and outstanding share capital comprises 7,000,000 ordinary shares (2009: 4,668,420). The shares do not have par value. During 2010 2,000,000 ordinary shares (2009: 481,251) were issued at KZT 1,500 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

In accordance with Kazakhstan legislation the Bank's distributable reserves are limited to the balance of retained earnings as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. As at 31 December 2010 the Bank had retained earnings, including the profit for the current year, of KZT 187,494 thousand (2009: KZT 92,359 thousand).

26 Risk management

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

(a) Risk management policies and procedures

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

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

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

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of various committees.

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

(b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). Market risk limits are approved by ALCO based on recommendations of the Risk Department.

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

26 Risk management, continued

(b) Market risk, continued

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

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

Interest rate gap analysis

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

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Financial instruments at fair value through profit or loss	-	-	-	160,312	-	160,312
Available-for-sale financial assets	1,726,903	795,949	689,442	2,437,155	-	5,649,449
Loans to customers	23,588,369	8,328,544	2,697,929	4,067,898	2,473,659	41,156,399
Held-to-maturity investments	-	251,223	-	2,133,018	-	2,384,241
	25,614,247	9,375,716	3,387,371	8,798,383	2,473,659	49,649,376
LIABILITIES						
Deposits and balances from banks	1,643,952	-	-	263,991	242,435	2,150,378
Current accounts and deposits from customers	10,321,164	8,270,600	1,510,695	7,019,204	18,322	27,139,985
Amounts payable under repurchase agreement	2,846,005	-	-	-	-	2,846,005
Subordinated borrowings	1,314,305	-	-	-	-	1,314,305
	16,125,426	8,270,600	1,510,695	7,283,195	260,757	33,450,673
	9,488,821	1,105,116	1,876,676	1,515,188	2,212,901	16,198,703

26 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

31 December 2009

ASSETS

Financial instruments at fair value through profit or loss

Available-for-sale financial assets

Loans to customers

Held-to-maturity investments

LIABILITIES

Current accounts and deposits from customers

Amounts payable under repurchase agreement

Subordinated borrowings

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
	-	214,552	3	152,574	-	367,129
	834,323	-	-	483,385	-	1,317,708
	10,066,785	1,440,253	2,160,379	4,388,947	2,535,058	20,591,422
	258,004	450,254	-	2,108,481	-	2,816,739
	11,159,112	2,105,059	2,160,382	7,133,387	2,535,058	25,092,998
	7,488,961	109,559	435,465	2,319,713	32,597	10,386,295
	3,378,221	-	-	-	-	3,378,221
	1,943,905	-	-	-	-	1,943,905
	12,811,087	109,559	435,465	2,319,713	32,597	15,708,421
	(1,651,975)	1,995,500	1,724,917	4,813,674	2,502,461	9,384,577

26 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2010			2009		
	Average effective interest rate, %			Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Financial instruments at fair value through profit or loss	8.2%	-	-	8.3%	-	-
Available-for-sale financial assets	3.1%	-	-	4.3%	-	-
Loans to customers	16.9%	11.9%	17.5%	17.4%	11.3%	16.4%
Held-to-maturity investments	5.3%	-	-	5.4%	-	-
Interest bearing liabilities						
Amounts payable under repurchase agreements	0.5%	-	-	2.1%	-	-
Deposits and balances from banks						
- Term deposits	9.6%	-	-	-	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.65%	-	-	-	-	-
- Term deposits	8.8%	6.9%	8.8%	7.4%	5.1%	8.1%
Subordinated borrowings	10.6%	-	-	10.7%	-	-

26 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	31 December 2010		31 December 2009	
	Profit or loss '000 KZT	Equity '000 KZT	Profit or loss '000 KZT	Equity '000 KZT
100 bp parallel increase	56,161	56,161	1,864	1,864
100 bp parallel decrease	(56,161)	(56,161)	(1,864)	(1,864)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2010		31 December 2009	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	(3,748)	(68,882)	(17,438)	(28,630)
100 bp parallel decrease	4,026	71,259	18,094	24,875

26 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

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

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

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

	KZT '000 KZT	USD '000 KZT	Euro '000 KZT	Others '000 KZT	Total '000 KZT
Assets					
Cash and cash equivalent	811,072	141,370	71,850	4,830	1,029,122
Placements with banks	523,917	33,720	-	-	557,637
Financial instruments at fair value through profit or loss	188,161	-	-	-	188,161
Available-for-sale assets	5,663,149	-	-	-	5,663,149
Loans to customers	39,210,808	1,709,335	236,256	-	41,156,399
Held-to-maturity investments	2,683,216	-	-	-	2,683,216
Other financial assets	11,953	-	-	-	11,953
Total assets	49,092,275	1,884,425	308,106	4,830	51,289,637
Liabilities					
Loans from other financial institutions	2,150,378	-	-	-	2,150,378
Amounts payable under repurchase agreements	2,846,066	-	-	-	2,846,066
Current accounts and deposits from customers	31,658,557	1,866,905	310,089	1,083	33,836,634
Subordinated debt securities issued	1,314,305	-	-	-	1,314,305
Other financial liabilities	74,997	-	-	-	74,997
Total liabilities	38,044,303	1,866,905	310,089	1,083	40,222,380
Net position as at 31 December 2010	11,047,972	17,520	(1,983)	3,747	11,067,257

26 Risk management, continued

(b) Market risk, continued

(iii) Currency risk

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2009:

	KZT '000 KZT	USD '000 KZT	Euro '000 KZT	Others '000 KZT	Total '000 KZT
Assets					
Cash and cash equivalents	2,984,176	221,259	72,854	9,581	3,287,870
Placements with banks	274,941	102,853	-	-	377,794
Financial instruments at fair value through profit or loss	394,842	-	-	-	394,842
Available-for-sale assets	1,329,208	-	-	-	1,329,208
Loans to customers	18,620,752	1,519,336	451,334	-	20,591,422
Held-to-maturity investments	3,751,077	-	-	-	3,751,077
Other financial assets	58,981	7,498	-	-	66,479
Total assets	27,413,977	1,850,946	524,188	9,581	29,798,692
Liabilities					
Amounts payable under repurchase agreements	3,378,221	-	-	-	3,378,221
Current accounts and deposits from customers	15,413,908	1,817,682	501,896	698	17,734,184
Subordinated debt securities issued	1,943,905	-	-	-	1,943,905
Other financial liabilities	23,535	1,924	1,095	-	26,554
Total liabilities	20,759,569	1,819,606	502,991	698	23,082,864
Net position as at 31 December 2009	6,654,408	31,340	21,197	8,883	6,715,828

26 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

A strengthening of the KZT, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		2009	
	Profit or loss '000 KZT	Equity '000 KZT	Profit or loss '000 KZT	Equity '000 KZT
10% appreciation of USD against KZT	1,402	1,402	2,507	2,507
10% appreciation of EUR against KZT	(159)	(159)	1,696	1,696

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 5% change in all securities prices is as follows:

	2010		2009	
	Profit or loss '000 KZT	Equity '000 KZT	Profit or loss '000 KZT	Equity '000 KZT
5% increase in securities prices	1,662	1,662	2,503	3,184
5% decrease in securities prices	(1,662)	(1,662)	(2,503)	(3,184)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Management Board.

The Bank's credit policy establishes:

- procedures for review and approval of loan/credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures;
- procedures for collections of non-performing loans.

26 Risk management, continued

(c) Credit risk, continued

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Bank's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

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

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 15 Loans to customers.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

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

	2010	2009
	'000 KZT	'000 KZT
ASSETS		
Cash and cash equivalents	844,176	2,868,289
Placements with banks	557,637	377,794
Financial instruments at fair value through profit or loss	188,161	394,842
Loans to customers	41,156,399	20,591,422
Available-for-sale financial assets	5,649,449	1,315,583
Held-to-maturity investments	2,683,216	3,751,077
Other financial assets	11,953	66,479
Total maximum exposure	51,090,991	29,365,486

The maximum exposure to off balance sheet credit risk at the reporting date is presented in Note 28.

26 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

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

The liquidity management policy of the Bank requires:

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

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the FMSA. The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

26 Risk management, continued

(d) Liquidity risk, continued

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

'000 KZT	Demand and less than					Total gross amount	Carrying amount
	1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year		
Liabilities							
Deposits and balances from banks	16	1,643,970	48	96	705,180	2,349,309	2,150,378
Amounts payable under repurchase agreements	2,846,387	-	-	-	-	2,846,387	2,846,387
Current accounts and deposits from customers	14,290,200	2,423,617	9,115,813	1,854,650	8,693,966	36,378,245	33,836,634
Subordinated debt securities issued	9,571	19,142	28,713	57,426	1,402,359	1,517,211	1,314,305
Other financial liabilities	-	-	-	74,997	-	74,997	74,997
Total liabilities	17,146,174	4,086,729	9,144,574	1,987,169	10,801,504	43,166,150	40,244,361
Credit related commitments	3,861,010	-	-	-	-	3,861,010	3,861,010

The position of the Bank as at 31 December 2009 was as follows:

'000 KZT	Demand and less than					Total gross amount	Carrying amount
	1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year		
Liabilities							
Amounts payable under repurchase agreements	3,380,683	-	-	-	-	3,380,683	3,378,221
Current accounts and deposits from customers	13,150,398	1,053,471	3,177,881	441,800	3,182,820	21,006,370	17,734,184
Subordinated debt securities issued	-	87,002	-	87,002	2,257,808	2,431,812	1,943,905
Other financial liabilities	-	-	26,554	-	-	26,554	26,554
Total liabilities	16,531,081	1,140,473	3,204,435	528,802	5,440,628	26,845,419	23,082,864
Credit related commitments	11,361,531	-	-	-	-	11,361,531	11,361,531

26 Risk management, continued

(d) Liquidity risk, continued

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Kazakhstan legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Accordingly, these deposits, excluding accrued interest, are shown in the table above in the category of "Demand and less than 1 month". In accordance with Kazakhstan legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

- less than 3 months: KZT 198,654 thousand (2009: KZT 756,218 thousand);
- from 3 to 6 months: KZT 456,755 thousand (2009: KZT 109,302 thousand);
- from 6 to 12 months: KZT 383,171 thousand (2009: KZT 314,943 thousand);
- more than 1 year: KZT 2,706,871 thousand (2009: KZT 1,368,555 thousand).

26 Risk management, continued

(d) Liquidity risk, continued

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

'000 KZT	Demand and less than 1 month					From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
	From 1 to 3 months	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years							
Assets												
Cash and cash equivalents		1,029,122	-	-	-	-	-	-	-	-	-	1,029,122
Placements with banks		-	-	557,637	-	-	-	-	-	-	-	557,637
Financial instruments at fair value through profit or loss		-	-	-	160,313	-	-	-	27,848	-	-	188,161
Available-for-sale financial assets		-	1,726,902	1,485,391	2,437,156	-	-	-	13,700	-	-	5,663,149
Loans to customers	12,036,088	11,116,212	11,026,474	4,067,898	2,473,659	-	-	-	-	436,068	-	41,156,399
Held-to-maturity investments	-	298,975	-	2,164,403	219,838	-	-	-	-	-	-	2,683,216
Property, equipment and intangible assets	-	-	-	-	-	-	-	-	558,518	-	-	558,518
Other assets	-	-	-	53,037	-	-	-	-	8,101	-	-	61,138
Total assets	13,065,210	13,142,089	13,122,539	8,829,770	2,693,497	608,167	436,068	51,897,340				
Liabilities												
Deposits and balances from banks	-	1,643,952	-	263,991	242,435	-	-	-	-	-	-	2,150,378
Amounts payable under repurchase agreements	2,846,066	-	-	-	-	-	-	-	-	-	-	2,846,066
Current accounts and deposits from customers	14,282,100	2,735,713	9,781,295	7,019,204	18,322	-	-	-	-	-	-	33,836,634
Subordinated borrowings	-	-	-	1,314,305	-	-	-	-	-	-	-	1,314,305
Deferred tax liability	-	-	3,708	-	-	-	-	-	-	-	-	3,708
Current tax liability	-	-	22,524	-	-	-	-	-	-	-	-	22,524
Other liabilities	-	-	119,394	-	-	-	-	-	-	-	-	119,394
Total liabilities	17,128,166	4,379,665	9,926,921	8,597,500	260,757	608,167	436,068	40,293,009				
Net position	(4,062,956)	8,762,424	3,195,618	232,270	2,432,740	608,167	436,068	11,604,331				

26 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2009:

'000 KZT	Demand and less than 1 month					From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity							
Assets												
Cash and cash equivalents	3,287,870	-	-	-	-	-	-	-	-	-	-	3,287,870
Placements with banks	-	-	-	377,794	-	-	-	-	-	-	-	377,794
Financial instruments at fair value through profit or loss	3,625	7,911	283	11,821	321,144	50,058	394,842					
Available-for-sale financial assets	135,343	544,116	29,141	247,487	359,497	13,625	1,329,208					
Loans to customers	4,919,094	5,147,691	3,600,632	4,388,947	1,880,977	-	20,591,422					
Held-to-maturity investments	-	717,366	592,557	976,462	1,464,693	-	654,081					3,751,077
Deferred tax asset	-	-	8,447	-	-	-	-					8,447
Property, equipment and intangible assets	-	-	-	-	-	605,439	-					605,439
Other assets	-	-	105,289	-	-	-	-					105,289
Total assets	8,345,932	6,417,084	4,714,143	5,624,717	4,026,310	669,122	654,081	654,081	30,451,388			
Liabilities												
Amounts payable under repurchase agreement	3,378,221	-	-	-	-	-	-					3,378,221
Current accounts and deposits from customers	11,101,946	889,371	3,055,839	1,074,811	1,612,217	-	17,734,184					1,934,905
Subordinated borrowings	-	1,934,905	-	-	-	-	-					3,190
Current tax payable	-	-	3,190	-	-	-	-					102,399
Other liabilities	-	-	97,585	-	-	4,814	-					-
Total liabilities	14,480,167	2,833,276	3,156,614	1,074,811	1,612,217	4,814	23,161,899					
Net position	(6,134,235)	3,583,808	1,557,528	4,549,905	2,414,093	664,308	654,081	654,081	7,289,489			

26 Risk management, continued

(d) Liquidity risk, continued

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the NBRK.

The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009. The following table shows the mandatory liquidity ratios calculated as at 31 December 2010 and 2009.

	Requirement	2010, %	2009, %
Current liquidity ratio (k4), unaudited	Not less than 30%	74	45
Quick liquidity ratio (k4-1), unaudited	Not less than 100%	314	207
Quick liquidity ratio (k4-2), unaudited	Not less than 90%	426	182
Quick liquidity ratio (k4-3), unaudited	Not less than 80%	293	182
Quick liquidity ratio (k4-4), unaudited	Not less than 100%	11,084	35,661
Quick liquidity ratio (k4-5), unaudited	Not less than 90%	2,103	464
Quick liquidity ratio (k4-6), unaudited	Not less than 80%	703	285

27 Capital management

The FMSA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions and consists of

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds, retained earnings, translation reserve and non-controlling interest after deduction for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains/losses on financial instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of perpetual bonds cannot exceed 15% of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of tier 1 capital; collective impairment allowance cannot exceed 1.25% of risk-weighted assets.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specific requirements that seek to reflect the varying level of risk attached to assets and exposures not recognised in the unconsolidated balance sheet. The risk weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

27 Capital management, continued

Under the current capital requirements set by the FMSA banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital which is sum of tier 1 and tier 2 capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2010, this minimum level of tier 1 capital to total assets is 0.06 (2009: 0.06) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 0.12 (2009: 0.12). The Bank is in compliance with the statutory capital ratios during the years ended 31 December 2010. As at 31 December 2010 this level of tier 1 capital to total assets of the Bank is 0.22 (2009: 0.24) and the level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 0.26 (2009: 0.25).

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital of shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

28 Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2010 '000 KZT	2009 '000 KZT
Contracted amount		
Guarantees and letters of credit issued	2,532,134	11,173,673
Loan and credit line commitments	1,328,876	187,858
	3,861,010	11,361,531

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Of these commitments, KZT 1,613,750 thousand are to Beyneusky Grain Terminal at 31 December 2010 (2009: KZT 3,546,610 thousand are to Exim-Agro Ltd and Kyzyltuiskiy flour milling plant). This exposure represents a significant credit risk exposure to the Bank.

29 Operating leases

Leases as lessee

The Bank leases a number of premises under cancellable operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year KZT 428,474 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: KZT 420,874 thousand).

30 Contingencies

(a) Insurance

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

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

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

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

31 Related party transactions

(a) Control relationships

There is no a party with ultimate control over the Bank.

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

Total remuneration included in employee compensation (refer Note 10):

	2010 '000 KZT	2009 '000 KZT
Members of the Board of Directors	1,900	11,124
Members of the Management Board	60,370	57,963
	62,270	69,087

The above amounts include non-cash benefits in respect of members of the Board of Directors and the Management Board.

31 Related party transactions, continued

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

The outstanding balances and average interest rates as of 31 December 2010 with members of the Board of Directors and the Management Board were as follows:

	2010 '000 KZT	Average Interest Rate	2009 '000 KZT	Average Interest Rate
Statement of financial position				
Current accounts and deposits from customers	636,743	9.3%	329,377	9.54%

Amounts included in the statement of comprehensive income in relation to transactions with members of the Board of Directors and the Management Board were as follows:

	2010 '000 KZT	2009 '000 KZT
Statement of comprehensive income		
Interest income	30	-
Interest expense	35,218	19,601

31 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include entities with shareholders in common, the Bank's shareholders and the relatives of key management personnel. The outstanding balances and the related average interest rates as at 31 December 2010 and related statement of comprehensive income amounts of transactions for the year ended 31 December 2010 with other related parties were as follows.

	2010		2009			
	Other		Shareholders in common		Other	
	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate
Statement of financial position						
Assets						
Loans to customers	180,231	13.9	-	-	10,680	10.07%
Liabilities						
Current accounts and deposits from customers	853,467	11.4	314,140	10.20%	103,833	8.39%
Statement of comprehensive income						
Interest income	16,364	-	-	-	5,468	-
Interest expense	(53,273)	-	(18,279)	-	(15,439)	-

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

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

'000 KZT	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	1,029,122	-	-	1,029,122	1,029,122
Placements with banks	-	-	557,637	-	-	557,637	557,637
Financial instruments at fair value through profit or loss	188,161	-	-	-	-	188,161	188,161
Available-for-sale financial assets	-	-	-	5,663,149	-	5,663,149	5,663,149
Loans customers:							
Loans to legal entities	-	-	36,802,190	-	-	36,802,190	36,802,190
Loans to retail customers	-	-	4,354,209	-	-	4,354,209	4,354,209
Held-to-maturity investments:							
Government and municipal bonds	-	2,431,993	-	-	-	2,431,993	2,529,523
Corporate bonds	-	251,223	-	-	-	251,223	223,197
Other financial assets	-	-	-	-	11,953	11,953	11,953
	188,161	2,683,216	42,743,158	5,663,149	11,953	51,289,637	51,135,944
Loans from other financial institutions	-	-	-	-	2,150,378	2,150,378	2,150,378
Amounts payable under repurchase agreements	-	-	-	-	2,846,066	2,846,066	2,846,066
Current accounts and deposits from customers	-	-	-	-	33,836,634	33,836,634	33,836,634
Subordinated liabilities	-	-	-	-	1,314,305	1,314,305	1,314,305
Other financial liabilities	-	-	-	-	74,997	74,997	74,997
	-	-	-	-	40,222,380	40,222,380	40,222,380

32 Fair value of financial instruments, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2009:

'000 KZT	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	3,287,870	-	-	3,287,870	3,287,870
Placements with banks	-	-	377,794	-	-	377,794	377,794
Financial instruments at fair value through profit or loss	394,842	-	-	-	-	394,842	394,842
Available-for-sale financial assets	-	-	-	1,329,208	-	1,329,208	1,329,208
Loans customers:							
Loans to corporate customers	-	-	18,039,416	-	-	18,039,416	18,039,416
Loans to retail customers	-	-	2,552,006	-	-	2,552,006	2,552,006
Held-to-maturity investments:							
Government and municipal bonds	-	3,499,363	-	-	-	3,499,363	3,499,363
Corporate bonds	-	251,714	-	-	-	251,714	251,714
Other financial assets	-	-	69,362	-	-	69,362	69,362
	313,171	3,751,077	24,326,448	1,329,208	-	29,801,575	29,801,575
Amounts payable under repurchase agreements	-	-	-	-	3,378,221	3,378,221	3,378,221
Current accounts and deposits from customers	-	-	-	-	17,734,184	17,734,184	17,734,184
Subordinated liabilities	-	-	-	-	1,943,905	1,943,905	1,943,905
Other financial liabilities	-	-	-	-	26,554	26,554	26,554
	-	-	-	-	23,082,864	23,082,864	23,082,864

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

As disclosed in note 16, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 13,700 thousand (2009: KZT 13,625 thousand) can not be determined.

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

32 Fair value of financial instruments, continued

Fair value hierarchy

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

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

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

'000 KZT	Level 2	Total
Financial instruments at fair value through profit or loss		
- Debt and other fixed income instruments	160,312	160,312
- Equity investments	27,849	27,849
Available-for-sale financial assets		
- Debt and other fixed income instruments	5,649,449	5,649,449
- Equity investments	13,700	13,700
	5,851,310	5,851,310

The table below analyses financial instruments measured at fair value at 31 December 2009, by the level in the fair value hierarchy into which the fair value measurement is categorised:

'000 KZT	Level 2	Total
Financial instruments at fair value through profit or loss		
- Debt and other fixed income instruments	344,784	344,784
- Equity investments	50,058	50,058
Available-for-sale financial assets		
- Debt and other fixed income instruments	1,315,583	1,315,583
- Equity investments	13,625	13,625
	1,724,050	1,724,050