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### INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of Agrarian Credit Corporation JSC

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

## Management's Responsibility for the Financial Statements

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

#### Auditors' Responsibility

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

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

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

# **■ ERNST & YOUNG**

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of "Agrarian Credit Corporation" JSC 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.

Ernst & Young LLP

Evgeny Zhemaletdinov Auditor / General Director

Ernst & Young LLP

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

18 March 2011



Auditor Qualification Certificate No. 0000553 dated 24 December 2003

### STATEMENT OF FINANCIAL POSITION

As at 31 December 2010 (in thousands of Kazakhstani tenge)

	Notes	2010	2009
Assets			
Cash and cash equivalents	5	9,503,433	3,269,734
Embedded derivative financial instruments	6	534,299	3,422,177
Loans to customers	7	62,736,759	62,691,303
Assets held for sale	8	319,979	=
Investments in associates	8	-	515,067
Current income tax assets	16	310,109	187,295
Property and equipment	9	205,970	213,889
Intangible assets	10	321,604	344,725
Deferred tax assets	16	923,355	908,566
Other assets		58,938	48,820
Total assets		74,914,446	71,601,576
Liabilities			
Amounts due to a credit institution	11	12,474,053	18,351,126
Amounts due to Shareholder	12	11,898,612	15,330,459
Debt securities issued	13	4,778,281	3,221,460
Amounts due to the Government of the Republic	С		
of Kazakhstan	14	347,725	997,224
Amounts due to government-related entities	15	235,166	339,311
Other liabilities		99,399	73,719
Total liabilities		29,833,236	38,313,299
Equity	17		
Share capital		48,649,371	36,649,371
Additional paid-in capital		2,849,181	1,264,176
Reserve capital		481,883	481,883
Deemed distribution reserve		(2,319,198)	(475,806)
Accumulated losses		(4,580,027)	(4,631,347)
Total equity		45,081,210	33,288,277
Total liabilities and equity		74,914,446	71,601,576

Signed and authorized for release on behalf of the Management Board of the Corporation:

Akhmetov Kuat Saparovich

Chairman of the Board Deputy

Zaitullaeva Irina Nikolayevna

Chief Accountant

18 March 2011

## INCOME STATEMENT

For the year ended 31 December 2010 (in thousands of Kazakhstani tenge)

	Notes	2010	2009
Interest income			
Loans to customers		5,504,255	5,588,829
Cash and cash equivalents		651,901	55,071
2		6,156,156	5,643,900
Interest expense			
Amounts due to the Government of the		(4.500)	(7.500)
Republic of Kazakhstan		(4,720)	(7,509)
Amounts due to Shareholder		(603,790)	(148,714)
Amounts due to a credit institution		(1,754,979)	(1,542,314)
Debt securities issued		(395,242)	(334,268)
Amounts due to government related entities	\$	(51,008)	(6,430)
		(2,809,739)	(2,039,235)
Net interest income		3,346,417	3,604,665
Loan impairment charge	7	(643,013)	(6,643,847)
Net interest income/(expense) after loan impairment charge		2,703,404	(3,039,182)
Net (losses)/gains on embedded derivative			( , , , , ,
financial instruments	6	(1,612,498)	2,405,054
Net translation gains/(losses) from foreign			15.00
currencies		114,986	(4,142,691)
Impairment of assets held for sale	8	(12,354)	
Share of profit of associates	8	<u>-</u>	4,765
Other (expenses)/income		(4,131)	1,221
Non-interest income		(1,513,997)	(1,731,651)
Personnel expenses	19	(715,910)	(623,069)
Depreciation and amortization	9, 10	(65,501)	(53,542)
Other operating expenses	19	(270,396)	(245,210)
Non-interest expenses		(1,051,807)	(921,821)
Profit/(loss) before income tax expense		137,600	(5,692,654)
Income tax (expense)/benefit	16	(86,280)	1,061,307
Profit/(loss) for the year		51,320	(4,631,347)
Basic and diluted earnings/(loss) per share in KZT	20	1.17	(130.28)

Signed and authorized for release on behalf of the Management Board of the Corporation:

Akhmetov Kuat Saparovich

Zaitullaeva Irina Tikola

Chairman of the Board Deputy

Chief Accountant

The accompanying notes on pages 6 to 30 are an integral part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010 (in thousands of Kazakhstani tenge)

	Note	2010	2009
Profit/(loss) for the year	-	51,320	(4,631,347)
Other comprehensive income			
Deemed distribution reserve	17	(2,254,567)	(579,394)
Initial recognition of income on loans acquired below market rates	17	1,895,111	1,122,067
Initial gain recognition on fair value of guarantees from Shareholder	11	-	429,177
Deferred income tax benefit/(expense)	16	101,069	(183,480)
Other comprehensive (loss)/profit, net of taxes		(258,387)	788,370
Total comprehensive loss for the year		(207,067)	(3,842,977)

Signed and authorized for release on behalf of the Management Board of the Corporation:

\* "RNUAGONAGO"

Akhmetov Kuat Saparovichi

Chairman of the Board Deputy

Zaitullaeva Irina Nikolayevna

Chief Accountant

The accompanying notes on pages 6 to 30 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010 (in thousands of Kazakhstani tenge)

	Share capital	Additional paid-in capital	Reserve capital	Deemed distribution reserve	(Accumu- lated losses)/ Retained earnings	Total
At 31 December 2008	34,449,371	_	382,732	_	260,728	35,092,831
Total comprehensive loss for						
the year	_	1,264,176	-	(475,806)	(4,631,347)	(3,842,977)
Issue of share capital (Note 17)	2,200,000	-	_	_		2,200,000
Dividends declared and paid						
(Note 17)	_	_	_	_	(161,577)	(161,577)
Reserve capital increase	_	_	99,151		(99,151)	_
At 31 December 2009	36,649,371	1,264,176	481,883	(475,806)	(4,631,347)	33,288,277
Total comprehensive (loss) for	POWER WAS DOUBLE AND ALL	TOWN COMPANY OF THE STATE	95 See AUR 3274 (1997)		A CONTRACTOR OF THE PARTY OF TH	
the year	_	1,585,005	_	(1,843,392)	51,320	(207,067)
Issue of share capital (Note 17)	12,000,000	-		-		12,000,000
At 31 December 2010	48,649,371	2,849,181	481,883	(2,319,198)	(4,580,027)	45,081,210

Signed and authorized for release on behalf of the Management Board of the Corporation:

Akhmetov Kuat Saparovich

Chairman of the Board Deputy

Zaitullaeva Irina Nikolayevija

"RAUAGONGOY

Chief Accountant

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2010 (in thousands of Kazakhstani tenge)

(In thousands of Kazakhstani tenge)	Notes	2010	2009
Cash flows from operating activities:		States date recovers	0-00000 - 000 - 000 - 000
Interest received		4,092,619	3,854,212
Interest paid	No.	(2,260,276)	(1,665,919)
Realized gain on embedded derivative financial instruments	6	663,555	408,433
Realized gain/(loss) from translation of foreign currencies		42,400	(336,429)
Personnel expenses paid		(714,168)	(608,334)
Operating expenses paid	_	(240,525)	(259,354)
Cash flows from operating activities before changes in operating			
assets and liabilities		1,583,605	1,392,609
Net decrease/ (increase) in operating assets			
Loans to customers		(499,781)	(16,846,686)
Other assets		(10,118)	21,729
Net increase/ (decrease) in operating liabilities			(4 (24 270)
Amounts due to a credit institution		(5,885,534)	(1,621,379)
Amounts due to Shareholder		(1,928,037)	16,323,130
Amounts due to the government-related entities		(154,385)	400,000
Amounts due to the Government of the Republic of Kazakhstan		(635,212)	(527,995)
Other liabilities	_	(9,934)	64,827
Net cash flows used in operating activities before income tax		(7,539,396)	(793,765)
Income tax paid		(25,029)	(158,210)
Net cash used in operating activities	-	(7,564,425)	(951,975)
Cash flows from investing activities			
Proceeds from disposal of assets held for sale	8	182,734	27,644
Purchase of property and equipment	9	(16,367)	(59,139)
Purchase of intangible assets	10	(18,224)	(366,893)
Net cash from/(used in) investing activities		148,143	(398,388)
Cash flows from financing activities			
Proceeds from issue of share capital	17	12,000,000	2,200,000
Proceeds from debt securities		1,790,432	582,262
Redemption of debt securities issued	13	(140,451)	(34,558)
Dividends paid to shareholder	17	<u> </u>	(161,577)
Net cash from financing activities		13,649,981	2,586,127
Net increase in cash and cash equivalents		6,233,699	1,235,764
Cash and cash equivalents, beginning	5	3,269,734	2,033,970
Cash and cash equivalents, ending	5	9,503,433	3,269,734
Non-cash transactions:			
Write off of debt securities issued for the repayment of loans to		120 212	
customers	13	138,313	

Signed and authorized for release on behalf of the Management Board of the Corporation:

Akhmetov Kuat Saparovich

Chairman of the Board Deputy

Chief Accountant

Zaitullaeva Irina Nikolayevna

\* "RNHAGONGON" \*

The accompanying notes on pages 6 to 30 are an integral part of these financial statements.

#### Notes to 2010 financial statements

(in thousands of Kazakhstani tenge)

## 1. Principal activities

Agrarian Credit Corporation JSC (the "Corporation") was established by the Decree of the Government of the Republic of Kazakhstan No. 137 dated 25 January 2001 "On certain agricultural issues" in the form of a joint stock company in accordance with Kazakhstan. The Corporation performs its activities on the basis of a license issued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "FMSA") for conducting operations specified by the banking legislation of the Republic of Kazakhstan No. 24 dated 3 February 2006. Additionally, the Corporation has a status of a financial agency assigned by the resolution of the FMSA Management Board dated 30 July 2005 No. 274.

The main activities of the Corporation are as follows:

- participation in the development and implementation of state programs of lending and providing financial support to agricultural producers;
- b to attract domestic and foreign investments for realization of projects in agricultural sector;
- development and realization of projects in agricultural sector;
- realization of collateral and agricultural products received for repayment of loans originated;
- to perform bank operations based on appropriate license; and
- to perform leasing operations.

The Corporation's registered office is: 28a Zheltoksan Street. Astana, Republic of Kazakhstan.

The sole shareholder of the Corporation is JSC National Management Holding "KazAgro" ("KazAgro" or "Shareholder"), which is 100% owned by the Government of the Republic of Kazakhstan.

As at 31 December 2010 and 2009 Corporation has 6 registered branches and 7 representative offices throughout Kazakhstan.

## 2. Basis of preparation

#### General

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

These financial statements have been prepared under the historical cost convention except for those discussed in section "Summary of significant accounting policies". For example: derivative financial instruments are carried at fair value, assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell.

These financial statements are presented in thousands of Kazakh Tenge ("Tenge" or "KZT"), except per share amounts and unless otherwise indicated.

## 3. Summary of significant accounting policies

### Changes in accounting policies

The Corporation has adopted the following amended IFRS and new International Financial Reporting Interpretations Committee ("IFRIC") Interpretations during the year. The principal effects of these changes are as follows:

IAS 24 "Related party disclosure" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Corporation has decided to early adopt the revised IAS 24 from 1 January 2009. This amendment had no impact on the Corporation's financial statements.

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Corporation's financial statements as the Corporation has not entered into any such hedges.

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

IFRS 3 "Business Combinations" (revised) and LAS 27 "Consolidated and Separate Financial Statements" (revised)

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively. The amendment did not affect the Corporation's financial statements.

## IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Corporation's financial statements.

### IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Corporation's financial statements.

#### Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Corporation, except the following amendments resulting in changes to accounting policies, as described below.

- ▶ IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Corporation does not report on operating segments, this amendment had no impact on the Corporation's financial statements.
- ▶ IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- ▶ IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Corporation's financial statement, as the Corporation does not report on operating segments.

### Financial assets

#### Initial recognition

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

#### Date of recognition

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

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

#### Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Corporation immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

#### Loans to customers

Loans to customers represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for assets that are classified into other categories of financial instruments.

Loans provided by the Corporation are initially recorded at fair value plus transaction costs. When the Corporation accepts a credit commitment to provide loans to customers at below market rates, a liability at fair value of these credit commitments is recorded in other liabilities together with reversing entry, which is included in income statement if the decision to undertake the obligation was adopted by the Corporation's management; or as deemed distribution to the controlling Shareholder, if the decision was adopted in accordance with controlling Shareholder's instructions. Subsequently, credit commitment is adjusted to fair value through profit and loss before granting a loan, when credit commitment is reduced by consideration paid, and remaining balance is recorded as loans issued to customers. As a result, loans to customers are initially recognized at fair value, and subsequently these loans are recorded at amortized cost, using effective interest rate. Loans to customers are recorded net of any allowances for impairment.

### Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

#### Offsetting

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

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

### Impairment of financial assets

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

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

#### Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Corporation first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

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

#### Renegotiated loans

Where possible, the Corporation seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Corporation uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Corporation recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Corporation recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

### Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

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

#### **Taxation**

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

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

The Corporation performs offsetting of deferred tax assets and deferred tax liabilities and records them in the balance sheet on a net basis, when:

- The Corporation has a legally enforced right to offset current tax assets against current tax liabilities; and
- Deferred tax assets and deferred tax liabilities refer to income tax charged by the same tax body from the same tax payer.

The Republic of Kazakhstan also has various operating taxes, that are assessed on the Corporation's activities. These taxes are included as a component of other operating expenses.

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

#### Property and equipment

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

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

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

Buildings	4.5%
Computers and office equipment	10-20%
Motor vehicles	10%
Other	7-10%

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

### Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite and amortized over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortization is calculated on straight-line basis over the following rates based on useful economic lives of asset:

Intangible assets 15-100%

## Assets classified as held for sale

The Corporation classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Corporation's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Corporation measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Corporation recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

#### **Share Capital**

Contributions to share capital are recognized at historic cost, less direct issuance costs.

#### Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

## Deemed distribution reserve

When the Corporation enters into a loan agreement at below market rates on behalf of its Shareholder, the fair value of credit commitment is charged through other comprehensive income to equity as deemed distribution to Shareholder.

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

#### Share capital (continued)

Additional paid-in capital

When the Corporation receives loans and other financial support from its Shareholder at below market rates, the difference between received cash consideration and fair value of loans and other financial support is recorded as additional paid-in capital.

#### **Provisions**

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

#### Contingencies

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

### Recognition of income and expenses

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

#### Interest and similar income and expense

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

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

#### Fee and commission income

The Corporation earns fee and commission income from a diverse range of services it provides to its customers.

Loan commitment fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. If there is a possibility that due to loan commitment a credit arrangement will be signed, loan commitment fee is included in deferred income (together with corresponding direct costs), and subsequently is reflected as an adjustment of actual proceeds from a loan. When the probability to enter into credit arrangement under loan commitments is remote, loan commitment fees are recognised in the income statement during the remaining validity period of loan commitment. Upon expiration of loan commitment validity period, which is not resulted in loan issuance, loan commitment fees are recognised in the income statement on its expiration date. Fees for loan servicing are recognized upon rendering of services. Loan syndication fees are recognized in the income statement when such services have been provided. Other commissions are recognized upon rendering of services.

### Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Corporation's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

#### Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of Kazakhstan Stock Exchange on the date of the transaction are included in gains less losses from dealing in foreign currencies. Below are the exchange rates used by the Corporation in preparation of these financial statements:

	<i>31 December</i>		
PT	2010	2009	
Tenge/ US Dollar	147.40	148.46	
Tenge/Euro	195.23	213.95	
Tenge/Russian Rubles	4.84	4.90	

## Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

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

### IFRS 9 "Financial Instruments"

In November 2009 the LASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace LAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Corporation now evaluates the impact of the adoption of new Standard and considers the initial application date.

## IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Corporation's financial statements.

## Improvements to IFRSs

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

- FIRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Corporation applies IFRS 3 Revised, it may me required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Corporation expects that other amendments to IFRS 3 will have no impact on financial statements of the Corporation.
- ▶ IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- ▶ IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Corporation.

(in thousands of Kazakhstani tenge)

## 3. Summary of significant accounting policies (continued)

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

Improvements to IFRSs (continued)

Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Corporation.

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Corporation expects that these amendments will have no impact on the Corporation's financial position.

Amendments to IAS 12 "Income Taxes" - Deferred tax: Recovery of underlying assets

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

## 4. Significant accounting judgments and estimates

## **Estimation uncertainty**

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

#### Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

## Allowance for loan impairment

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

### Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Corporation may be challenged by the relevant regional and republic authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that as at 31 December 2010 its interpretation of the relevant legislation is appropriate and that the Corporation's tax, currency and customs positions will be sustained.

(in thousands of Kazakhstani tenge)

## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	2009
Cash on hand	67	16
Cash on settlement account	5,503,366	3,269,718
Time deposit with credit institutions up to 90 days	4,000,000	_
Cash and cash equivalents	9,503,433	3,269,734

As at 31 December 2010, the Corporation had concentration of cash balances represented by KZT 5,295,385 thousand or 56% due from one resident bank (31 December 2009 – KZT 1,596,912 thousand or 49%).

During 2010 the Corporation placed term deposits of KZT 4,000,000 thousand (31 December 2009 - zero). The annual interest rates for these deposits ranged from 6% to 9%.

## 6. Embedded derivative financial instruments

The table below shows the fair values of trading derivative financial instruments, recorded as assets or liabilities, together with their notional amounts:

		2010			2009	
	Notional _	Fair va	lues	Notional	Fair values	****
	amount	Asset	Liability	amount	Asset	Liability
Options	4,719,989	534,299	_	16,587,459	3,422,177	

#### **Options**

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

As at 31 December 2010 and 2009 the Corporation had certain loans that are foreign currency linked debt instruments with a floor feature, i.e. where interest and principal payments are linked to foreign currencies, in such a way, that the Corporation has an option to demand higher payments if the foreign currency specified in the contract will appreciate above a certain floor (floor is generally set at the level of spot rates prevailing on the loans issue date). At the same time, if the foreign currency rates will fall below the floor, interest and principal payments will remain at original level.

The Corporation believes that the above feature is an embedded derivative that should be separated from the host contract and recorded as a separate financial instrument measured at fair value through profit or loss in the financial statements.

Net gains/losses on embedded derivative financial instruments:

	2010	2009
Realized gains on embedded derivative financial instruments	663,955	408,433
Unrealized (losses)/gains on embedded derivative financial instruments	(2,276,453)	1,996,621
Net (losses)/gains on embedded derivative financial instruments	(1,612,498)	2,405,054

## 7. Loans to customers

Loans to customers comprise of:

w	2010	2009
Loans to legal entities	67,672,743	66,818,550
Loans to individual entrepreneurs	2,666,417	2,829,612
Total loans to customers	70,339,160	69,648,162
Less- allowance for impairment	(7,602,401)	(6,956,859)
Loans to customers	62,736,759	62,691,303

(in thousands of Kazakhstani tenge)

### 7. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

A reconciliation of the allowance for impairment of loans to customers is as follows:

	2010	2009
As at 1 January	6,956,859	504,925
Charge for the year	643,013	6,643,847
Write-offs	-	(202,068)
Recoveries	2,529	10,155
As at 31 December	7,602,401	6,956,859
Individual impairment	5,353,418	5,314,204
Collective impairment	2,248,983	1,642,655
	7,602,401	6,956,859
Gross amount of loans, individually determined to be impaired, before deducting impairment allowance	19,071,022	16,745,806

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2010 comprised KZT 1,616,300 thousand (2009: KZT 1,342,164 thousand). The fair value of collateral that the Corporation holds relating to loans individually determined to be impaired at 31 December 2010 amounts to KZT 13,338,976 thousand (2009: KZT 11,087,374 thousand).

#### Collateral and other credit enhancements

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

- For loans to customers charges over real estate properties, agricultural equipment, inventory and trade receivables, guarantees and securities.
- For loans to individual entrepreneurs mortgages over residential properties and other.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

#### Concentration of loans to customers

As at 31 December 2010, the Corporation had a concentration of loans represented by KZT 19,701,197 thousand due from the ten largest borrowers (28% of gross loan portfolio) (2009: KZT 17,100,432 thousand (24% of gross loan portfolio).

#### 8. Investments and assets held for sale

As at 31 December 2009 the Corporation decided to realize investments in associates which represent equity interest in Credit LLPs, which provide loans to the agricultural clients located in rural areas of the Republic of Kazakhstan. During 2010 the Corporation committed to a plan to sell the investments in associates, and an active program to locate buyers and complete the plan had been initiated. The Corporation started to actively market for sale at a price that is reasonable in relation to the investments' current fair value. As a result of this the investments in associates were reclassified as assets held for sale.

The table below represents the movement of investments:

	2010	2009
Carrying value at 1 January	515,067	537,946
Sale of investments	(182,734)	(27,644)
Share of profit of associates	_	4,765
Reclassification of investments in associates as assets held for sale	(332,333)	· -
Carrying value at 31 December	_	515,067
The table below represents the movement of assets held for sale:		
	2010	2009
Reclassification of investments in associates as assets held for sale	332,333	
Loss from impairment of assets held for sale	(12,354)	_
Carrying value at 31 December	319,979	_

Computer

## Notes to 2010 financial statements (continued)

(in thousands of Kazakhstani tenge)

## 9. Property and equipment

			Computers	Motor	æ	
	Land	Buildings	equipment	vehicles	Other	Total
Cost						
31 December 2008	5,397	122,981	37,961	32,855	34,248	233,442
Additions	_	10,687	44,762	_	3,690	59,139
Disposals	_		(1,451)	_	(196)	(1,647)
31 December 2009	5,397	133,668	81,272	32,855	37,742	290,934
Additions	_	_	8,483	-	7,884	16,367
Disposals		_	(8,457)	_	(132)	(8,589)
31 December 2010	5,397	133,668	81,298	32,855	45,494	298,712
Accumulated depreciation						
31 December 2008	_	23,340	20,633	4,138	10,753	58,864
Charge for the year	_	5,654	7,303	3,285	3,512	19,754
Written-off on disposal	-	_	(1,451)	<i>'</i>	(122)	(1,573)
31 December 2009	_	28,994	26,485	7,423	14,143	77,045
Charge for the year	_	6,015	11,140	3,140	3,861	24,156
Written-off on disposal		_	(8,405)	_	(54)	(8,459)
31 December 2010	_	35,009	29,220	10,563	17,950	92,742
1 January 2009	5,397	99,641	17,328	28,717	23,495	174,578
31 December 2009	5,397	104,674	54,787	25,432	23,599	213,889
31 December 2010	5,397	98,659	52,078	22,292	27,544	205,970

## 10. Intangible assets

The table bellow represents movement in intangible assets:

	software
Cost:	15,790
31 December 2008	366,893
Additions	(1,485)
31 December 2009	381,198
Additions	18,224
Disposal	(1,756)
31 December 2010	397,666
Accumulated amortization	
31 December 2008	4,176
Charge for the year	33,788
Written-off on disposal	(1,491)
31 December 2009	36,473
Charge for the year	41,345
Written-off on disposal	(1,756)
31 December 2010	76,062
Net book value	70,002
1 January 2009	11,614
31 December 2009	344,725
31 December 2010	
51 December 2010	321,604

(in thousands of Kazakhstani tenge)

## 11. Amounts due to a credit institution

Foreign currency denominated loan from a credit institution comprised:

		II.	iterest rate pei		
Bank	Currency	Repayment date	annum •	2010	2009
Commerzbank AG	USD	25-Feb-2013	10.33%	12,474,053	18,351,126

#### Financial covenants

In accordance with the terms of the loan agreements, the Corporation is required to comply with certain financial covenants. Particularly net tangible worth at any time should be at least USD 100 million. The event of default occurs as credit ratings of senior unsecured debt of the Corporation fall below B+ per Standard & Poor's and below B1 per Moody's Investors Services, as well when either Standard & Poor's or Moody's withdraw their ratings of the Corporation. At 31 December 2010 and 2009 the Corporation was in compliance with these covenants.

On 21 December 2009 the Corporation's sole Shareholder issued a guarantee to "Commerzbank AG" for the face value of the loan. Fair value of the guarantee in the amount of KZT 429,177 thousand was recognized as additional paid-in capital.

#### 12. Amounts due to Shareholder

	2010	2009
Loans from Shareholder	11,898,612	15,330,459
Amounts due to shareholder	11,898,612	15,330,459

#### Investment loan

On 18 May 2009 the Corporation entered into Master Lending Agreement # 36 ("Agreement") with the Shareholder, the National Management Holding "KazAgro" JSC. In accordance with the Agreement, the Corporation obtains a long term loan to develop expand and modify material production in agricultural sector. The senior unsecured investment loan matures on 30 December 2023, the undrawn amount under facility is at KZT 52,484 million as at 31 December 2009, and interest is accrued at nominal rate of 1.02% per annum (effective interest rate is 6%).

As at 31 December 2010 and 2009 the Corporation had no covenants under amounts due to the Shareholder.

#### 13. Debt securities issued

	Maturity date	Rate %	Currency	2010	2009
Indexed debt securities	10-Aug-12	6-9%	KZT	2,872,637	2,854,287
Fixed income debt securities	30-Dec-14	11%	KZT	1,905,644	367,173
				4,778,281	3,221,460

Indexed securities represent debt securities issued with coupon payments linked to the change in inflation measured by CPI (Consumer Price Index), floored at 6%, capped at 9%. The Corporation treats floor and cap as embedded interest rate derivatives which are closely related to the host contract and not separated from the debt instrument.

As at 31 December 2010 and 2009 the Corporation had no covenants under amounts due to debt securities issued.

During 2010 the Corporation issued debt securities to its customers in the amount of KZT 1,790,432 thousands which were subsequently collateralized against loans previously disbursed to these customers. During the year the Corporation repossessed the underlying debt securities for some of its customers who did not honor their obligations under the terms of the loan agreements. The loans receivable from these customers were derecognized against debt securities issued in the amount of KZT 138,313 thousand (2009 - nil).

During 2010 the Corporation bought back issued indexed debt securities in the amount of KZT 140,451 thousand (2009 – KZT 34,588 thousand).

(in thousands of Kazakhstani tenge)

## 14. Amounts due to the Government of the Republic of Kazakhstan

Amounts due to the Government of the Republic of Kazakhstan comprise:

2010	2009
347,725	936,412
, <del>-</del>	60,812
347,725	997,224
	347,725

The Corporation receives loans from the Government of RK for agricultural sector development. The Corporation follows Government decree No. 645 of the Republic of Kazakhstan from 7 July 2006, which fully discloses lending specifications and deadlines by nature.

## 15. Amounts due to government-related entities

	Currency	Maturity date	Nominal interest rate	2010	2009
Administration of business activities and industry in					
Almaty region	KZT	23-Nov-14	1%	147,032	172,737
Administration of business activities and industry in					,
Zhambyl region	KZT	5-Jun-15	0.1%	88,134	_
Administration of business activities and industry in		•			
Aktyubinsk region	KZT	7-Aug-16	1%	_	166,574
				235,166	339,311

In 2010 and 2009 the Corporation entered into loan agreements with the Administration of business activities and industry of Almaty, Zhambyl and Aktubinsk regions. Proceeds from the loans were used for development of stock farming; plant raising and for processing of agricultural products. As at 31 December 2010 and 2009 the difference between the fair value of the loan on initial recognition of KZT 81,444 thousand (2009: KZT 67,119 thousand) and its contractual amount was recognized in additional paid in capital.

The amount due to Administration of business activities and industry of Aktybinsk region was repaid earlier maturity date during 2010.

#### 16. Taxation

A reconciliation of the corporate income tax ("CIT") benefit applied to the loss before taxes based on statutory rates with CIT expenses for the years ended December 31 is as follows:

	2010	2009
CIT benefit - origination and reversal of temporary differences	(14,789)	(877,827)
Less: Benefit/deferred CIT (expense) recognized in other comprehensive	( , , ,	( )
income	101,069	(183,480)
Current CIT		-
Income tax expense /(benefit)	86,280	(1,061,307)

As at 31 December 2010 current CIT assets amounted to KZT 310,109 thousand (31 December 2009: KZT 187,295 thousand).

Deferred tax recognized in other comprehensive income is allocated as follows:

	2010	2009
On assets	411,175	103,588
On liabilities	(310,106)	(287,068)
Income tax benefit/(expense) recognized in other comprehensive		
income	101,069	(183,480)

(in thousands of Kazakhstani tenge)

## 16. Taxation (continued)

	2010	2009
Profit/(loss) before income tax expense Statutory tax rate	137,600 20%	(5,692,654) 20%
Theoretical income tax expense/(benefit) at the statutory rate	27,520	(1,138,531)
Non-deductible tax expenses	39,225	34,065
Non-deductible sponsorship expenses	2,000	2,260
Effect of tax rate change	(28,047)	26,673
Tax effect on permanent differences	45,582	14,226
Income tax expense/(benefit)	86,280	(1,061,307)

Deferred tax assets and liabilities at 31 December, and their movement for corresponding years as follows:

	-	Origination a of temporary			Originati reversal of t differe	emporary	
	2008	In the income statement	In other compre- hensive income	2009	In the income statement	In other compre- hensive income	2010
Tax effect of deductible	2308						
temporary differences							
Tax loss carried forward	_	2,198,437	_	2,198,437	82,096	_	2,280,533
Loans to customers	_	(77,962)	103,588	25,626	19,019	411,175	455,820
Derivative financial						7	•
instruments	38,257	(38,257)		· —	517,306		517,306
Vacation accrual	_	_	_	-	15,102	_	15,102
Investments in associates	_			_	5,156	_	5,156
Deferred tax assets	38,257	2,082,218	103,588	2,224,063	638,679	411,175	3,273,917
Tax effect of non taxable					3000		
temporary differences							
Impairment charge	35,648	(714,049)	_	(678,401)	(706,696)	_	(1,385,097)
Loans to customers	(41,321)	41,321	_	_	_	_	_
Derivative financial							
instruments	_	(336,881)	<u></u>	(336,881)	_	_	(336,881)
Vacation accrual	(2,452)	1,191	_	(1,261)	_	_	(1,261)
Invsetments in associates	(4,234)	(922)	-	(5,156)	_	_	(5,156)
Assets held for sale	_	_	-		(2,205)	_	(2,205)
Amounts due to							(-,)
Shareholder	-	_	(287,068)	(287,068)		(310,106)	(597,174)
Property and equipment	4,841	(11,571)		(6,730)	(16,058)		(22,788)
Deferred tax liabilities	(7,518)	(1,020,911)	(287,068)	(1,315,497)	(724,959)	(310,106)	(2,350,562)
Deferred tax				, , , , ,	<u> </u>	(020,200)	(=,000,002)
assets/(liabilities)	30,739	1,061,307	(183,480)	908,566	(86,280)	101,069	923,355

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In accordance with changes in legislation in 2010 corporate income tax rate will be 20%. Previously tax legislation intended decrease in CIT rates to 17.5% from 1 January 2013 and to 15% from 1 January 2014.

Tax losses carried forward as of 31 December 2010 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred (2009: ten years).

(in thousands of Kazakhstani tenge)

## 17. Equity

Information on movements in issued, fully paid and outstanding shares is given below:

	Placed value	Number of shares	<b>Total</b>
At 31 December 2008		34,449,371	34,449,371
Increase in share capital	1,000	2,200,000	2,200,000
At 31 December 2009	_	36,649,371	36,649,371
Increase in share capital	1,000	12,000,000	12,000,000
At 31 December 2010	_	48,649,371	48,649,371

As at 31 December 2010 total amount of authorized common shares is 48,649,371 shares (2009: 36,649,371 shares), which were fully paid (2009: 34,449,371). On the basis of decision of the Shareholder dated 30 April and 26 February 2010 the share capital was increased by 12 million shares and during 2010 the Corporation received KZT 12,000,000 thousand from sole Shareholder as a contribution to share capital during 2010 (2009: KZT 2,200,000 thousand).

As at 31 December 2010 and 2009 the owner of common share has right for one vote and equal right for dividends. Distributable income is determined on the basis of income recorded in Corporation's financial statements.

For the year ended 31 December 2010, the Corporation did not declare dividends.

At the shareholder's meeting held on 24 August 2009 the Corporation declared dividends in respect of the year ended 31 December 2008, totaling KZT 161,577 on ordinary shares or KZT 4.69 per share and were paid on 25 August 2009.

In accordance with Corporation's charter, reserve capital is formed for general bank risks, including deferred losses and other contingent risks and liabilities. Reserve capital is subject to distribution on the basis of decision of general shareholders meeting.

At 31 December 2010 the losses of KZT 2,254,567 thousand from initial recognition of fair value from loans to customers issued during 2010 at a rate below market and funded by the

Shareholder, are recognized in deemed distribution reserve (2009 - KZT 579,394 thousand).

The difference between the cost at initial recognition of loans from the Government of the Republic of Kazakhstan and the shareholder, and fair value of loans received in 2010 of KZT 1,895,111 thousand (2009: KZT 1,122,067 thousand) is recognized as a Shareholders' contribution as a part of additional paid in capital.

Movements in other reserves were as follows:

	Reserve	Additional paid-in	Deemed distribution	
_	capital	capital	reserve	Total
As at 31 December 2008	382,732	_		382,732
Deemed distribution reserve	_	-	(579,394)	(579,394)
Tax effect on deemed distribution reserve Initial recognition of income on loans acquired below		_	103,588	103,588
market rates  Tax effect on initial recognition of income on loans	_	1,122,067	_	1,122,067
acquired below market rates	_	(287,068)	_	(287,068)
Initial gain recognition on fair value of guarantees from Shareholder Гарантии от Акционера	-	429,177	_	429,177
Reserve capital increase	99,151		_	99,151
As at 31 December 2009	481,883	1,264,176	(475,806)	1,270,253
Deemed distribution reserve	_	_	(2,254,567)	(2,254,567)
Tax effect on deemed distribution reserve	_	_	411,175	411,175
Initial recognition of income on loans acquired below market rates	_	1,895,111	_	1,895,111
Tax effect on initial recognition of income on loans acquired below market rates	_	(310,106)	ı <del>-</del>	(310,106)
As at 31 December 2010	481,883	2,849,181	(2,319,198)	1,011,866

(in thousands of Kazakhstani tenge)

## 18. Commitments and contingencies

#### Operating environment

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

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within the Republic of Kazakhstan. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital for the Corporation and its counterparties, which could affect the Corporation's financial position, results of operations and business prospects.

Borrowers could also be affected by deterioration in liquidity and weather conditions that, in turn, affects their ability to settle their debt to the Corporation.

The management of the Corporation believes it is taking appropriate measures to support the sustainability of the Corporation's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Corporation's results and financial position in a manner not currently determinable.

#### Legal

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

#### **Taxation**

Kazakhstani commercial, and in particular, tax legislation contain regulations, interpretation of which could vary, and in certain cases the legislation could be amended with indirect retrospective impact. In addition, Corporation's management's interpretation of the legislation may differ from that of tax authorities, and in the result transactions carried out by the Corporation could be estimated by tax authorities in other way, and this could result in additional charge of taxes, fines and penalties. The Corporation's management considers that all necessary tax accruals were fulfilled and, correspondingly, there were no any allowances charged in the statements. Tax periods remain open for five years.

#### Undrawn credit lines

As at 31 December 2010 the Corporation's commitments and contingencies comprised the following:

	2010	2009
Undrawn credit lines – loans to customers	28,550,568	12,298,064

As at 31 December 2010, concentration of undrawn credit lines to 10 largest independent parties totalled KZT 12,712,368 thousand. (45% of the amount of undrawn credit lines), (2009: KZT 2,149,140 thousand.(17% of the undrawn credit lines).

(in thousands of Kazakhstani tenge)

## 19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

*	2010	2009
Salaries and bonuses	(654,406)	(568,481)
Social security costs	(61,504)	(54,588)
Personnel expenses	(715,910)	(623,069)
Legal and consultancy services	(63,446)	(51,761)
Advertizing	(53,653)	(48,185)
Rent	(49,706)	(48,619)
Repair and maintenance	(25,681)	(14,121)
Communication	(22,378)	(24,809)
Bank commissions	(10,251)	(7,486)
Sponsorship	(10,000)	(11,375)
Business trip	(8,946)	(12,954)
Facilities	(5,312)	(4,462)
Insurance	(3,624)	(2,781)
Taxes	(3,458)	(1,873)
Municipals	(2,510)	(2,251)
Security expense	(711)	(509)
Membership fee	(274)	(281)
Trainings	(170)	(3,448)
Representatives	(140)	(214)
Other expenses	(10,136)	(10,081)
Other operating expenses	(270,396)	(245,210)

## 20. Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations for the years ended 31 December:

	<i>2010</i>	2009
Net income/(loss) attributable to common shareholders for basic and		
diluted earnings per share (thousands tenge)	51,320	(4,631,347)
Weighted average number of common shares for basic and diluted		(1,001,017)
earnings per share	43,891,428	35,549,371
Basic earnings/(losses) per share (in Kazakhstani tenge)	1.17	(130.28)
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No dilutive instruments were outstanding as of 31 December 2010 and 2009.

## 21. Risk management

#### Introduction

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

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

### Risk management structure

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

## Board of Directors

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

(in thousands of Kazakhstani tenge)

## 21. Risk management (continued)

#### Introduction (continued)

#### Management Board

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

#### Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Corporation, Each business group has a decentralized unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit comprised of the Financial Risk department and Credit risk department.

#### Corporation Treasury

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

#### Internal audit

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

#### Risk measurement and reporting systems

The Corporation's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

Monitoring and controlling risks is primarily performed based on limits established by the Shareholder for the Corporation. These limits reflect the business strategy and market environment of the Corporation.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Board of Directors, the Management Board, the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Corporation.

#### Risk mitigation

As part of its overall risk management, the Corporation uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

#### Credit risk

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

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

(in thousands of Kazakhstani tenge)

## 21. Risk management (continued)

#### Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum exposure 2010	Maximum exposure 2009
Cash and cash equivalents (excluding cash on hand)	5	9,503,366	3,269,718
Embedded derivative financial instruments	6	534,299	3,422,177
Loans to customers	7	62,736,759	62,691,303
		72,774,424	69,383,198
Financial commitments and contingencies	18	28,550,568	12,298,064
Total credit risk exposure		101,324,992	81,681,262

#### Credit quality per class of financial assets

The credit quality of financial assets is managed by the Corporation internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Corporation's credit rating system. Loans to borrowers with good financial position and no overdue payments are defined as standard. If there is a temporary decline in financial standing of the borrower and/or insufficient collateral without overdue payments, these loans are defined as substandard.

	Standard		Individually	
	rating	Substandard	impaired	Total
Loans to customers			-	
2010	26,213,497	22,805,658	13,717,604	62,736,759
2009	5,821,280	45,438,420	11,431,603	62,691,303

It is the Corporation's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than30 days	31 to 60 days	31 to 60 days	More than 90 days	Total
Loans to customers 2010 2009	<b>5,236,205</b> 29,643,642	<b>3,825,258</b> 4,213,278	<b>391,709</b> 3,907,156	<b>13,352,486</b> 7,674,344	<b>22,805,658</b> 45,438,420

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2010	2009
Loans to customers	6,401,365	_

#### Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Corporation addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

### Collective assessment

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

(in thousands of Kazakhstani tenge)

## 21. Risk management (continued)

#### Collective assessment

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the times a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Corporation's overall policy.

#### Liquidity risk and funding management

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

### Analysis of financial liabilities by remaining contractual maturities

The tables below summarizes the maturity profile of the Corporation's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations:

Financial liabilities	Less than	3 to 12	1 to 5	Over	
As at 31 December 2010	3 months	months	Years	5 years	Total
Amounts due to a credit institution	2,987,454	3,316,567	7,597,099	_	13,901,120
Amounts due to Shareholder	6,650	1,301,263	8,682,651	4,821,408	14,811,972
Debt securities issued	101,941	-	5,951,450	-	6,053,391
Amounts due to the Government of the					
Republic of Kazakhstan	-	348,739	-	_	348,739
Amounts due to government-related entities		36,165	236,635	34,398	307,198
Total undiscounted financial liabilities	3,096,045	5,002,734	22,467,835	4,855,806	35,422,420
Financial liabilities	Less than	3 to 12	1 to 5	Over	
Financial liabilities As at 31 December 2009	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	77		-		201 10100000000
As at 31 December 2009	3 months	months	years		<i>Total</i> 21,550,386 16,596,215
As at 31 December 2009 Amounts due to a credit institution	3 months 2,967,200	<i>months</i> 4,413,012	<i>years</i> 14,170,174	5 years 1,225,049	21,550,386 16,596,215
As at 31 December 2009  Amounts due to a credit institution  Amounts due to Shareholder	3 months 2,967,200 10,080,176	<i>months</i> 4,413,012	<i>years</i> 14,170,174 5,027,699	5 years	21,550,386
As at 31 December 2009  Amounts due to a credit institution  Amounts due to Shareholder  Debt securities issued	3 months 2,967,200 10,080,176	<i>months</i> 4,413,012	<i>years</i> 14,170,174 5,027,699	5 years 1,225,049	21,550,386 16,596,215
As at 31 December 2009 Amounts due to a credit institution Amounts due to Shareholder Debt securities issued Amounts due to the Government of the	3 months 2,967,200 10,080,176	months 4,413,012 263,291	years 14,170,174 5,027,699 2,965,438	5 years - 1,225,049 316,620	21,550,386 16,596,215 3,372,102

#### Market risk

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

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The interest rates for assets and liabilities of corporation are fixed.

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

(in thousands of Kazakhstani tenge)

## 21. Risk management (continued)

### Currency risk (continued)

Currency	Change in currency rate in % 2010	Effect on profit before tax 2010	Change in currency rate in % 2009	Effect on profit before tax 2009
•		2010	2009	2009
USD	+/- 11.56	-/+ 1,465,392	+/- 22.9	-/+ 4,340,907

### Prepayment risk

Prepayment risk is the risk that the Corporation will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

The effect on equity does not differ from the effect on the income statement.

	Effect on net interest income
As at 31 December 2010 As at 31 December 2009	<b>523,650</b> 552,006

### 22. Fair values of financial instruments

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

				1.5
31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Embedded derivative				
financial				
instruments		534,299	games S	534,299
Total financial assets	—	534,299	_	534,299
31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Embedded derivative				
financial				
instruments	<b>—</b> 4	3,422,177		3,422,177
Total financial assets	_	3,422,177		3,422,177
31 December 2009 Financial assets Embedded derivative financial instruments	Level 1	Level 2 3,422,177	Level 3	3,422,

The change in fair value of derivative financial instruments as at 31 December 2010 comparing to 31 December 2009 was due to strengthening of KZT/USD exchange rate and impairment of overdue loans during 2010.

#### Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Corporation's estimate of assumptions that a market participant would make when valuing the instruments.

(in thousands of Kazakhstani tenge)

## 22. Fair values of financial instruments (continued)

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

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

	Carrying value 2010	Fair value 2010	Unrecognised gain/(loss) 2010
Financial assets			2010
Cash and cash equivalents	9,503,433	9,503,433	_
Loans to customers	62,736,759	60,765,260	(1,971,499)
	72,240,192	70,268,693	(1,971,499)
Financial liabilities		,	(-)- (-) (-)
Amounts due to a credit institution	12,474,053	12,672,905	(198,852)
Amounts due to Shareholder	11,898,612	11,751,350	147,262
Debt securities issued	4,778,281	4,752,055	26,226
Amounts due to the Government of		8	,
the Republic of Kazakhstan	347,725	333,397	14,328
Amounts due to government-related		70 Location 7 200 10 100	,
entities	235,166	242,055	(6,889)
	29,733,837	29,751,762	(17,925)
Total unrecognized change in unrealized fair value			(1,989,424)

	Carrying value 2009	Fair value 2009	Unrecognised gain/(loss) 2009
Financial assets			
Cash and cash equivalents	3,269,734	3,269,734	_
Loans to customers	62,691,303	59,848,713	(2,842,590)
	65,961,037	63,118,447	(2,842,590)
Financial liabilities			
Amounts due to a credit institution	18,351,126	18,519,829	(168,703)
Amounts due to Shareholder	15,330,459	15,348,579	(18,120)
Debt securities issued	3,221,460	2,996,669	224,791
Amounts due to the Government of			
the Republic of Kazakhstan	997,224	946,009	51,215
Amounts due to government-related			,
entities	339,311	339,280	31
	38,239,580	38,150,366	89,214
Total unrecognized change in			
unrealized fair value			(2,753,376)

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

### Assets for which fair value approximates carrying value

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

### Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(in thousands of Kazakhstani tenge)

## 23. Maturity analysis of assets and liabilities

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

-		2010		2009			
	Within one year	More than one year	Total	Within one veat	More than one year	Total	
Financial assets							
Cash and cash							
equivalents	9,503,433	_	9,503,433	3,269,734	-	3,269,734	
Embedded derivative	#4.4 AAA		W2.7.2.2				
financial instruments	534,299	_	534,299	3,422,177		3,422,177	
Loans to customers	27,414,768	35,321,991	62,736,759	33,735,909	28,955,394	62,691,303	
	37,452,500	35,321,991	72,774,491	40,427,820	28,955,394	69,383,214	
Financial liabilities							
Amounts due to a							
credit institution	5,914,483	6,559,570	12,474,053	6,144,065	12,207,061	18,351,126	
Amounts due to							
Shareholder	781,377	11,117,235	11,898,612	9,439,678	5,890,781	15,330,459	
Debt securities issued	101,941	4,676,341	4,778,282	88,334	3,133,126	3,221,460	
Amounts due to the					5,155,120	3,221,100	
Government of the							
Republic of							
Kazakhstan	347,725	_	347,725	627,024	370,200	997,224	
Amounts due to							
government-related							
entities	17,692	217,474	235,166		339,311	339,311	
Total	7,163,218	22,570,620	29,733,838	16,299,101	21,940,479	38,239,580	
Net position	30,289,282	12,751,371	43,040,653	24,128,719	7,014,915	31,143,634	

## 24. Related party disclosures

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

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

Volume of operations with related parties, Ending balance, income and expenses shown below:

			910			20	09	
		Entities				Entities		
		under				under		
		common		Due to		common		Due to
	Parent	control	Associates	government	Parent	control	Associates	government
Loans to customers as at 1				***	5 000000			
January	_	3,744,698	-	_	()	-	2 <u></u> -1	<del>-</del>
Loans to customers issued	_	1,266,742	_	_	_	3,744,698	-	_
Loans to customers repaid	_	(10,145)	_	=	_	_	×	
Loans to customers as at 31								
December		5,001,295		_	_	3,744,698	_	
Interest income during the year	-	246,508	_	_	_	45,156	_	
Amounts due to as at 1		ŕ				70,100		
January	15,330,459	154,818	315,667	1,336,555	_	144,649	N	1,525,335
Amounts received during the		•	,	, , , , , , , , , , , , , , , , , , , ,				1,525,555
year	48,649,345	_	391,819	100,000	20,969,699	10,169	315,667	393,610
Amounts repaid during the				,	, , , , , , , , , , , , , , , , , , , ,	,	510,00,	373,010
year	(52,081,192)	_	(238,707)	(853,664)	(5,639,240)	_	· —	(582,390)
Amounts due to outstanding								
as at 31 December	11,898,612	154,818	468,779	582,891	15,330,459	154,818	315,667	1,336,555
Interest expense during the								
year	293,320	17,029	43,144	55,727	113,777	14,701	17,361	13,939

(in thousands of Kazakhstani tenge)

## 24. Related party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2010	2009
Salaries and other short-term benefits	39,884	35,763
Social security costs	3,861	3,446
Total key management personnel compensation	43,745	39,209
	2010	2009
Undrawn credit lines – loans to associates	4,441,811	4,693,448
Guaranty issued by shareholder (Note 11)	12,474,053	18,351,126

## 25. Capital adequacy

The Corporation maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Corporation's capital is monitored using, among other measures, the ratios established by the FMSA in supervising the Corporation. During 2010, the Corporation had complied in full with all its capital requirements imposed by the legislation.

Capital adequacy ratio under FMSA:

The FMSA requires companies engaged in certain types of banking activities to maintain a minimum Tier 1 capital adequacy ratio of 6% of assets and minimum general total capital adequacy ratio of 12% of risk-weighted assets. In 2010 and 2009 the risk-weighted assets, calculated under FMSA requirements were obtained on the basis of Corporation's separate financial statements prepared in accordance with Kazakhstani Accounting Standards. As of 31 December 2010, the Corporation's capital adequacy ratio on this basis was as follows:

	2010	2009
Tier 1 capital	42,038,568	32,943,552
Tier 2 capital	817,638	895,019
Investments in associates	(319,979)	(515,067)
Total regulatory capital	42,536,227	33,323,504
Risk- weighted assets and off-balance sheet commitments	65,411,013	71,601,560
Commitments and contingencies	14,275,284	12,298,064
Operational risk	833,915	3,362,966
Capital adequacy ratio (k1)	56.1%	46.0%
Capital adequacy ratio (k1-2)	52.8%	39.6%
Capital adequacy ratio (k1-3)	52.8%	38.5%

## 26. Events after the reporting period

On 29 January 2011 the Corporation concluded a loan agreement with the Shareholder for the total amount of KZT 39 billion. The agreement expires on 20 December 2011. The logn is greated for landing to the agricultural control of the same of the s