Alliance Bank JSC

Consolidated Financial Statements

for the year ended 31 December 2009

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Report on the Consolidated Financial Statements

To the Management of Alliance Bank JSC

We have audited the accompanying consolidated financial statements of Alliance Bank JSC and its subsidiaries, (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

KPMG Audit LLC, a limited liability company incorporated under the Laws of the Republic of Kazakhstan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Basis for Qualified Opinion – derivative liabilities

In 2008 the Group had entered into derivative financial instruments in the form of credit default cross currency swaps. The Group was not able to estimate the fair value of this derivative liability as at 31 December 2008. As at 31 December 2008 the previous auditor estimated that the fair value of such derivative liability was understated by KZT 5,250 million. Accordingly, in their view, as at 31 December 2008, financial liabilities at fair value through profit or loss should have been increased by KZT 5,250 million to KZT 55,418 million and the net loss for the year and accumulated deficit should have each been increased by KZT 5,250 million to KZT 391,460 million and KZT 232,430 million respectively.

During the year ended 31 December 2009 the Group terminated early derivative positions which were open as at 31 December 2008, including the derivative liability associated with the KZT 5,250 million understatement mentioned above. Accordingly for the year ended 31 December 2009 the net loss on financial assets at fair value through profit and loss and loss for the year should be decreased by KZT 5,250 million to KZT 59,161 million.

Basis for Qualified Opinion – property, equipment and intangible assets

As at 31 December 2008 and for the year then ended, in accordance with the Group's accounting policy, certain land and buildings included in property, equipment and intangible assets are carried at revalued amounts. During the year ended 31 December 2008, not all material assets within land and buildings were revalued. As a result, the previous auditor was unable to obtain sufficient appropriate evidence to conclude that there was no significant difference between the carrying value and fair value of land and buildings included within property, equipment and intangible assets. Therefore the previous auditor was unable to satisfy itself as to the appropriateness and accuracy of the carrying amounts of property, equipment and intangible assets in the amount of KZT 34,197 million, the revaluation reserve balances in the amount of KZT 2,023 million and the related depreciation expense in the amount of KZT 3,033 million as at and for the year ended 31 December 2008. The effect of the change on the revaluation surplus and related depreciation as at and for the year ended 31 December 2009 has not been determined.

Basis for Qualified Opinion – related parties

The Group has information that indicates that certain customers and counterparties may not have been properly identified as related parties at 31 December 2008. Owing to this uncertainty the previous auditor was unable to satisfy themselves as to the completeness or accuracy of such disclosures and their associated tax effects, if any.

Basis for Qualified Opinion – financial guarantees and pledges

Owing to the nature of the Group's records, the previous auditor was unable to complete its procedures as to the completeness of financial guarantees or similar pledges made by, or on behalf, of the Group as at 31 December 2008.

Qualified Opinion

In our opinion, except for the effects on the current year's financial performance and corresponding figures of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

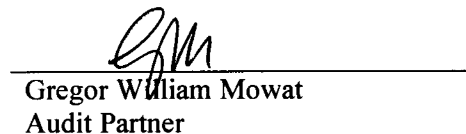
Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(e) which describes that the Group incurred a net loss of KZT 298,440 million for the year ended 31 December 2009 and as at 31 December 2009 has a deficit of KZT 525,771 million. These conditions, along with other matters described in Note 2(e), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2008 were audited by another auditor who expressed a modified opinion on those statements on 31 July 2009 because of the matters described in the Basis for Qualified Opinion paragraphs.

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



Gregor William Mowat
Audit Partner

KPMG Audit LLC

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

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

31 March 2010

	Note	2009 In million tenge	2008 In million tenge
Interest income	4	85,189	166,086
Interest expense	4	(80,627)	(100,677)
Net interest income		**4,562**	**65,409**
Fee and commission income	5	7,452	12,817
Fee and commission expense	6	(2,191)	(24,584)
Net fee and commission income/(expense)		**5,261**	**(11,767)**
Net loss on financial instruments at fair value through profit or loss	7	(64,411)	(32,882)
Net foreign exchange (loss)/gain	8	(51,785)	15,564
Net gain on repurchase of liabilities		3,967	3,712
Net loss on available-for-sale assets		(299)	(1)
Other operating (loss)/income		(728)	1,718
Operating (loss)/income		**(103,433)**	**41,753**
Impairment losses	9	(174,842)	(406,420)
General administrative expenses	10	(20,140)	(21,889)
Loss before taxes		**(298,415)**	**(386,556)**
Income tax (expense)/benefit	11	(25)	346
Loss for the year		**(298,440)**	**(386,210)**
Other comprehensive (loss)/income			
Revaluation reserve for available-for-sale assets:			
- Net change in fair value of available-for-sale assets		(491)	5
- Net change in fair value of available-for-sale assets transferred to profit or loss		112	(1)
Currency translation differences		31	-
Revaluation of property, net of tax		197	51
Other comprehensive (loss)/income, net of tax		**(151)**	**55**
Total comprehensive loss		**(298,591)**	**(386,155)**
Loss per share	26		
			Restated
Basic and diluted, tenge		(14,922)	(19,311)

On behalf of the Management Board of the Bank:

Ka[illegible]hanovich
Chairman of the Management Board

31 March 2010

Zhakanbayev Rishat Selmarovich
Chief Accountant

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2009 In million tenge	2008 In million tenge
ASSETS			
Cash and cash equivalents	12	15,388	60,855
Placements with banks	13	2,702	6,318
Financial instruments at fair value through profit or loss	14	16,369	201,973
Loans to customers	15	243,707	433,475
Amounts receivable under reverse repurchase agreements		-	132
Available-for-sale assets	16	97,657	2,741
Current tax asset		919	2,677
Property, equipment and intangible assets	17	25,012	34,197
Other assets	18	17,340	5,940
Total assets		**419,094**	**748,308**
LIABILITIES			
Current accounts and deposits from customers	19	153,776	189,044
Due to the National Bank of the Republic of Kazakhstan		-	15,026
Loans from the Government of the Republic of Kazakhstan	20	22,613	4,460
Amounts subject to Restructuring Plan as at 31 December 2009	21		
- Loans from banks		129,647	137,377
- Loans from other financial institutions		45,832	35,741
- Debt securities issued		360,279	286,584
- Subordinated debt		48,194	41,760
- Amount due to the Parent Company		105,000	-
- Other liabilities subject to Restructuring Plan		45,272	-
Other financing	22	16,206	29,449
Amounts payable under repurchase agreements		5,010	41,945
Financial instruments at fair value through profit or loss	14	19	50,168
Special provision for guarantees	23	-	136,972
Other liabilities	24	13,017	6,962
Total liabilities		**944,865**	**975,488**
DEFICIT			
Share capital	25	96,380	96,380
Additional paid-in-capital		1,222	1,222
Revaluation surplus for property		2,134	2,023
Revaluation reserve for available-for-sale assets		(408)	(29)
Accumulated losses		(625,099)	(326,776)
Total deficit		**(525,771)**	**(227,180)**
Total liabilities and deficit		**419,094**	**748,308**
Commitments and Contingencies	29, 31		

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2009 In million tenge	2008 In million tenge
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	84,384	151,944
Interest payments	(72,969)	(105,031)
Fee and commission receipts	7,696	12,817
Fee and commission payments	(2,184)	(24,584)
Net (payments on)/receipts from financial instruments at fair value through profit or loss	(30,393)	782
Net receipts from foreign exchange	632	1,575
Other (payments)/receipts	(727)	4,316
General administrative payments	(16,886)	(18,432)
(Increase)/decrease in operating assets		
Placements with banks	3,935	26,850
Financial instruments at fair value through profit or loss	54,144	28,348
Loans to customers	50,704	158,486
Amounts receivable under reverse repurchase agreements	132	(132)
Other assets	(3,091)	(7,220)
Increase/(decrease) in operating liabilities		
Loans from the Government of the Republic of Kazakhstan	17,780	-
Due to the National Bank of the Republic of Kazakhstan	(15,000)	9,431
Current accounts and deposits from customers	(50,063)	(47,945)
Loans from banks	(37,635)	(156,731)
Loans from other financial institutions	-	(17,832)
Other financing	(12,971)	(1,547)
Amounts payable under repurchase agreements	(36,864)	35,560
Financial instruments at fair value through profit or loss	(4,457)	(27,019)
Other liabilities	11,500	(986)
Net cash (used in)/provided from operating activities before income tax paid	**(52,333)**	**22,650**
Income tax paid	(483)	(5,743)
Cash flows (used in)/from operations	**(52,816)**	**16,907**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from available-for-sale assets	596	309
Purchases of property and equipment	(519)	(6,940)
Sales of property and equipment	-	386
Cash flows from/(used in) investing activities	77	**(6,245)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt securities issued	-	(19,131)
Repurchase of debt securities issued	(1,581)	(12,886)
Proceeds from subordinated debt issued	-	6,589
Cash flows used in financing activities	**(1,581)**	**(25,428)**
Net decrease in cash and cash equivalents	**(54,320)**	**(14,766)**
Effect of changes in exchange rates on cash and cash equivalents	8,853	2,114
Cash and cash equivalents as at the beginning of the year	60,855	73,507
Cash and cash equivalents as at the end of the year (Note 12)	**15,388**	**60,855**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Share capital	Additional paid-in-capital	Revaluation surplus for property	Revaluation reserve for available-for-sale assets	Retained earnings/ (accumulated losses)	Total equity/ (deficit)
	In million tenge	In million tenge	In million tenge	In million tenge	In million tenge	In million tenge
Balance as at 1 January 2008	96,380	1,222	2,109	(33)	59,297	158,975
Total comprehensive loss						
Loss for the year	-	-	-	-	(386,210)	(386,210)
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	5	-	5
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	(1)	-	(1)
Depreciation of property revaluation surplus	-	-	(137)	-	137	-
Revaluation of property, net of tax	-	-	51	-	-	51
Total other comprehensive income	-	-	(86)	4	137	55
Total comprehensive loss	-	-	**(86)**	**4**	**(386,073)**	**(386,155)**
Balance as at 31 December 2008	**96,380**	**1,222**	**2,023**	**(29)**	**(326,776)**	**(227,180)**

The consolidated statement of changes in deficit is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Share capital	Additional paid-in-capital	Revaluation surplus for property	Revaluation reserve for available-for-sale assets	Accumulated losses	Total deficit
	In million tenge	In million tenge	In million tenge	In million tenge	In million tenge	In million tenge
Balance as at 1 January 2009	96,380	1,222	2,023	(29)	(326,776)	(227,180)
Total comprehensive loss						
Loss for the year	-	-	-	-	(298,440)	(298,440)
Other comprehensive loss						
Net change in fair value of available-for-sale assets	-	-	-	(491)	-	(491)
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	112	-	112
Currency translation differences	-	-	-	-	31	31
Depreciation of property revaluation surplus	-	-	(86)	-	86	-
Revaluation of property, net of tax	-	-	197	-	-	197
Total other comprehensive loss	-	-	111	(379)	117	(151)
Total comprehensive loss	-	-	**111**	**(379)**	**(298,323)**	**(298,591)**
Balance as at 31 December 2009	**96,380**	**1,222**	**2,134**	**(408)**	**(625,099)**	**(525,771)**

The consolidated statement of changes in deficit is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of Joint Stock Company Alliance Bank ("Alliance Bank JSC", "the Bank") and its subsidiaries, ALB Finance B.V. and Alliance Finance LLC (together referred to as "the Group").

Alliance Bank JSC was incorporated in the Republic of Kazakhstan in 1999 under the name of Open Joint Stock Company ("OJSC") IrtyshBusinessBank as a result of a merger of OJSC Semipalatinsk Municipal Joint Stock Bank and OJSC Irtyshbusinessbank. In accordance with a decision made by the Bank's shareholders, Alliance Bank was renamed from Irtyshbusinessbank to Alliance Bank on 30 November 2001 with subsequent registration on 13 March 2002 as Open Joint Stock Company Alliance Bank. On 13 March 2004 Alliance Bank was re-registered as Alliance Bank JSC.

The registered address of the Bank's Head Office is 50, Furmanov Str., 050004, Almaty, the Republic of Kazakhstan. The Bank's activity is regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") and the Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organisations ("the FMSA"). Alliance Bank JSC conducts its business under the licence No. 250 issued by the FMSA on 26 December 2007 for performing banking and other operations and activity on security market stipulated by the banking legislation.

The Bank's primary business is related to commercial banking activity, granting of loans and guarantees, accepting deposits, exchanging foreign currencies, dealing with securities, transferring cash payments, as well as providing other banking services.

Alliance Bank JSC is a member of the Kazakhstan Deposits Insurance Fund ("the KDIF"). The primary goal of the KDIF is to protect interests of depositors in the event of forcible liquidation of a member-bank. Depositors can receive limited insurance coverage for deposits up to a maximum of KZT 5 million per deposit, depending on the amount of the deposit.

The Group consists of the following subsidiaries:

Name	Country of operation	Proportion or ownership interest/voting rights in 2009 and 2008	Type of operation
ALB Finance B.V.	The Netherlands	100%	Raising funds in international capital markets
LLC Alliance Finance	Russian Federation	100%	Raising funds in Russian capital markets

ALB Finance B.V. is a limited liability company and has operated under laws of The Netherlands since October 2005. The company was established for the primary purpose of raising funds for the Bank in international capital markets.

Alliance Finance LLC is a limited liability company and has operated under the laws of the Russian Federation since June 2007. The company was established for the primary purpose of raising funds for the Bank in the Russian capital market.

(b) Shareholders

As at 31 December 2008 three individuals: Margulan Seisembayev, Yerlan Seisembayev and Askar Galin owned 23.03%, 23.03% and 23.02% of the shares of the Bank through Seimar Alliance Financial Corporation JSC ("SAFC"). The rest of the shares were held by other shareholders none of which owned more than 5% of the shares.

1 Background, continued

(b) Shareholders, continued

On 1 February 2009, 76% of the Bank's ordinary shares owned by SAFC were pledged to Sovereign Wealth Fund "Samruk-Kazyna" JSC ("the Parent Company") and on 2 February 2009 SAFC took a decision to sell 76% of ordinary shares to the Parent Company.

On 30 December 2009, FMSA adopted a resolution on mandatory repurchase of all outstanding ordinary shares of the Bank and their sale to the Parent Company. From that date the Parent Company is the sole shareholder of the Group. The ultimate controlling party is the Government of the Republic of Kazakhstan. Related party transactions are detailed in note 33.

(c) Kazakhstan business environment

Kazakhstan is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Kazakhstan involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Presentaion of consolidated statement of cash flows

The Bank has re-presented its consolidated statement of cash flows for 2008 using the direct method.

(d) Functional and presentation currency

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

Financial information presented in KZT has been rounded to the nearest million.

(e) Going concern

The Group has prepared the consolidated financial statements as at and for the year ended 31 December 2009 on a going concern basis, although it is aware of material uncertainties that may cast significant doubt as to the Group's ability to continue as a going concern. These uncertainties have resulted from:

- The devaluation of the Kazakhstan Tenge on 4 February 2009, which caused an increase in the non-performing rate on customer loans and increased the cost to repay the Group's foreign debt;

2 Basis of preparation, continued

(e) Going concern, continued

- A significant deterioration in the quality of the customer loan portfolio during 2009 and 2008 (see note 15);
- The identification of a substantial number of transactions with parties related to the previous shareholders, in particular guarantees, which resulted in a provision for losses on guarantees of KZT 136,972 million (see note 23);
- A breach of debt covenants, the resulting acceleration of requests for repayment, the consequential default on loan payments and the absence of access to adequate alternative funding sources;
- A deteriorating liquidity position as a result of the above developments and a significant outflow of customer deposits, and
- A loss for the year ended 31 December 2009 of KZT 298,440 million and deficit of KZT 525,771 million.

As a result of the circumstances and uncertainties described above, in April 2009 the Group announced the beginning of its debt restructuring process. Successful completion of the restructuring process would allow the Group to convert funding from the Parent Company to equity and to start the implementation of its new business plan.

In early 2009 fundamental changes have been made to the Bank's management resulting in the appointment of a new Chairman of the Management Board, Deputy Chairman of the Management Board, Chief Financial Officer and several other senior managers. In addition, the Kazakh Government took actions to assist the Group to continue on a going concern basis by providing access to special lines of credit and term deposits.

On 6 July 2009 a Memorandum of Understanding was concluded between the Bank and members of the creditors committee: Asian Development Bank, Calyon, Commerzbank Aktiengesellschaft, DEG – Deutsche Investitions and Entwicklungsgesellschaft mbH, HSBC Bank plc, ING Asia Private Bank Limited, JP Morgan Chase Bank, N. A., Sumitomo Mitsui Banking Corporation Europe Limited and Wachovia Bank N. A. ("the Creditors Committee"). Whilst it was a non-binding agreement on any of the creditors, management believes that it demonstrated the creditors' willingness to work together with the Group in restructuring its debt.

On 14 July 2009 in an intention agreement signed between the Parent Company and the Group, the Parent Company agreed to consider:

- Assisting the Group in restructuring its liabilities;
- Acquisition of a controlling block of voting shares in the Group;
- Conversion of a deposit of KZT 24,000 million, which was placed according to the bank deposit agreement dated 1 February 2009, into equity in the Group;
- Conversion of bonds with a par value of KZT 105,000 million into equity in the Group; and
- Provision of additional liquidity in the form of a short-term deposit.

In addition, the Parent Company agreed to consider providing support for the maintenance of the liquidity ratio, the capital ratio and other regulatory requirements.

On 21 July 2009 the FMSA approved the Group's indicative restructuring and recapitalisation plan.

On 18 September 2009 the Bank's application to initiate a restructuring was approved by the Specialised Financial Court in Almaty.

2 Basis of preparation, continued

(e) Going concern, continued

On 5 November 2009 the Bank issued an Information Memorandum to certain creditors, which were subject to restructuring, in connection with its proposed restructuring plan ("the Restructuring Plan").

On 15 December 2009 the creditors, with a majority of 95.1% approved the Restructuring Plan.

On 1 February 2010 the FMSA approved the Restructuring Plan.

On 26 February 2010 approval was given to the Restructuring Plan by the Specialised Financial Court in Almaty.

On 5 March 2010 the Allocation of Entitlements to the Participants in the Restructuring Plan came into force and from 26 March 2010 the distribution of cash, new notes and equity began.

On 26 March 2010 KZT 105,000 million of bonds issued to the Parent Company were converted into 1,567,164 preference shares and 4,000,000 of common shares were purchased.

Accordingly, distribution of cash, new notes and equity within the restructuring programme was completed on 30 March 2010.

Management has commenced implementation of the new business model. The assumptions on which the new business model is based, have been made by management using all available information. The main assumptions are that the Group can:

- Continue the progress in building up a balanced portfolio of retail, small and medium sized enterprises ("SME") and corporate loans, based on its unique relationship with state bodies and its wide geographical network across Kazakhstan;
- Change its funding base from largely international borrowing to customer deposits;
- Improve its cost efficiency by increasing the proportion of non-interest bearing financial services it carries out.

The implementation of the new business model is in its early stages and accordingly considerable uncertainty still exists in relation to the estimates that have been incorporated in the new business model, particularly as there has been little time for management to obtain evidence to compare the Bank's actual performance with management's assumptions. Management has concluded that the combination of circumstances described above represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. Nevertheless, after making enquiries and considering the uncertainties, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the going concern basis is adopted in preparing these consolidated financial statements.

(f) Use of estimates and judgments

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

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

- Note 15 – loan impairment estimates;
- Note 16 – available-for-sale assets.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions

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

(c) Cash and cash equivalents

The Group considers cash on hand, unrestricted balances on correspondent and time deposit accounts with the NBRK and deposits in other banks with original maturities of less than three months to be cash and cash equivalents.

(d) Financial instruments

(i) Classification

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

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

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

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

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

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

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

- Upon initial recognition designates as at fair value through profit or loss;
- Designates as available-for-sale; or
- Meet the definition of loans and receivables.

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

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

(ii) Recognition

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

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

(iv) Fair value measurement principles

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

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

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Gains and losses on subsequent measurement

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

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

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

(vi) Derecognition

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

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

(vii) Repurchase and reverse repurchase agreements

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

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

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

(viii) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(viii) Derivative financial instruments, continued

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

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

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) Placements with banks

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

(x) Offsetting

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

(e) Property and equipment

(i) Owned assets

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

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

(ii) Revaluation

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

3 Significant accounting policies, continued

(e) Property and equipment, continued

(iii) Depreciation

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

Buildings	30 to 40 years
Computers	3 to 4 years
Vehicles	5 to 7 years
Other	2 to 15 years

(f) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Amortisation commences from the first day of the month subsequent to the date the asset is available for use. The estimated useful life of intangible assets is 1 to 8 years.

(g) Impairment

(i) Financial assets carried at amortised cost

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

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

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

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

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

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale assets

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

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(iv) Non financial assets

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

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

(h) Provisions

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

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

(i) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

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

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

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

3 Significant accounting policies, continued

(k) Taxation

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

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

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

(l) Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in profit or loss using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

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

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

(m) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3 Significant accounting policies, continued

(n) Changes in accounting policies

Starting from 1 January 2009 the Group adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets and revaluation of property. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Starting from 1 January 2009 the Group adopted IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these pronouncements on its financial statements.

- IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will be measured at its fair value.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.
- Amendment to IAS 39 Financial Instruments: *Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes will come into effect not earlier than 1 January 2010.

4 Net interest income

	2009 In million tenge	2008 In million tenge
Interest income		
Loans to customers	69,416	142,275
Financial instruments at fair value through profit or loss	11,999	22,349
Available-for-sale assets	3,500	323
Placements with banks	274	1,133
Amounts receivable under reverse repurchase agreements	-	6
	85,189	**166,086**
Interest expense		
Debt securities issued	(35,795)	(30,268)
Current accounts and deposits from customers	(14,697)	(21,043)
Financial instruments at fair value through profit or loss	(9,481)	(21,386)
Loans from banks	(7,581)	(16,510)
Subordinated debt	(4,174)	(4,159)
Repurchase agreements	(3,375)	(1,995)
Loans from other financial institutions	(2,255)	(2,926)
Other financing	(1,672)	(2,023)
Loans from the Government of the Republic of Kazakhstan	(1,597)	(367)
	(80,627)	**(100,677)**

5 Fee and commission income

	2009 In million tenge	2008 In million tenge
Settlement	5,324	8,465
Commissions on letters of credit and guarantees	1,524	3,052
Foreign exchange and securities operations	314	436
Trust, custodian and other fiduciary services	77	86
Lending operations	52	551
Other	161	227
	7,452	**12,817**

6 Fee and commission expense

	2009 In million tenge	2008 In million tenge
Collection services	1,673	2,151
Settlement bank services	115	133
Maintenance of card accounts	103	100
Customer accounts services by financial agents	76	123
Foreign currency and security operations	61	52
Eurobonds and loans	40	28
Documentary operations	16	56
Insurance premium to related party	-	21,723
Other	107	218
	2,191	**24,584**

7 Net loss on financial instruments at fair value through profit or loss

	2009 In million tenge	2008 In million tenge
Realised (loss)/gain on operations with derivative financial instruments	(40,426)	314
Unrealised (loss)/gain on trading operations	(13,769)	174
Realised (loss)/gain on trading operations	(10,196)	293
Unrealised loss on operations with derivative financial instruments	(20)	(33,663)
	(64,411)	**(32,882)**

8 Net foreign exchange (loss)/gain

	2009 In million tenge	2008 In million tenge
Translation differences, net	(52,417)	13,989
Dealing, net	632	1,575
	(51,785)	**15,564**

9 Impairment losses

	2009 In million tenge	2008 In million tenge
Impairment		
Loans to customers	166,461	242,273
Property and equipment	6,562	-
Guarantees and letters of credit	2,002	4,642
Placements with banks	1,417	-
Special provisions for guarantees	-	136,972
Other assets	-	22,533
Recovery		
Other assets	(1,600)	-
	174,842	**406,420**

10 General administrative expenses

	2009 In million tenge	2008 In million tenge
Payroll and related taxes	8,438	10,055
Depreciation and amortisation	3,253	3,033
Taxes other than on income	1,644	1,423
Legal services	1,228	31
Payments to Deposit Insurance fund	921	654
Occupancy	876	1,591
Professional services	726	452
Advertising and marketing	616	1,132
Communications and information services	518	648
Security	377	216
Cash collection services	249	240
Buildings maintenance	237	249
Repairs and maintenance	129	579
Travel expenses	112	219
Transportation services	97	147
Representative expenses	84	288
Charity and sponsorship	72	224
Office supplies	57	102
Insurance	35	64
Other	471	542
	20,140	**21,889**

11 Income tax (expense)/benefit

	2009 In million tenge	2008 In million tenge
Current tax expense		
Current year	-	(1,208)
Under provided in prior years	(25)	-
	(25)	**(1,208)**
Deferred tax benefit		
Origination and reversal of temporary differences	-	1,554
	-	**1,554**
Total income tax (expense)/benefit	**(25)**	**346**

The applicable tax rate in 2009 is the income tax rate of 20% for Kazakhstan companies (2008: 30%). With effect from 1 January 2009, the income tax rate for Kazakhstan companies was reduced to 20% in 2009, 17.5% in 2010 and 15% in 2011. These rates were announced by the Government in 2008 and are used in the calculation of deferred tax assets and liabilities as at 31 December 2008. During 2009 the Government postponed the reduction in the income tax rate for 2010. In accordance with the changes the income tax rate will remain at 20% for 2010 - 2012 and will decrease to 17.5% for 2013 and to 15% for later years. These rates are used in the calculation of deferred tax assets and liabilities as at 31 December 2009.

11 Income tax (expense)/benefit, continued

Reconciliation of effective tax rate:

	2009 In million tenge	%	2008 In million tenge	%
Loss before tax	**(298,415)**	**100**	**(386,556)**	**100**
Income tax at the applicable tax rate	59,683	(20)	115,967	(30)
Change in unrecognised deferred tax assets	17,186	(6)	(70,393)	18
Non-taxable income on securities	1,186	-	588	-
Non-taxable income	(139)	-	(908)	-
Non-deductible interest expense	(5,965)	2	(120)	-
Effect of change in tax rate	(15,025)	5	(44,935)	12
Non-deductible impairment on loans to related parties	(16,612)	6	147	-
Change in tax loss carry-forwards	(40,339)	13	-	-
	(25)	**-**	**346**	**-**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2009 and 2008. These deferred tax assets are not recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods. These future tax benefits are not recognised due to uncertainties concerning their realisation.

These deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2019.

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows:

In million tenge	**Balance 1 January 2009**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2009**
Financial instruments at fair value through profit or loss	3,679	607	-	4,286
Loans to customers	34,450	(28,389)	-	6,061
Accrued interest on loans to customers, written-off	288	(119)	-	169
Property, equipment and intangible assets	(790)	(78)	54	(814)
Other assets	31,858	(28,876)	-	2,982
Loans from banks and other financial institutions	-	109	-	109
Current account and deposits from customers	-	129	-	129
Other liabilities	908	(908)	-	-
Tax loss carry-forwards	-	40,339	-	40,339
	70,393	**(17,186)**	**54**	**53,261**
Allowance for deferred tax asset	**(70,393)**	**17,186**	**(54)**	**(53,261)**
	-	-	-	-

11 Income tax (expense)/benefit, continued

In million tenge	Balance 1 January 2008	Recognised in profit or loss	Balance 31 December 2008
Financial instruments at fair value through profit or loss	(432)	4,111	3,679
Loans to customers	(10)	34,460	34,450
Accrued interest on loans to customers, written-off	146	142	288
Property, equipment and intangible assets	(1,258)	468	(790)
Other assets	-	31,858	31,858
Other liabilities	-	908	908
	(1,554)	**71,947**	**70,393**
Allowance for deferred tax asset	**-**	**(70,393)**	**(70,393)**
	(1,554)	**1,554**	**-**

12 Cash and cash equivalents

	2009 In million tenge	2008 In million tenge
Cash at current bank accounts		
National Bank of the Republic of Kazakhstan		
Rated BBB-	6,228	8,284
Other banks		
Rated from AA- to AA+	-	362
Rated from A- to A+	-	702
Rated from BBB- to BBB+	-	102
Total cash at current bank accounts	**6,228**	**9,450**
Demand deposits		
Other banks		
Rated from AA- to AA+	-	23,134
Rated from A- to A+	-	15,338
Total demand deposits	**-**	**38,472**
Cash on hand	9,160	12,933
	15,388	**60,855**

Ratings are based on the standards of Standard&Poor's.

Concentration of cash and cash equivalents

As at 31 December 2009 and 2008 the Group has deposits with one and six banks, respectively, whose balances exceed 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2009 and 2008 are KZT 6,228 million and KZT 46,432 million, respectively.

13 Placements with banks

	2009 In million tenge	2008 In million tenge
Nostro accounts		
Rated from AA- to AA+	395	-
Rated A- to A+	238	-
Rated BBB- to BBB+	21	-
Rated from BB- to BB+	-	29
Rated below B+	101	177
Not rated	208	50
Total nostro accounts	**963**	**256**
Loans and deposits		
Rated from AA- to AA+	972	-
Rated A- to A+	732	-
Rated from BB- to BB+	-	5,180
Rated below B+	669	-
Not rated	777	882
Total loans and deposits	**3,150**	**6,062**
Total placements with banks	**4,113**	**6,318**
Impairment allowance	(1,411)	-
Net placements with banks	**2,702**	**6,318**

Overdue or impaired placements with banks comprise placements with banks overdue less than 90 of KZT 1,411 million.

Concentration of placements with banks

As at 31 December 2009 and 2008 the Group has 4 and 2 banks, whose balances exceeded 10% of total placements with banks. The gross value of these balances as at 31 December 2009 and 2008 are KZT 3,150 million and KZT 6,062 million, respectively.

Analysis of movements in the impairment allowance

	2009 In million tenge	2008 In million tenge
Balance at the beginning of the year	-	-
Net charge for the year	(1,417)	-
Write-offs	6	-
Balance at the end of the year	**(1,411)**	**-**

14 Financial instruments at fair value through profit or loss

	2009 In million tenge	2008 In million tenge
ASSETS		
Debt and other fixed-income instruments		
- Government bonds		
Rated from AAA	-	136,972
Rated from BBB- to BBB+	7,969	5,487
- Total government bonds	**7,969**	**142,459**
- Corporate bonds		
Rated from BBB- to BBB+	-	99
Rated from BB- to BB+	314	3,745
Rated from B- to B+	-	205
Rated below B-	985	-
Not rated	711	1,136
- Total corporate bonds	**2,010**	**5,185**
- Bank bonds		
Rated from AA- to AA+	2,896	3,263
Rated from A- to A+	2,936	1,054
Rated from BBB- to BBB+	402	-
Rated from BB- to BB+	-	17,189
Rated from B- to B+	156	551
- Total bank bonds	**6,390**	**22,057**

Ratings are based on the standards of Standard&Poor's.

14 Financial instruments at fair value through profit or loss, continued

	2009 In million tenge	2008 In million tenge
Derivative financial instruments – assets		
Foreign currency contracts		
Spots	-	4
Swaps	-	32,268
	-	32,272
	16,369	**201,973**
LIABILITIES		
Derivative financial instruments – liabilities		
Foreign currency contracts		
Spots	(19)	-
Forwards	-	(477)
Swaps	-	(46,417)
Securities contracts		
Forward	-	(3,274)
	(19)	**(50,168)**
Assets include:		
Pledged under sale and repurchase agreements		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	5,122	487
Corporate bonds	-	15,179
Bank bonds	-	13,405
	5,122	**29,071**
Pledged under guarantees		
Government bonds	-	136,972
	-	**136,972**

As at 31 December 2009 and 2008, the Group pledged certain debt securities as collateral under repurchase agreements.

During May-July all outstanding swaps were terminated early with KZT 32,001 million out of total losses on termination being transferred to amounts subject to Restructuring Plan.

Government bonds were used to settle claims under guarantees in 2009 (see note 23).

14 Financial instruments at fair value through profit or loss, continued

Unquoted debt securities

Included in financial instruments at fair value through profit or loss are non-quoted debt securities:

	2009 In million tenge	2008 In million tenge
Debt and other fixed-income instruments		
Corporate bonds	5,831	4,904

Included in financial instruments at fair value through profit or loss at 31 December 2009 are KZT 10,538 million in financial assets that are classified as held for trading and KZT 5,831 million in financial assets which were, upon initial recognition, designed as financial instruments at fair value through profit or loss (2008: KZT 196,889 million and KZT 4,904 million, respectively).

15 Loans to customers

	2009 In million tenge	2008 In million tenge
Corporate loans that are individually significant		
Loans to large corporates	359,044	329,152
Interest accrued	24,488	15,376
Total corporate loans that are individually significant	**383,532**	**344,528**
Corporate loans that are not individually significant and loans to individuals		
Corporate loans that are not individually significant	53,297	68,847
Mortgage loans	71,202	61,847
Consumer loans	68,765	110,126
Auto loans	6,544	7,932
Credit card loans	2,692	4,091
Other loans	88,798	85,944
Interest accrued	23,052	19,950
Total corporate loans that are not individually significant and loans to individuals	**314,350**	**358,737**
Gross loans to customers	**697,882**	**703,265**
Impairment allowance	(454,175)	(269,790)
Net loans to customers	**243,707**	**433,475**

15 Loans to customers, continued

Movements in the loan impairment allowance for the year ended 31 December 2009 are as follows:

	2009 In million tenge	2008 In million tenge
Balance at the beginning of the year	(269,790)	(43,527)
Net charge for the year	(166,461)	(242,273)
Recovery	647	16,245
Transfer from other assets	-	(221)
Effect of foreign currency translation	(18,571)	(14)
Balance at the end of the year	**(454,175)**	**(269,790)**

As at 31 December 2009, interest accrued on impaired loans amount to KZT 22 million (31 December 2008: nil).

(a) Credit quality of corporate loans that are individually significant

The following table provides information on the credit quality of the corporate loans that are individually significant as at 31 December 2009:

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Corporate loans that are individually significant				
Loans without individual signs of impairment	27,955	571	27,384	2.04
Impaired loans:				
- not overdue	129,093	115,326	13,767	89.34
- overdue less than 90 days	64,717	58,433	6,284	90.29
- overdue more than 90 days and less than 1 year	137,385	113,176	24,209	82.38
- overdue more than 1 year	24,382	15,938	8,444	65.37
Total impaired loans	355,577	302,873	52,704	85.18
Total corporate loans that are individually significant	**383,532**	**303,444**	**80,088**	**79.12**

15 Loans to customers, continued

(a) Credit quality of corporate loans that are individually significant, continued

The following table provides information on the credit quality of the corporate loans that are individually significant as at 31 December 2008:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	In million tenge	In million tenge	In million tenge	%
Corporate loans that are individually significant				
Loans without individual signs of impairment	98,211	-	98,211	-
Impaired loans:				
- not overdue	239,794	191,519	48,275	79.87
- overdue less than 90 days	2,782	1,079	1,703	38.79
- overdue more than 90 days and less than 1 year	2,104	992	1,112	47.15
- overdue more than 1 year	1,637	1,177	460	71.90
Total impaired loans	246,317	194,767	51,550	79.07
Total corporate loans that are individually significant	**344,528**	**194,767**	**149,761**	**56.53**

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

The objective indicators of loan impairment include the following:

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

The Group estimates loan impairment for the corporate loans that are individually significant based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for corporate loans that are individually significant, management makes the following key assumptions:

- historic annual loss rate of 2.04%;
- migration rates are constant and can be estimated based on historic loss migration patterns for the past 12 months;
- a discount of between 30% and 50% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

15 Loans to customers, continued

(a) Credit quality of corporate loans that are individually significant, continued

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment allowance for corporate loans that are individually significant as at 31 December 2009 would be KZT 801 million lower/higher (31 December 2008: KZT 1,498 million).

During the year ended 31 December 2009 the Group renegotiated corporate loans that are individually significant that would otherwise be past due or impaired of KZT 76,353 million (31 December 2008: KZT 52,663 million). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in loans without individual signs of impairment unless the borrower does not comply with the renegotiated terms.

(i) Analysis of collateral

The following table provides the analysis of corporate loans that are individually significant, net of impairment, by types of collateral as at 31 December 2009:

	2009 In million tenge	% of loan portfolio	2008 In million tenge	% of loan portfolio
Real estate	203,224	52.99	136,552	39.63
Mixed	52,419	13.67	106,872	31.02
Transport	6,408	1.67	11,886	3.45
Deposits	5,577	1.45	15,792	4.58
Guarantee	278	0.07	2,186	0.63
Securities	31	-	27,751	8.06
Other collateral	20,299	5.29	34,776	10.09
No collateral	95,296	24.85	8,713	2.53
	383,532	**100.00**	**344,528**	**100.00**

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

As at 31 December 2009 and 2008 it was impracticable to determine the fair value of collateral for impaired or overdue loans with gross value of KZT 355,577 million and KZT 246,317 million respectively.

During the year ended 31 December 2009 the Group obtained assets with the carrying amount of KZT 267 million by taking control of collateral securing corporate loans (2008: KZT 48 million).

(ii) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of corporate loans that are individually significant for the year ended 31 December 2009 are as follows:

	2009 In million tenge	2008 In million tenge
Loan impairment allowance as at 1 January	(194,767)	(18,310)
Loan impairment losses during the year	(102,276)	(176,513)
Loans written off as uncollectible	415	-
Effect of foreign currency translation	(6,816)	56
Loan impairment allowance as at 31 December	**(303,444)**	**(194,767)**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals

The following table provides information on the credit quality of corporate loans that are not individually significant and loans to individuals collectively assessed for impairment as at 31 December 2009:

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Corporate loans that are not individually significant				
- Not past due	18,775	1,355	17,420	7.22
- Overdue less than 30 days	1,923	551	1,372	28.65
- Overdue 30-89 days	2,819	1,023	1,796	36.29
- Overdue 90-179 days	3,667	2,074	1,593	56.56
- Overdue 180-360 days	12,627	11,631	996	92.11
- Overdue more than 360 days	17,671	16,161	1,510	91.45
Total corporate loans that are not individually significant	**57,482**	**32,795**	**24,687**	**57.05**
Mortgage loans				
- Not past due	19,282	129	19,153	0.67
- Overdue less than 30 days	1,973	20	1,953	1.01
- Overdue 30-89 days	3,664	615	3,049	16.78
- Overdue 90-179 days	5,779	1,872	3,907	32.39
- Overdue 180-360 days	26,157	17,732	8,425	67.79
- Overdue more than 360 days	20,418	13,714	6,704	67.17
Total mortgage loans	**77,273**	**34,082**	**43,191**	**44.11**
Consumer loans				
- Not past due	11,541	172	11,369	1.49
- Overdue less than 30 days	1,641	186	1,455	11.33
- Overdue 30-89 days	1,467	472	995	32.17
- Overdue 90-179 days	1,893	904	989	47.75
- Overdue 180-360 days	7,059	6,698	361	94.89
- Overdue more than 360 days	51,008	48,404	2,604	94.89
Total consumer loans	**74,609**	**56,836**	**17,773**	**76.18**
Auto loans				
- Not past due	2,344	4	2,340	0.17
- Overdue less than 30 days	345	-	345	-
- Overdue 30-89 days	265	-	265	-
- Overdue 90-179 days	265	2	263	0.75
- Overdue 180-360 days	592	92	500	15.54
- Overdue more than 360 days	2,982	780	2,202	26.16
Total auto loans	**6,793**	**878**	**5,915**	**12.93**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Credit cards				
- Not past due	751	15	736	2.00
- Overdue less than 30 days	91	21	70	23.08
- Overdue 30-89 days	71	36	35	50.70
- Overdue 90-179 days	90	66	24	73.33
- Overdue 180-360 days	357	346	11	96.92
- Overdue more than 360 days	1,544	1,497	47	96.96
Total credit cards	**2,904**	**1,981**	**923**	**68.22**
Other loans to individuals				
- Not past due	34,065	104	33,961	0.31
- Overdue less than 30 days	3,093	43	3,050	1.39
- Overdue 30-89 days	5,530	497	5,033	8.99
- Overdue 90-179 days	8,875	2,040	6,835	22.99
- Overdue 180 - 360 days	23,333	12,047	11,286	51.63
- Overdue more than 360 days	20,393	9,428	10,965	46.23
Total other loans to individuals	**95,289**	**24,159**	**71,130**	**25.35**
Total corporate loans that are not individually significant and loans to individuals	**314,350**	**150,731**	**163,619**	**47.95**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

The following table provides information on the credit quality of corporate loans that are not individually significant and loans to individuals, continued collectively assessed for impairment as at 31 December 2008:

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans, %
Corporate loans that are not individually significant				
- Not past due	45,749	430	45,319	0.94
- Overdue less than 30 days	2,322	227	2,095	9.78
- Overdue 30-89 days	6,863	1,264	5,599	18.42
- Overdue 90-179 days	4,894	2,157	2,737	44.07
- Overdue 180-360 days	5,077	5,077	-	100.00
- Overdue more than 360 days	8,509	7,402	1,107	86.99
Total corporate loans that are not individually significant	**73,414**	**16,557**	**56,857**	**22.55**
Mortgage loans				
- Not past due	40,190	252	39,938	0.63
- Overdue less than 30 days	3,491	133	3,358	3.81
- Overdue 30-89 days	4,713	371	4,342	7.87
- Overdue 90-179 days	4,211	1,250	2,961	29.68
- Overdue 180-360 days	9,293	4,983	4,310	53.62
- Overdue more than 360 days	4,118	2,208	1,910	53.62
Total mortgage loans	**66,016**	**9,197**	**56,819**	**13.93**
Consumer loans				
- Not past due	48,745	967	47,778	1.98
- Overdue less than 30 days	9,437	957	8,480	10.14
- Overdue 30-89 days	11,128	2,730	8,398	24.53
- Overdue 90-179 days	11,827	4,261	7,566	36.03
- Overdue 180-360 days	31,720	31,720	-	100.00
- Overdue more than 360 days	3,011	3,011	-	100.00
Total consumer loans	**115,868**	**43,646**	**72,222**	**37.67**
Auto loans				
- Not past due	4,185	11	4,174	0.26
- Overdue less than 30 days	733	15	718	2.05
- Overdue 30-89 days	542	41	501	7.56
- Overdue 90-179 days	554	129	425	23.29
- Overdue 180-360 days	1,203	574	629	47.71
- Overdue more than 360 days	906	432	474	47.68
Total auto loans	**8,123**	**1,202**	**6,921**	**14.80**
Credit cards				
- Not past due	2,476	-	2,476	-
- Overdue less than 30 days	265	-	265	-
- Overdue 30-89 days	237	127	110	53.59
- Overdue 90-179 days	575	455	120	79.13
- Overdue 180-360 days	647	641	6	99.07
- Overdue more than 360 days	89	88	1	98.88
Total credit cards	**4,289**	**1,311**	**2,978**	**30.57**

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

	Gross loans In million tenge	Impairment allowance In million tenge	Net loans In million tenge	Impairment to gross loans %
Other loans to individuals				
- Not past due	60,788	42	60,746	0.07
- Overdue less than 30 days	5,978	41	5,937	0.69
- Overdue 30-89 days	7,552	238	7,314	3.15
- Overdue 90-179 days	5,143	495	4,648	9.62
- Overdue 180-360 days	7,703	1,528	6,175	19.84
- Overdue more than 360 days	3,863	766	3,097	19.83
Total other loans to individuals	**91,027**	**3,110**	**87,917**	**3.42**
Total corporate loans that are not individually significant and loans to individuals	**358,737**	**75,023**	**283,714**	**20.91**

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the impairment losses for corporate loans that are not individually significant and loans to individuals include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months;
- in respect of mortgage loans, a delay of 24 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the loan impairment on corporate loans that are not individually significant and loans to individuals as at 31 December 2009 would be KZT 4,909 million lower/higher (31 December 2008: KZT 8,511 million).

As at 31 December 2009 included in the loan portfolio are restructured corporate loans that are not individually significant and loans to individuals of KZT 22,305 million (31 December 2008: KZT 54,835 million).

(i) Analysis of collateral

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

Management believes that it is impracticable to estimate the fair value of collateral held in respect of other loans to individuals.

15 Loans to customers, continued

(b) Credit quality of corporate loans that are not individually significant and loans to individuals, continued

(ii) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of corporate loans that are not individually significant and loans to individuals for the year ended 31 December 2009 are as follows:

In million tenge	Loans that are not individually significant	Mortgage loans	Consumer loans	Auto loans	Credit cards	Other loans	Total
Loan impairment allowance as at 1 January	(16,557)	(9,197)	(43,646)	(1,202)	(1,311)	(3,110)	(75,023)
Loan impairment losses	(13,720)	(19,619)	(13,377)	424	(556)	(17,337)	(64,185)
Loans written off as uncollectible	38	3	187	3	-	1	232
Effect of foreign currency translation	(2,556)	(5,269)	-	(103)	(114)	(3,713)	(11,755)
Loan impairment allowance as at 31 December	**(32,795)**	**(34,082)**	**(56,836)**	**(878)**	**(1,981)**	**(24,159)**	**(150,731)**

Movements in the loan impairment allowance by classes of corporate loans that are not individually significant and loans to individuals for the year ended 31 December 2008 are as follows:

In million tenge	Loans that are not individually significant	Mortgage loans	Consumer loans	Auto loans	Credit cards	Other loans	Total
Loan impairment allowance as at 1 January	(3,617)	(7,182)	(1,215)	(834)	(215)	(12,154)	(25,217)
Loan impairment losses	(13,240)	(4,025)	(54,404)	(810)	(1,099)	7,818	(65,760)
Loans written off as uncollectible	545	2,042	11,973	443	-	1,242	16,245
Other transfers	(221)	-	-	-	-	-	(221)
Effect of foreign currency translation	(24)	(32)	-	(1)	3	(16)	(70)
Loan impairment allowance as at 31 December	**(16,557)**	**(9,197)**	**(43,646)**	**(1,202)**	**(1,311)**	**(3,110)**	**(75,023)**

15 Loans to customers, continued

(c) Industry and geographical analysis of loans that are individually significant

Corporate loans that are individually significant were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	2009 In million tenge	2008 In million tenge
Construction	113,729	96,228
Production of crude oil and natural gas	56,916	45,014
Real estate operations	56,413	32,623
Services provided by small and medium entities	42,151	48,963
Wholesale	28,807	32,979
Financial services	21,640	21,904
Transportation	15,534	12,175
Metallurgy industry	9,851	8,830
Finance lease	5,526	8,786
Chemical industry	4,495	2,405
Agriculture	4,486	8,484
Food	3,978	4,138
Retail	3,171	1,093
Production of metal goods	939	295
Post and communications	502	461
Other	15,394	20,151
	383,532	**344,529**
Impairment allowance	(303,444)	(194,768)
	80,088	**149,761**

Corporate loans that are not individually significant and loans to individuals are also issued to customers located within the Republic of Kazakhstan.

(d) Significant credit exposures

As at 31 December 2009 and 2008 the Group has no borrowers or groups of connected borrowers, respectively, whose loan balances exceed 10% of loans to customers.

(e) Loan maturities

The maturity of the loan portfolio is presented in note 36, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

16 Available-for-sale assets

	2009 In million tenge	2008 In million tenge
Held by the Group		
Debt and other fixed-income instruments		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan		
Rated from BBB- to BBB+	955	964
- Corporate bonds		
Rated from BBB- to BBB+	-	377
Rated from BB- to BB+	59	-
Not rated	85	616
- Bank bonds		
Rated from BBB- to BBB+	340	-
Rated from BB- to BB+	-	634
Rated from B- to B+	-	101
Rated below B-	3	-
- Bonds of the Parent Company		
Not rated	96,166	-
- Equity investments		
Corporate shares	49	49
	97,657	**2,741**
Pledged under sale and repurchase agreements		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan		
Rated from BBB- to BBB+	526	121
- Corporate bonds		
Rated from BBB- to BBB+	-	359
Not rated	-	356
- Bank bonds		
Rated from BB- to BB+	-	483
	526	**1,319**

Fair value of the bonds of the Parent Company was determined using a market rate of 5.3% determined with reference to government securities having similar terms and credit risk.

Non-quoted debt securities

Included in available-for-sale assets are non-quoted debt securities as follows:

	2009 In million tenge	2008 In million tenge
Debt and other fixed-income instruments		
Corporate bonds	96,254	624

Equity investments included in available-for-sale assets are non-quoted equity securities carried at cost with total carrying value of KZT 49 million (2008: KZT 49 million), the fair value of which cannot be reliably determined. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

17 Property, equipment and intangible assets

In million tenge	Land and buildings	Computers	Vehicles	Construction in progress	Other	Intangible Assets	Total
Cost/revalued amount							
At 1 January 2008	16,235	2,076	559	5,332	8,252	1,727	34,181
Additions	4,065	619	1	46	1,787	422	6,940
Revaluation	(861)	-	-	-	-	-	(861)
Transfers	2,157	(1)	-	(2,722)	565	1	-
Disposals	(6)	(139)	(155)	-	(722)	(144)	(1,166)
At 31 December 2008	21,590	2,555	405	2,656	9,882	2,006	39,094
Additions	38	28	5	-	738	74	883
Revaluation	(7,446)	-	-	-	-	-	(7,446)
Transfers	223	7	-	(253)	23	-	-
Disposals	-	(10)	(41)	(399)	(313)	-	(763)
As at 31 December 2009	**14,405**	**2,580**	**369**	**2,004**	**10,330**	**2,080**	**31,768**
Depreciation/amortisation							
At 1 January 2008	468	632	137	-	1,604	291	3,132
Depreciation and amortisation charge	487	515	59	-	1,646	326	3,033
Elimination of revaluation on disposal	(489)	-	-	-	-	-	(489)
Disposals	(1)	(134)	(49)	-	(452)	(143)	(779)
At 31 December 2008	465	1,013	147	-	2,798	474	4,897
Depreciation and amortisation charge	617	562	43	-	1,687	344	3,253
Transfers	(1)	2	-	-	(1)	-	-
Revaluation	(1,081)	-	-	-	-	-	(1,081)
Disposals	-	(9)	(18)	-	(286)	-	(313)
At 31 December 2009	-	**1,568**	**172**	-	**4,198**	**818**	**6,756**
Net book value							
At 1 January 2008	15,767	1,444	422	5,332	6,648	1,436	31,049
At 31 December 2008	21,125	1,542	258	2,656	7,084	1,532	34,197
At 31 December 2009	**14,405**	**1,012**	**197**	**2,004**	**6,132**	**1,262**	**25,012**

17 Property, equipment and intangible assets, continued

Revalued assets

At 31 December 2009 buildings are revalued based on the results of an independent appraisal performed by Sert LLC. The basis used for the appraisal is the market approach.

The carrying value of buildings as at 31 December 2009, if the buildings would not have been revalued, would be KZT 20,769 million (31 December 2008: KZT 21,123 million).

18 Other assets

	2009 In million tenge	2008 In million tenge
Receivables from collection agencies	20,894	22,338
Prepayments and other debtors	13,683	2,048
Inventory	969	828
Tax settlements, other than income tax	726	1,024
Other services provided	467	555
Debtors for capital investments	415	604
Other transit accounts	74	72
Prepaid expenses	25	338
Other	1,018	775
Total other assets	**38,271**	**28,582**
Impairment allowance	(20,931)	(22,642)
	17,340	**5,940**

Analysis of movements in the impairment allowance:

	2009 In million tenge	2008 In million tenge
Balance at the beginning of the year	(22,642)	(354)
Net recovery/(charge)	1,600	(22,533)
Transfers to loans to customers	-	221
Write-offs	111	24
Balance as at the end of the year	**(20,931)**	**(22,642)**

19 Current accounts and deposits from customers

	2009 In million tenge	2008 In million tenge
Current accounts and demand deposits		
- Retail	5,281	6,859
- Corporate	64,853	18,507
Term deposits		
- Retail	44,829	78,467
- Corporate	36,327	75,342
Guarantee Deposits		
- Retail	1,507	5,680
- Corporate	979	4,189
	153,776	**189,044**

Concentrations of current accounts and deposits from customers

As at 31 December 2009 the Group had one customer whose balances exceed 10% of total customer accounts (2008: nil). This balance as at 31 December 2009 is KZT 69,625 million.

KZT 84,586 million of the current accounts and deposits from customers are originated with related parties (see note 33).

20 Loans from the Government of the Republic of Kazakhstan

	2009 In million tenge	2008 In million tenge
Loans from the Government of the Republic of Kazakhstan	22,592	4,432
Other loans	21	28
	22,613	**4,460**

21 Amounts subject to Restructuring Plan as at 31 December 2009

As part of the Restructuring Plan summarised in note 2(e) creditors were given options in relation to how their claims are restructured. The allocation and reallocation of claims was carried out on 5 March 2010 based on the balance sheet, risk weighted assets and capital adequacy ratios of the Bank at 1 March 2010 and on the pro-forma figures after restructuring.

The amount due to the Parent Company was converted to KZT 129 billion by issuing ordinary shares of KZT 24 billion and converting the right of claim with respect to the bonds into preference shares of KZT 105 billion.

On 26 March 2010 USD 500 million in cash was paid out to creditors, senior and subordinated debts of KZT 125 billion and KZT 21 billion, respectively, were issued.

As part of the restructuring the Bank issued "recovery notes" with a reference amount of KZT 144 billion, which were allocated to creditors in accordance with the Restructuring Plan. The holders of the notes are entitled to receive a share of the proceeds of certain assets in excess of the amounts fixed on the balance sheet at 31 May 2009. Recoveries will be distributed in accordance with the criteria set out in the Restructuring Plan.

21 Amounts subject to Restructuring Plan as at 31 December 2009, continued

The Bank is establishing a reporting system to provide the information that is required by the terms of the recovery notes and will be in position to report to the holders of the recovery notes, the necessary information, in the future.

The following liabilities are subject to the terms of the Restructuring Plan as at 31 December 2009 (with 2008 corresponding amounts):

	2009 In million tenge	2008 In million tenge
Loans from banks		
- Loans with fixed interest rate		
Loans from OECD banks	64,075	63,222
Loans from non-OECD banks	1,182	6,160
Total loans with fixed interest rate	**65,257**	**69,382**
- Loans with floating interest rate		
Loans from OECD banks	14,347	23,429
Loans from non-OECD banks	4,117	7,417
Syndicated Loan Facility	46,132	37,415
Total loans with floating interest rate	**64,596**	**68,261**
Less unamortised portion	(217)	(327)
Vostro Accounts	11	61
	129,647	**137,377**
Loans from other financial institutions		
- Loans with fixed interest rate		
Loans from OECD banks	889	9,621
- Loans with floating interest rate		
Loans from OECD banks	46,627	27,506
Less unamortised portion	(1,684)	(1,386)
	45,832	**35,741**
Debt securities issued		
- Debt securities with fixed interest rate		
Nominal	340,233	274,202
Unamortised discount, net	(2,192)	(2,848)
	338,041	**271,354**
Accrued interest	22,238	15,230
	360,279	**286,584**

21 Amounts subject to Restructuring Plan, continued

	2009 In million tenge	2008 In million tenge
Subordinated Debt		
- Subordinated Debt with fixed coupon rate		
Nominal in KZT	46,917	41,801
Unamortised discount, net	(1,129)	(1,198)
	45,788	**40,603**
Accrued dividends attributed to preference shares	-	400
Accrued interest	2,406	757
	48,194	**41,760**
Amount due to the Parent Company	**105,000**	**-**
Other liabilities subject to Restructuring Plan		
- Swaps early terminated	32,001	-
- Letters of credit	13,110	-
- Guarantees	161	-
	45,272	**-**

During the year ended 31 December 2009, as the Group was undergoing a restructuring process, there were breaches of covenants on many of its debt liabilities.

22 Other financing

	2009 In million tenge	2008 In million tenge
Loans with fixed interest rate	5,944	12,185
Loans with floating interest rate	10,795	17,797
Less unamortised portion of borrowing costs	(533)	(533)
	16,206	**29,449**

23 Special provision for guarantees

As at 31 December 2008, a special provision for guarantees was established to cover probable losses under guarantee contracts entered into from 2006 to 2008 with two brokerage companies, which acted as custodians of treasury bills issued by the US Government ("the treasury bills"). The Group pledged treasury bills as guarantee for loans made by the two brokerage companies to companies registered in British Virgin Islands and Samoa ("the offshore companies").

The Group and its legal advisors, together with various regulatory arms of the Kazakhstan Government, are taking actions considered necessary to assess legal matters regarding the guarantee contracts and reduce the potential losses. However, due to the high level of uncertainty, the Group recorded a provision in the amount of KZT 136,972 million as at 31 December 2008 for estimated losses related to the guarantee transactions. The provision represents the total amount of the treasury bills given as guarantees.

23 Special provision for guarantees, continued

In February and May 2009, the Group was informed that the offshore companies had defaulted on the payment of these loans and the custodians had consequently taken possession of the collateral in the form of the treasury bills. Consequently, the treasury bills were used to settle the guarantees as at 30 June 2009.

24 Other liabilities

	2009 In million tenge	2008 In million tenge
Accrued interest on loans payable to the Parent Company	2,653	-
Other provisions	2,373	4,731
Taxes payable, other than income tax	1,005	1,175
Other transit accounts	303	404
Creditors for capital lease	252	153
Other	6,431	499
	13,017	**6,962**

25 Share capital

As at 31 December 2009 and 2008, authorised share capital consisted of 15,000,000 and 11,537,500 ordinary shares with voting rights and 400,000 preference shares. All shares have a nominal value of KZT 10,000. As at 31 December 2009 and 2008 ordinary shares issued and outstanding consisted of 9,637,563.

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

26 Loss per share

The calculation of loss per share as at 31 December 2009 is based upon the loss for the year and the number of ordinary shares issued according to the Restructuring Plan on 26 March 2010 (as detailed in note 2(e)) as this change occurred before the consolidated financial statements were auhtorised for issue. The number of new ordinary shares issued according to the Restructuring Plan was 20,000,000 and all previously issued ordinary shares were cancelled. Loss per share for the year ended 31 December 2008 was adjusted retrospectively.

The management determined that 3,000,000 convertible preference shares issued according to the Restructuring Plan in addition to ordinary shares do not have a dilutive effect as their conversion to ordinary shares would neither decrease earnings per share nor increase loss per share.

27 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

27 Risk management, continued

(a) Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Risk Service (Risk Department and Collateral Department) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

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

(b) Market risk

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

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division and subsequenlty agreed by the Board of Directors.

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

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

27 Risk management, continued

(b) Market risk, continued

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

(c) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of profit or loss and deficit to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2009 and 2008 is as follows:

	2009		2008	
	Profit or loss In million tenge	Deficit In million tenge	Profit or loss In million tenge	Deficit In million tenge
100 bp parallel fall	4,209	4,209	853	853
100 bp parallel rise	(4,209)	(4,209)	(853)	(853)

An analysis of sensitivity of profit or loss and deficit as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2009		2008	
	Profit or loss In million tenge	Deficit In million tenge	Profit or loss In million tenge	Deficit In million tenge
100 bp parallel fall	7,956	7,996	1,559	1,247
100 bp parallel rise	(7,285)	(7,323)	(1,559)	(1,247)

(d) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk at year end refer to note 37.

27 Risk management, continued

(d) Currency risk

An analysis of sensitivity of profit or loss and deficit to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% change in USD, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2009		2008	
	Profit or loss In million tenge	Deficit In million tenge	Profit or loss In million tenge	Deficit In million tenge
10% appreciation of USD against KZT	(14,183)	(14,183)	(6,506)	(6,506)
10% appreciation of EUR against KZT	(12,856)	(12,856)	(6,309)	(6,309)
10% appreciation of other currencies against KZT	(10,368)	(10,368)	(5,693)	(5,693)

The effects resulting from a depreciation of USD, Euro and other currencies against KZT is the inverse of what is shown above.

(e) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss and deficit to changes in securities prices based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% change in all securities prices is as follows:

	2009		2008	
	Profit or loss In million tenge	Deficit In million tenge	Profit or loss In million tenge	Deficit In million tenge
10% increase in securities prices	459	459	302	302
10% decrease in securities prices	(459)	(459)	(302)	(302)

(f) Credit risk

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

The credit policy establishes:

- Procedures for review and approval of loan credit applications;
- Methodology for the credit assessment of borrowers (corporate and individuals);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;

27 Risk management, continued

(f) Credit risk, continued

- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

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

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

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department.

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

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

For the analysis of concentration of credit risk in respect of loans to customers refer to note 15.

The maximum exposure to off balance credit risk at the reporting date is presented in note 29.

(g) Liquidity risk

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

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

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

27 Risk management, continued

(g) Liquidity risk, continued

The liquidity management policy requires:

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

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

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

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the NBRK. The Bank is in compliance with these ratios during the years ended 31 December 2009 and 2008.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liabilities. The expected cash flows on these financial liabilities can vary significantly from this analysis.

27 Risk management, continued

(g) Liquidity risk, continued

The liquidity position as at 31 December 2009 is as follows:

In million tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total	Carrying amount
Financial liabilities							
Current accounts and deposits from customers	71,175	396	12,432	47,722	62,413	194,138	153,776
Loans from Government of the Republic of Kazakhstan	-	1,837	2,684	13,421	16,655	34,597	22,613
Amounts subject to Restructuring Plan	-	734,224	-	-	-	734,224	734,224
Other financing	949	1,670	7,392	7,188	-	17,199	16,206
Amounts payable under repurchase agreements	5,011	-	-	-	-	5,011	5,010
Financial liabilities at fair value through profit or loss	19	-	-	-	-	19	19
Other liabilities	8,733	-	-	-	-	8,733	8,733
Total financial liabilities	**85,887**	**738,127**	**22,508**	**68,331**	**79,068**	**993,921**	**940,581**

Amounts subject to the Restructuring Plan detailed in note 2(e) do not include any future interest as accrual of contractual interest on them was suspended.

28 Capital management

The NBRK sets and FMSA monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation of Republic of Kazakhstan as capital for credit institutions. Under the current capital requirements set by the NBRK the Bank has to maintain statutory capital ratios (ratios of capital to total assets and commitments, less equity investments (K1) and to risk weighted assets (K2)) above the prescribed minimum level. As at 31 December 2009, this minimum level is 6% for K1 and 12% for K2. Both ratios were negative and the Bank was not in compliance with the statutory capital ratios during the years ended 31 December 2009 and 31 December 2008.

Capital as calculated in accordance with Basle Accord.

	2009 In million tenge	Unaudited 2008 In million tenge
Tier 1 capital	**(505,228)**	**(211,055)**
Tier 2 capital	**19,396**	**21,293**

Capital as calculated in accordance with NBRK requirements.

	2009 In million tenge	Unaudited 2008 In million tenge
Capital K1	**(448,023)**	**171,807**
Capital K2	**(448,023)**	**191,636**

Tier 1 capital calculated in accordance with the requirements of the Basle Accord, as at 31 December 2009 and 31 December 2008 was negative.

As a result of the matters discussed in note 2(e) the Bank entered a Restructuring Plan which was approved by FMSA in order to ensure future compliance with capital adequacy requirements.

29 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

	2009 In million tenge	2008 In million tenge
Contracted amount		
Commitments on loans and unused credit lines	101,659	126,491
Guarantees issued and similar commitments	7,477	12,927
Letters of credit and other transaction related contingent obligations	4,534	20,622
Pledge of the treasury bills (notes 14, 23)	-	136,972
	113,670	**297,012**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

30 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2009 In million tenge	2008 In million tenge
Less than 1 year	347	939
Between 1 and 5 years	556	1,559
More than 5 years	87	277
	990	**2,775**

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

During 2009 KZT 876 million is recognised as an expense in profit or loss in respect of operating leases (2008: KZT 1,591 million).

31 Contingencies

(a) Insurance

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

(b) Litigation

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

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

(c) Taxation contingencies

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

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

(d) Restructuring

As a result of the matters discussed in note 2(e) the Bank is required to fulfil certain obligations under the Restructuring Plan.

32 Funds management, trust and custody activities

(a) Funds management and trust activities

The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

(b) Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

33 Related party transactions

(a) Control relationships

The Bank's parent company is the Sovereign Wealth Fund "Samruk-Kazyna" JSC. The party with ultimate control over the Bank is the Government of the Republic of Kazakhstan.

Publicly available financial statements are produced by the Parent Company, however, no publicly available financial statements are produced by the ultimate controlling party.

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

Total remuneration included in personnel expenses (refer to note 10):

	2009 In million tenge	2008 In million tenge
Members of the Board of Directors	81	19
Members of the Management Board	205	152
	286	**171**

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

33 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include Parent Company and other state companies and organisations. The outstanding balances and the related average interest rates as at 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with other related parties are as follows:

	Parent company		Other state companies and organisations		Fellow subsidiaries		Other related parties		Total
	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge
Statement of financial position									
ASSETS									
Cash and cash equivalents	-	-	6,229	-	-	-	-	-	6,229
Financial instruments at fair value through profit or loss	-	-	7,969	-	-	-	-	-	7,969
Available-for-sale assets	96,166	4.00	955	6.40	-	-	37	-	97,158
Loans to customers					1,009	10.00	108	11.64	1,117
- Principal balance	-	-	-	-	1,030	-	111	-	1,141
- Provision for impairment	-	-	-	-	(21)	-	(3)	-	(24)
Other assets	-	-	1,640	-	2	-	-	-	1,642
LIABILITIES									
Current accounts and deposits from customers	70,449	4.80	-	-	13,815	2.26-7.96	322	10.85	84,586
Loans from the Government of the Republic of Kazakhstan	-	-	22	4.00	22,591	8.22	-	-	22,613
Amount due to Parent Company	105,000	9.00	-	-	-	-	-	-	105,000
Amounts payable under repurchase agreements	-	-	5,010	0.90	-	-	-	-	5,010
Other liabilities	2,653	-	984	-	28	-	-	-	3,665
Off balance sheet items									
Guarantees	-	-	-	-	56	0.01	-	-	56

33 Related party transactions, continued

(c) Transactions with other related parties, continued

	Parent company		Other state companies and organisations		Fellow subsidiaries		Other related parties		Total
	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge
Profit/(loss)									
Interest income	3,284	-	-	-	77	-	2	-	3,363
Interest expense	(10,814)	-	(282)	-	(2,172)	-	(25)	-	(13,293)
Fee and commission expense	-	-	-	-	-	-	(1,673)	-	(1,673)
Net loss on available-for-sale assets	(5)	-	-	-	-	-	-	-	(5)
Net loss on foreign exchange operations	-	-	-	-	(24)	-	-	-	(24)
Impairment loss	-	-	-	-	(669)	-	-	-	(669)
General administrative expenses	-	-	(1,990)	-	(504)	-	(381)	-	(2,875)

33 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2008 and related profit or loss amounts of transactions for the year ended 31 December 2008 with other related parties are as follows:

	Former Parent company Seimar Alliance Financial Corporation		Other		Total
	In million tenge	Average interest rate, %	In million tenge	Average interest rate, %	In million tenge
Statement of financial position					
ASSETS					
Placements with banks	-	-	873	11.90	873
Loans to customers	-	-	49,299	14.83	49,299
Available for sale assets	-	-	37	-	37
Other assets	-	-	227	-	227
LIABILITIES					
Current accounts and deposits from customers	3,909	10.77	12,668	10.22	16,577
Loans from banks	-	-	54	-	54
Loans from other financial institutions	-	-	4,216	-	4,216
Off balance sheet items					
Contingent liabilities	1	-	35,785	-	35,786
Profit/(loss)					
Interest income	-	-	9,087	-	9,087
Interest expense	(1,439)	-	(126)	-	(1,565)
Impairment loss	(1)	-	(154,094)	-	(154,095)
Fee and commission income	15	-	8,793	-	8,808
Fee and commission expense	(2,151)	-	(21,732)	-	(23,883)
Net gain on foreign exchange operations	648	-	856	-	1,504
Other operating expenses	(92)	-	(870)	-	(962)

34 Segment reporting

The Group's primary format for reporting segment is business.

The Group, prior to February 2009, was organised on the basis of three main business segments: retail banking, corporate banking and investment banking. As a result of the events in early 2009 and subsequently, the Chief Operating Decision Maker determined that the previous operating segments did not provide appropriate information to decide how to allocate resources in a way that would enable the Chief Operating Decision Maker to focus on the Group's primary objective during 2009, which was to work with the Creditors Committee and the Parent Company in restructuring its debt.

The Chief Operating Decision Maker suspended reporting by business segment and requested specific information required in order to ensure the restructuring would take place. Following the restructuring, the reportable segments of the Group will change. The system changes necessary to provide relevant information are currently being implemented.

Accordingly as business segment information was not presented to or used by the Chief Operating Decision Maker for most of the year ended December 2009, management has not presented business segment information.

35 Fair value of financial instruments

(a) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy note 3(e) *(iv)*. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The estimated fair values of all financial instruments except for loans to customers approximates their carrying values. As at 31 December 2009 the total fair value of loans to customers was KZT 171,497 million (2008: KZT 383,443 million). It was not practicable to determine fair values of liabilities subject to Restructuring Plan due to a significant range of different settlement options.

(b) Valuation of financial instruments

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

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

35 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

Fair value of financial assets and financial liabilities are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair value using valuation techniques.

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

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

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

	Note	Level 1 In million tenge	Level 2 In million tenge	Level 3 In million tenge	Total In million tenge
Assets					
Financial instruments at fair value through profit or loss	14	-	10,537	5,832	16,369
Available-for-sale assets	16	-	1,201	96,456	97,657
Liabilities					
Financial instruments at fair value through profit or loss	14	-	(19)	-	(19)
		-	**11,719**	**102,288**	**114,007**

The available-for-sale assets with fair values determined using valuation techniques that use observable inputs are classified into Level 2. Observable inputs include transaction prices in markets that are active for similar, but not identical, instruments and transaction prices in markets that are not active for identical instruments. Although all the instruments are listed in Kazakhstan stock exchange, management believes that the market for these identical instruments is not active.

35 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

The Group applies discounted cash flow methodology in respect of valuation of impaired available-for-sale assets and available-for-sale assets for which fair values cannot be determined based on observable market inputs.

For impaired debt securities cash flow projections were based on publicly available information on expected post-restructuring payoff schedule for each respective type of securities. Assumptions on discount rates were made based on issuers' credit risk premiums implied by market quotes of the issues on which the trades were not suspended.

Certain available-for-sale assets that do not have observable market prices and cannot be valued based on observable market inputs were also valued applying discounted cash flow methodology. Cash flow projections for these securities were derived from contractual payment schedules. Assumptions regarding discount rates were made based on quoted prices in active markets of similar instruments of an issuer with adjacent credit rating adjusted to the difference in credit ratings.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Available-for-sale assets In million tenge	Financial instruments at fair value through profit or loss In million tenge
Balance as at 1 January	-	4,904
Profit or loss	-	928
Purchases	96,368	-
Transfer from Level 2	88	-
Balance at 31 December	**96,456**	**5,832**

Sensitivity analysis

The discounted cash flow technique is often used by participants to price financial instruments with no observable market data. However this technique is subject to inherent limitations, such as estimation of the appropriate risk adjusted discount rate, and different assumptions and inputs would yield different results.

Model inputs and values are calibrated against historical data and published forecast and, where possible, against current or recent observed transactions. This process is inherently subjective as different input sources may imply different levels of expected losses and discount rates.

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing assumed discount rates used to reasonably possible alternative assumptions would have the following effects:

	Effect on profit or loss		Effect on other comprehensive income	
In million tenge	**Favorable**	**(Unfavorable)**	**Favorable**	**(Unfavorable)**
Available-for-sale assets	-	-	9,152	(7,898)
Financial instruments at fair value through profit or loss	80	(77)	80	(77)

36 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

	Less than 1 month In million tenge	1 to 3 months In million tenge	3 to 12 months In million tenge	1 to 5 years In million tenge	More than 5 years In million tenge	No maturity In million tenge	Overdue In million tenge	Total In million tenge
ASSETS								
Cash and cash equivalents	15,388	-	-	-	-	-	-	15,388
Placements with banks	1,035	403	569	-	695	-	-	2,702
Financial instruments at fair value through profit or loss	-	16,369	-	-	-	-	-	16,369
Loans to customers	875	470	3,522	81,227	16,155		141,458	243,707
Available-for-sale assets	227	96,250	-	1,131	-	49	-	97,657
Total financial assets	**17,525**	**113,492**	**4,091**	**82,358**	**16,850**	**49**	**141,458**	**375,823**
LIABILITIES								
Current accounts and deposits from customers	72,980	740	11,807	38,226	30,023	-	-	153,776
Loans from the Government of the Republic of Kazakhstan	-	-	-	2,196	20,417	-	-	22,613
Loans from banks	7	129,640	-	-	-	-	-	129,647
Loans from other financial institutions	-	45,832	-	-	-	-	-	45,832
Debt securities issued	-	360,279	-	-	-	-	-	360,279
Subordinated debt	-	26,878	-	18,530	-	-	2,786	48,194
Amount due to the Parent Company	-	105,000	-	-	-	-	-	105,000
Other liabilities subject to Restructuring Plan	-	45,272	-	-	-	-	-	45,272
Other financing	-	16,206	-	-	-	-	-	16,206
Amounts payable under repurchase agreements	5,010	-	-	-	-	-	-	5,010
Financial instruments at fair value through profit or loss	19	-	-	-	-	-	-	19
Other liabilities	2,905	-	-	-	-	-	5,828	8,733
Total financial liabilities	**80,921**	**729,847**	**11,807**	**58,952**	**50,440**	**-**	**8,614**	**940,581**
Net position as at 31 December 2009	**(63,396)**	**(616,355)**	**(7,716)**	**23,406**	**(33,590)**	**49**	**132,844**	**(564,758)**
Net position as at 31 December 2008	(490,683)	8,278	131,368	(8,276)	99,868	-	-	(259,445)
Cumulative net position as at 31 December 2009	**(63,396)**	**(679,751)**	**(687,467)**	**(664,061)**	**(697,651)**	**-**	**-**	
Cumulative net position as at 31 December 2008	(490,683)	(482,405)	(351,037)	(359,313)	(259,445)	-	-	

The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments. The table above reflects the position prior to the restructuring and recapitalisation, which was completed on 26 March 2010. Overdue amounts of loans to customers include only portion of loans that are contractually overdue.

37 Currency analysis

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

	KZT	USD	EUR	Other currencies	Total
	In million tenge	In million tenge	In million tenge	In million tenge	In million tenge
ASSETS					
Cash and cash equivalents	12,233	1,810	1,216	129	15,388
Placements with banks	-	2,540	80	82	2,702
Financial instruments at fair value through profit or loss	10,323	5,831	215	-	16,369
Loans to customers	114,582	123,938	5,034	153	243,707
Available-for-sale assets	97,657	-	-	-	97,657
Total financial assets	**234,795**	**134,119**	**6,545**	**364**	**375,823**
LIABILITIES					
Current accounts and deposits from customers	135,794	14,763	3,098	121	153,776
Loans from the Government of the Republic of Kazakhstan	22,613	-	-	-	22,613
Loans from banks	23,073	72,507	2,677	31,390	129,647
Loans from other financial institutions	-	14,346	-	31,486	45,832
Debt securities issues	22,527	109,314	161,476	66,962	360,279
Subordinated debt	15,027	33,167	-	-	48,194
Amount dut to the Parent Company	105,000	-	-	-	105,000
Other liabilities subject to Restructuring Plan	-	45,272	-	-	45,272
Other financing	-	16,206	-	-	16,206
Amounts payable under repurchase agreements	5,010	-	-	-	5,010
Financial instruments at fair value through profit or loss	19	-	-	-	19
Other liabilities	2,898	5,835	-	-	8,733
Total financial liabilities	**331,961**	**311,410**	**167,251**	**129,959**	**940,581**
Net on and off balance sheet positions as at 31 December 2009	**(97,166)**	**(177,291)**	**(160,706)**	**(129,595)**	**(564,758)**
Net on and off balance sheet positions as at 31 December 2008	1,382	(92,949)	(90,132)	(81,333)	(263,032)

38 Subsequent events

As discussed in note 2(e), on 26 March 2010 the Bank started distribution of cash, new notes and equity to the claimants in accordance with the Allocation and Reallocation of Entitlements between Restructuring Options as detailed in the Restructuring Plan. The distribution of cash, new notes and equity to creditors was substantially completed on 30 March 2010. Following the completion of the restructuring process, the Parent Company owned 67% and the creditors - 33% of voting shares.