Development Bank of Kazakhstan JSC

Consolidated Financial Statements

for the year ended 31 December 2010

Contents

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Independent Auditors' Report

To the Board of Directors of Development Bank of Kazakhstan JSC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

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

Abibullayeva E.Sh.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate No.0000288
of 11 November 1996

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

1 March 2011

	Note	2010 KZT'000	2009 KZT'000
Interest income	4	53,956,104	41,868,939
Interest expense	4	(29,996,707)	(18,626,030)
Net interest income		**23,959,397**	**23,242,909**
Fee and commission income	5	203,208	181,683
Fee and commission expense	6	(86,454)	(142,642)
Net fee and commission income		**116,754**	**39,041**
Net foreign exchange gain	7	395,413	7,667,621
Net realised gain on available-for-sale assets		863,707	513,524
Net gain/(loss) on derivative financial instruments	8	399,973	(3,297,045)
Gain on repurchase of debt securities issued		567,491	-
Other income, net	9	414,572	1,174,115
Operating income		**26,717,307**	**29,340,165**
Impairment losses	10	(19,787,009)	(73,414,097)
General administrative expenses	11	(2,842,274)	(2,767,114)
Profit/(loss) before taxes		**4,088,024**	**(46,841,046)**
Income tax (expense)/benefit	12	(1,861,866)	7,365,391
Profit/(loss) for the year		**2,226,158**	**(39,475,655)**
Other comprehensive income			
Net change in fair value of available-for-sale assets		1,557,863	40,713,458
Impairment on available-for-sale assets transferred to profit or loss		-	2,193,109
Net change in fair value of available-for-sale assets transferred to profit or loss		(953,736)	(313,395)
Net unrealised gain on hedging instruments, net of tax of KZT 94,098 thousand (31 December 2009: KZT 939,660 thousand)		504,832	5,550,476
Other comprehensive income for the year		**1,108,959**	**48,143,648**
Total comprehensive income for the year		**3,335,117**	**8,667,993**

The consolidated financial statements as set out on pages 5 to 73 were approved by the Management Board on 1 March 2011 and were signed on its behalf by:

Kussainov Nurlan Zhetpisovich
Acting Chairman of the Management Board

Mamekova Saule Mamyrovna
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 set out on pages 11 - 73.

	Note	2010 KZT'000	2009 KZT'000
ASSETS			
Cash and cash equivalents	13	198,229,869	293,316,214
Placements with banks and other financial institutions	14	25,030,901	44,481,676
Amounts receivable under reverse repurchase agreements	15	33,194,707	-
Loans to customers	16	320,890,895	201,412,285
Finance lease receivables	17	24,565,877	19,276,889
Available-for-sale assets			
- Held by the Group	18	335,703,432	268,830,210
- Pledged under foreign currency swap	18	2,931,290	-
Held-to-maturity investments	19	2,707,099	-
Equipment and intangible assets	20	190,157	150,748
Advances for finance leases		333,124	483,951
Assets to be transferred under finance lease agreements		1,411,789	5,782,190
Other assets	21	6,732,447	7,397,839
Current tax asset		188,248	532,481
Deferred tax assets	22	6,058,441	8,000,974
Derivative financial instruments	31	442,500	-
Total assets		**958,610,776**	**849,665,457**
LIABILITIES			
Current accounts and deposits from customers	23	1,706,272	45,181,216
Loans from the Government of the Republic of Kazakhstan	24	24,023,328	30,886,093
Loans from the Parent Company	25	2,420,070	-
Loans from banks and other financial institutions	26	517,302,044	430,143,235
Government grants	27	11,133,326	9,459,497
Debt securities issued	28	117,706,938	51,372,403
Subordinated debt	29	4,542,761	2,723,830
Other liabilities	30	4,428,201	2,673,340
Derivative financial instruments	31	7,466,820	8,183,906
Total liabilities		**690,729,760**	**580,623,520**
EQUITY			
Share capital	32	255,975,958	255,975,958
Reserve capital	33	17,712,311	17,666,734
Hedging reserve		(342,869)	(847,701)
Revaluation reserve for available-for-sale assets		36,668,457	36,064,330
Accumulated losses		(42,132,841)	(39,817,384)
Total equity		**267,881,016**	**269,041,937**
Total liabilities and equity		**958,610,776**	**849,665,457**
Commitments and Contingencies	36, 38		

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

	2010 KZT'000	2009 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	33,467,933	34,375,446
Interest payments	(23,295,685)	(16,385,875)
Fee and commission receipts	205,670	194,195
Fee and commission payments	(97,160)	(98,076)
Net receipts from foreign exchange	389,191	304,031
Net receipts/(payments) for derivative financial instruments	147,073	(393,317)
Other income receipts, net	331,391	239,269
Other general administrative payments	(2,572,825)	(2,986,618)
	8,575,588	**15,249,055**
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	19,399,107	(31,491,858)
Amounts receivable under reverse repurchase agreements	(33,184,254)	12,956,695
Loans to customers	(128,630,607)	(34,225,516)
Finance lease receivables	(976,275)	(5,142,277)
Advances for finance leases	150,827	3,560,827
Assets to be transferred under finance lease agreements	(52,305)	491,112
Derivative financial instruments	(1,883)	-
Other assets	2,308,339	(723,059)
Increase/(decrease) in operating liabilities		
Loans from the Government of the Republic of Kazakhstan	(6,862,759)	(3,020,259)
Loans from the Parent Company	5,000,000	(50,000,000)
Loans from banks and other financial institutions	81,910,334	264,448,200
Current accounts and deposits from customers	(42,990,907)	44,106,246
Amounts payable under repurchase agreements	-	(5,001,448)
Other liabilities	(259,994)	(1,831,031)
Net cash (used in)/ from operating activities before taxes paid	**(95,614,789)**	**209,376,687**
Income tax paid	(71,021)	(286,311)
Cash flows (used in)/from operating activities	**(95,685,810)**	**209,090,376**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

	2010 KZT'000	2009 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment and intangible assets	(98,324)	(36,231)
Disposal of equipment and intangible assets	2,070	125
Acquisition of available-for-sale assets	(180,139,967)	(249,218,680)
Disposal and redemption of available-for-sale assets	79,451,937	39,157,303
Cash flows used in investing activities	**(100,784,284)**	**(210,097,483)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	-	165,000,008
Subordinated debt received	37,926,074	53,142,370
Other distributions	(3,565,885)	-
Proceeds from debt securities issued	72,836,537	-
Repurchase of debt securities issued	(5,740,750)	-
Cash flows from financing activities	**101,455,976**	**218,142,378**
Net (decrease)/increase in cash and cash equivalents	**(95,014,118)**	**217,135,271**
Effect of changes in exchange rates on cash and cash equivalents	(72,227)	3,783,479
Cash and cash equivalents at the beginning of the year	293,316,214	72,397,464
Cash and cash equivalents at the end of the year (Note 13)	**198,229,869**	**293,316,214**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 75.

	Share capital KZT'000	Reserve capital KZT'000	General reserve KZT'000	Hedging reserve KZT'000	Revaluation reserve for available-for-sale assets KZT'000	Accumulated losses KZT'000	Total equity KZT'000
Balance at 1 January 2009	**90,975,950**	**15,143,459**	**45,578**	**(6,398,177)**	**(6,528,842)**	**3,042,806**	**96,280,774**
Total comprehensive income							
Loss for the year	-	-	-	-	-	(39,475,655)	(39,475,655)
Other comprehensive income							
Net change in fair value of available-for-sale assets	-	-	-	-	40,713,458	-	40,713,458
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	-	(313,395)	-	(313,395)
Impairment on available-for-sale assets transferred to profit or loss	-	-	-	-	2,193,109	-	2,193,109
Net unrealised gain on hedging instruments, net of tax of KZT 939,660 thousand	-	-	-	5,550,476	-	-	5,550,476
Total other comprehensive income	-	-	-	5,550,476	42,593,172	-	48,143,648
Total comprehensive income for the year	-	-	-	**5,550,476**	**42,593,172**	**(39,475,655)**	**8,667,993**
Shares issued	165,000,008	-	-	-	-	-	165,000,008
Other distributions (Note 29)	-	-	-	-	-	(906,838)	(906,838)
Transfer to reserve capital	-	2,523,275	-	-	-	(2,523,275)	-
Transfer from general reserve	-	-	(45,578)	-	-	45,578	-
Balance at 31 December 2009	**255,975,958**	**17,666,734**	-	**(847,701)**	**36,064,330**	**(39,817,384)**	**269,041,937**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 - 73.

1 Background

(a) Principal activities

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

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

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

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

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

Eurobonds issued by the Bank are listed on London Stock Exchange, Luxemburg Stock Exchange and Kazakhstan Stock Exchange (the "KASE").

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

(b) Shareholders

As at 31 December 2010 and 2009 the sole shareholder of the Bank was Sovereign Wealth Fund "Samruk-Kazyna" JSC, the "Parent Company". The ultimate controlling party is the Government of the Republic of Kazakhstan. Related party transactions are detailed in Note 39.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The 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 of the Group for the purposes of these consolidated financial statements.

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

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's knowledge of current events and actions, the actual results could differ from those estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the Note 16 "Loans to customers", Note 17 "Finance lease receivables" and Note 31 "Derivative financial instruments".

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

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

(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.

3 Significant accounting policies, continued

(b) Foreign currency transactions

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

(c) Cash and cash equivalents

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

(d) Placements with banks and other financial institutions

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.

(e) Financial instruments

(i) Classification

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

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(i) Classification, continued

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the 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.

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

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

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

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

Available-for-sale 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.

(ii) Recognition

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

(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:

3 Significant accounting policies, continued

(e) Financial instruments, continued

(iii) Measurement, continued

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

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

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

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

(iv) Fair value measurement principles

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(iv) Fair value measurement principles, continued

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

(v) Gains and losses on subsequent measurement

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

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

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

(vi) Derecognition

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

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vi) Derecognition, continued

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

The Group writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

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

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

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

(viii) Derivative financial instruments

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

According to existing policy of the Group, some of derivative instruments qualify for hedge accounting.Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(viii) Derivative financial instruments, continued

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

(ix) Offsetting

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

(f) Leases

Lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases.*

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

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

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

(g) Foreclosed assets

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

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

3 Significant accounting policies, continued

(h) Equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

(i) Intangible assets

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

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

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 1 to 5 years.

(j) Impairment

(i) Financial assets carried at amortised cost

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

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

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

(j) 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

(j) Impairment, continued

(iv) Non financial assets

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

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

(k) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and the grants will be received.

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

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

(l) Provisions

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

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

(m) Credit related commitments

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

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

3 Significant accounting policies, continued

(m) Credit related commitments, continued

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

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

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

(n) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax 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.

(o) Share capital

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

(p) Income and expense recognition

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

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

3 Significant accounting policies, continued

(p) Income and expense recognition, continued

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

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

Other fees, commissions and other income and expense items are recognised when the corresponding service provided.

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

(q) Segment reporting

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

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and have not been 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 new standards on its financial statements.

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* 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 second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. 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 Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- 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.

- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010 KZT'000	2009 KZT'000
Interest income		
Loans to customers	23,760,605	28,864,827
Available-for-sale assets	20,188,491	6,930,888
Placements with banks and other financial institutions	7,846,258	3,974,225
Finance lease receivables	1,929,471	1,638,322
Held-to-maturity investments	149,638	-
Amounts receivable under reverse repurchase agreements	81,641	460,677
	53,956,104	**41,868,939**
Interest expense		
Loans from banks and other financial institutions	26,171,415	12,150,231
Debt securities issued	3,468,664	3,474,014
Subordinated debt	149,638	30,268
Loans from the Parent Company	119,685	2,628,730
Loans from the Government of the Republic of Kazakhstan	79,447	79,238
Amounts payable under repurchase agreements	6,770	261,185
Current accounts and deposits from customers	1,088	2,364
	29,996,707	**18,626,030**

Included within various line items under interest income for the year ended 31 December 2010 is a total of KZT 10,217,342 thousand (2009: KZT 13,090,190 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2010 KZT'000	2009 KZT'000
Expert commission on loans not entered to	129,644	24,930
Foreign exchange fees	39,333	60,779
Transfer services	12,896	13,429
Commission on finance lease	7,163	4,651
Letters of credit	1,825	70,081
Other	12,347	7,813
	203,208	**181,683**

6 Fee and commission expense

	2010 KZT'000	2009 KZT'000
Securities operations	53,871	25,381
Maintenance of current accounts	16,252	76,415
Custodial services	9,248	9,192
Credit card maintenance	4,852	4,988
Transfer services	1,249	935
Fees and commissions related to cancelled eurobonds issuance	465	554
Other	517	25,177
	86,454	**142,642**

7 Net foreign exchange gain

	2010 KZT'000	2009 KZT'000
Dealing, net	365,927	304,031
Translation differences, net	29,486	7,363,590
	395,413	**7,667,621**

8 Net gain/(loss) on derivative financial instruments

	2010 KZT'000	2009 KZT'000
Unrealised gain/(loss) from revaluation of derivative financial instruments	295,262	(3,034,766)
Realised gain/(loss) on derivative financial instruments	147,073	(392,129)
Unrealised (loss)/gain from inefficiency of cash flow hedge	(42,362)	129,850
	399,973	**(3,297,045)**

9 Other income, net

	2010 KZT'000	2009 KZT'000
Fines and penalties	393,091	1,088,956
Other income from non-banking activity	20,804	71,322
Income from decrease in value added tax rate	8,900	21,814
Other expense	(8,223)	(7,977)
	414,572	**1,174,115**

10 Impairment losses

	2010 KZT'000	2009 KZT'000
Impairment losses		
Loans to customers	18,834,236	66,852,966
Finance lease receivables	295,088	857,763
Available-for-sale assets	-	4,807,960
Other assets	657,685	895,408
	19,787,009	**73,414,097**

11 General administrative expenses

	2010 KZT'000	2009 KZT'000
Payroll and related taxes	1,914,009	1,832,016
Occupancy	287,096	333,423
Taxes other than on income	124,693	181,608
Communication and information services	106,725	98,666
Professional services	80,404	56,268
Depreciation and amortisation	58,915	60,655
Business travel	55,890	51,456
Repair and maintenance	45,393	22,889
Rating services	33,730	20,908
Office supplies	26,021	22,173
Advertising and marketing	20,402	14,920
Insurance	17,107	15,904
Transportation	16,072	16,945
Training and seminars	13,345	6,925
Security	10,988	11,123
Representative expenses	9,741	7,424
Conferences	-	3,958
Other	21,743	9,853
	2,842,274	**2,767,114**

12 Income tax (expense)/benefit

	2010 KZT'000	2009 KZT'000
Current tax expense		
Current year	(71,021)	(89,898)
Over/(under) provided in prior years	57,590	(34,190)
	(13,431)	**(124,088)**
Deferred tax (expense)/benefit		
Origination and reversal of temporary differences	(1,848,435)	7,489,479
	(1,848,435)	**7,489,479**
Total income tax (expense)/benefit in profit or loss	**(1,861,866)**	**7,365,391**

The Group's applicable tax rate for current tax is 20% (2009: 20%).

12 Income tax (expense)/benefit, continued

Reconciliation of effective tax rate:

	2010 KZT'000	%	2009 KZT'000	%
Profit/(loss) before tax	**4,088,024**	**100**	**(46,841,046)**	**100**
Income tax at the applicable tax rate	(817,605)	(20)	9,368,209	(20)
Other non-taxable income	147,550	4	1,145,361	(3)
Effect of change in rate applicable to deferred taxes	860,292	21	(834,605)	2
Income tax withheld at source	(71,021)	(2)	(251,110)	1
Over/(under) provided in prior years	57,590	1	(34,190)	-
Non-deductile impairment losses	(2,038,672)	(50)	(2,028,274)	4
	(1,861,866)	**(46)**	**7,365,391**	**16**

Non-deductible impairment losses arose in respect of loans to related parties and securities that will not be deductible for tax purposes in the future.

13 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flow comprise the following:

	2010 KZT'000	2009 KZT'000
Demand deposits		
National Bank of the Republic of Kazakhstan		
Rated BBB	97,946,556	201,660,683
Other banks		
Rated from AA- to AA+	16,225,090	-
Rated from A- to A+	22,225,595	-
Rated from BB- to BB+	-	4,239,126
Rated from B- to B+	47,567,461	-
Total demand deposits	**183,964,702**	**205,899,809**
Cash at current bank accounts		
National Bank of the Republic of Kazakhstan		
Rated BBB	8,191,536	505,746
Other banks		
Rated from AA- to AA+	2,864,211	44,990,432
Rated from A- to A+	716,213	667,172
Rated from BBB- to BBB+	221,311	2,429
Rated from BB- to BB+	-	1,544,889
Rated from B- to B+	2,271,488	39,705,631
Total cash at current bank accounts	**14,264,759**	**87,416,299**
Cash on hand	408	106
	198,229,869	**293,316,214**

Concentration of cash and cash equivalents

As at 31 December 2010 the Group had two banks (31 December 2009: three banks), whose balances exceeded 10% of total equity. The gross value of these balances as of 31 December 2010 and 2009 were KZT 150,404,686 thousand and KZT 286,351,389 thousand, respectively.

14 Placements with banks and other financial institutions

	2010 KZT'000	2009 KZT'000
Not impaired or past due		
Loans and deposits		
Rated from AA- to AA+	297,733	4,257,419
Rated from BBB- to BBB+	-	30,004,075
Rated from B- to B+	24,733,168	10,220,182
	25,030,901	**44,481,676**

As at 31 December 2010 placements with banks included a deposit of KZT 297,733 thousand, which serves as a margin deposit on a foreign currency swap with Morgan Stanley (31 December 2009: KZT 4,257,419 thousand).

15 Amounts receivable under reverse repurchase agreements

In December 2010 the Group concluded reverse repurchase agreements with Alliance Bank JSC in the amount of KZT 29,996,250 thousand and on the "automatic repo" market on the KASE in the amount of 3,188,004 thousand.

As at 31 December 2010, included in amounts receivable under reverse repurchase agreements is accrued interest income of KZT 10,453 thousand.

Collateral

As at 31 December 2010 and 2009 amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	2010 KZT'000	2009 KZT'000
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC	28,745,003	-
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	3,480,304	-
	32,225,307	**-**

16 Loans to customers

	2010 KZT'000	2009 KZT'000
Loans to large corporates	394,412,955	269,966,942
Mortgage loans	673,905	311,660
Interest accrued	16,968,281	10,674,101
Gross loans to customers	**412,055,141**	**280,952,703**
Impairment allowance	(91,164,246)	(79,540,418)
Net loans to customers	**320,890,895**	**201,412,285**

Movements in the loan impairment allowance for the year ended 31 December 2010 and 2009 are as follows:

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	(79,540,418)	(12,788,694)
Net charge for the year	(18,834,236)	(66,852,966)
Effect of foreign currency movements	509,583	(3,197,174)
Write-offs	6,700,825	3,298,416
Balance at the end of the year	**(91,164,246)**	**(79,540,418)**

The following table provides information on the credit quality of the loan portfolio at 31 December 2010:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans without individual signs of impairment	208,906,622	(6,348,264)	202,558,358	3.04
Impaired loans:				
- not past due	58,288,337	(12,989,951)	45,298,386	22.29
- overdue less than 90 days	35,636,521	(21,803,839)	13,832,682	61.18
- overdue more than 90 days and less than 360 days	67,287,448	(24,279,753)	43,007,695	36.08
- overdue more than 360 days	41,936,213	(25,742,439)	16,193,774	61.38
Total impaired loans	203,148,519	(84,815,982)	118,332,537	41.75
Total loans	**412,055,141**	**(91,164,246)**	**320,890,895**	**22.12**

16 Loans to customers, continued

(a) Credit quality of loan portfolio

The following table provides information on the credit quality of the loan portfolio as at 31 December 2009:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans without individual signs of impairment	135,581,133	(7,904,165)	127,676,968	5.83
Impaired loans:				
- not past due	94,013,100	(40,589,015)	53,424,085	43.17
- overdue less than 90 days	32,706,490	(15,954,121)	16,752,369	48.78
- overdue more than 90 days and less than 360 days	18,651,980	(15,093,117)	3,558,863	80.92
Total impaired loans	145,371,570	(71,636,253)	73,735,317	49.28
Total loans	**280,952,703**	**(79,540,418)**	**201,412,285**	**28.31**

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

The objective indicators of loan impairment include the following:

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

The Group estimates loan impairment for loans to large corporates based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to large corporates, management made the following key assumptions:

- historic annual loss rate of 3.04%
- a discount of between 20% and 70% to the originally appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. If the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to customers as of 31 December 2010 would be KZT 3,208,909 thousand (31 December 2009: KZT 2,014,123 thousand) lower or higher.

As at 31 December 2010 included in the loan portfolio are 5 renegotiated loans that would otherwise be past due or impaired for the total amount of KZT 23,036,253 thousand (31 December 2009: 2 loans for the total amount of KZT 1,294,933 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above unless the borrower is not able to meet the restructured terms.

16 Loans to customers, continued

(a) Credit quality of loan portfolio

Analysis of collateral

The following table provides an analysis of the commercial loan portfolio, net of impairment, by types of collateral:

	31 December 2010 KZT'000	%	31 December 2009 KZT'000	%
Mixed types of collateral	208,936,055	66	165,775,886	82
Motor vehicles and equipment	91,943,258	29	34,158,886	17
Guarantees of other companies	62,537,866	19	4,464,810	2
Guarantees of financial institutions	27,193,738	8	49,344,654	24
Cash	9,855,652	3	9,076,703	5
Guarantees of the Government of the Republic of Kazakhstan	7,711,457	2	7,965,136	4
Real estate	3,782,686	1	10,166,628	5
No collateral	94,429	-	-	-
Less impairment allowance	(91,164,246)	(28)	(79,540,418)	(39)
Total	**320,890,895**	**100**	**201,412,285**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral. Mixed types of collateral include property complexes, equipment, vehicles, land, guarantees, construction in progress, and other.

As at 31 December 2010 and 2009 in determining of recoverability of impaired or overdue loans with gross value of KZT 203,148,519 thousand and KZT 145,371,571 thousand the Group uses collateral values of KZT 40,016,647 thousand and KZT 3,611,691 thousand, respectively.

The Group performed collection activities in relation to certain impaired loans, as a result of which, during the year ended 31 December 2010 the Group received securities that were classified as available-for-sale with an initial fair value of KZT 3,422,345 thousand and cash in the amount of KZT 7,128,769 thousand by exercising guarantees of financial institutions in relation to certain loans past due. The remaining amount after collection activities in the amount of KZT 5,273,626 thousand was written-off as uncollectible. In addition to these loans the Group also wrote off loans of KZT 1,427,199 thousand determined as non-recoverable.

During the year ended 31 December 2009 the Group did not obtain any assets by taking control of collateral accepted as security for loans.

16 Loans to customers, continued

(b) Industry and geographical analysis of the loan portfolio

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

	2010 KZT'000	2009 KZT'000
Mining, metallurgy and mineral resources	96,242,661	35,994,821
Agriculture	52,359,990	60,953,272
Oil and gas	49,006,284	2,054,706
Energy and electricity distribution	36,255,912	21,391,892
Textile	34,485,127	32,189,740
Transportation and warehousing	33,167,233	34,762,155
Construction materials	25,342,668	22,149,605
Chemical	20,389,255	22,022,083
Manufacturing	18,501,516	7,757,227
Paper-pulp	13,200,958	13,508,951
Food processing	9,588,780	10,675,187
Machinery-producing	7,782,737	6,476,362
Telecommunication	925,643	1,745,635
Mortgage	673,905	311,660
Fishery	295,000	296,920
Electric equipment	284,383	494,806
Recycling	-	5,743,435
Other	13,553,089	2,424,246
	412,055,141	**280,952,703**
Impairment allowance	(91,164,246)	(79,540,418)
Total loans to customers	**320,890,895**	**201,412,285**

(c) Significant credit exposures

As at 31 December 2010 the Group had two borrowers, whose balances exceeded 10% of total equity. The gross value of these loans as of 31 December 2010 was KZT 105,868,724 thousand (31 December 2009: nil).

(d) Loan maturities

The maturity of the Group's loan portfolio is presented in Note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

17 Finance lease receivables

The components of net investments in finance lease as at 31 December 2010 and 2009 are as follows:

	2010 KZT'000	2009 KZT'000
Within one year	10,622,229	7,805,375
More than one year, but less than five years	14,777,275	13,065,186
More than five years	5,132,758	3,494,034
Minimum lease payments	**30,532,262**	**24,364,595**
Less unearned finance income	(4,771,842)	(4,033,021)
Less impairment allowance	(1,194,543)	(1,054,685)
Net investment in finance lease	**24,565,877**	**19,276,889**

	2010 KZT'000	2009 KZT'000
Leases to large corporates	19,572,148	13,723,445
Leases to small and medium size companies	6,188,272	6,608,129
Less impairment allowance	(1,194,543)	(1,054,685)
Net investment in finance lease	**24,565,877**	**19,276,889**

In 2010 the Group revised its classification criteria between "leases to small and medium size companies" and "leases to large corporates". Net investment in finance lease as at 31 December 2009 reflects a transfer from "leases to small and medium size companies" to "leases to large corporates" in the amount of KZT 5,893,450 thousand made for consistency of presentation.

Movements in the lease impairment allowance for the years ended 31 December 2010 and 2009 are as follows:

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	(1,054,685)	(196,922)
Net charge for the year	(295,088)	(857,763)
Write-offs	155,230	-
Balance at the end of the year	**(1,194,543)**	**(1,054,685)**

Embedded derivative

The repayment of investment in finance leases of KZT 22,874,662 thousand (2009: KZT 17,854,124 thousand) is in part linked to any appreciation in the rate of the USD or EUR against the KZT. If these foreign currencies appreciate, the amount receivable is increased by the respective index. If these foreign currencies depreciate, the amount receivable is not adjusted below the original outstanding amount in KZT.

These embedded derivatives are recorded at fair value in the consolidated financial statements. The estimated fair value of the embedded derivative, which is included in finance lease receivables as at 31 December 2010, is KZT 4,025,336 thousand (31 December 2009: KZT 4,331,209 thousand). Fair value is calculated using a model based on the Black-Scholes option pricing model (Note 41).

17 Finance lease receivables, continued

Management uses the following assumptions for valuation of the embedded derivative:

- risk-free rates are estimated using yield curves for respective currencies and ranged from 0.23% to 2.07% for USD, from 1.20% to 1.80% for EUR, and from 1.33% to 4.48% for KZT
- volatility in the model is defined based on the historical one-year observations of fluctuations in actual foreign exchange rates
- no transaction cost is included in the model
- all leases are perfectly divisible.

If the spreads between KZT and USD (or EUR as appropriate) risk-free rates narrowed by 0.5% across all the contracts the fair value of derivative would decrease by KZT 222,079 thousand. An increase in volatility by 50% would result in an increase of the fair value of the derivative by KZT 46,607 thousand.

Credit quality of finance lease portfolio

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2010:

	Gross finance leases KZT'000	Impairment KZT'000	Net finance leases KZT'000	Impairment as a percentage of gross finance lease %
Leases to large corporates				
Leases for which no impairment has been identified:				
- Standard leases	19,572,148	(439,794)	19,132,354	2.25
Total leases to large corporate customers	**19,572,148**	**(439,794)**	**19,132,354**	**2.25**
Leases to small and medium size companies				
Leases for which no impairment has been identified:				
- Standard leases	4,083,868	(91,766)	3,992,102	2.25
Impaired leases:				
- overdue more than 360 days	2,104,404	(662,983)	1,441,421	31.50
Total leases to small and medium size companies	**6,188,272**	**(754,749)**	**5,433,523**	**12.20**
Total finance leases	**25,760,420**	**(1,194,543)**	**24,565,877**	**4.64**

17 Finance lease receivables, continued

Credit quality of finance lease portfolio, continued

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2009:

	Gross finance leases KZT'000	Impairment KZT'000	Net finance leases KZT'000	Impairment as a percentage of gross finance lease %
Leases to large corporates				
Leases for which no impairment has been identified:				
- Standard leases	13,723,445	(362,154)	13,361,291	2.64
Total leases to large corporate customers	**13,723,445**	**(362,154)**	**13,361,291**	**2.64**
Leases to small and medium size companies				
Leases for which no impairment has been identified:				
- Standard leases	4,821,708	(127,242)	4,694,466	2.64
Impaired leases:				
- overdue more than 90 days but less than 360 days	680,421	(127,141)	553,280	18.69
- overdue by more than 360 days	1,106,000	(438,148)	667,852	39.62
Total leases to small and medium size companies	**6,608,129**	**(692,531)**	**5,915,598**	**10.48**
Total finance leases	**20,331,574**	**(1,054,685)**	**19,276,889**	**5.19**

The Group estimates impairment for finance leases based on an analysis of the future cash flows for impaired lease receivables and based on current economic conditions for portfolios of finance leases for which no indications of impairment has been identified. In determining the impairment allowance for individually significant finance lease receivables, management assumed a discount of between 10% and 40% to the appraised value, reflecting current physical condition of the leased equipment, availability of market demand and estimated time for foreclosure and sale.

As at 31 December 2010 and 2009 the entire recoverable amount of impaired finance lease receivables is estimated based on expected collateral realisation values.

In determining the collective impairment allowance for finance lease receivables, management has assumed an annual loss rate of 2.25% and 2.64% for 2010 and 2009, respectively, which is based on historic loss experience adjusted for current economic conditions.

Changes in these estimates could affect the lease impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment provision on finance leases as at 31 December 2010 would be KZT 245,659 thousand lower/higher (31 December 2009: KZT 192,769 thousand).

During the year ended 31 December 2010 the Group renegotiated leases that would otherwise be past due or impaired of KZT 3,310,859 thousand (31 December 2009: KZT 6,985,154 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated leases are included in the category of leases for which no impairment has been identified in the tables above unless the leasee is not able to meet the renegotiated terms.

17 Finance lease receivables, continued

Industry and geographical analysis of the lease portfolio

Finance leases are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	2010 KZT'000	2009 KZT'000
Telecommunication and transportation	9,745,863	7,812,049
Textile	7,271,790	2,732,126
Metallurgy	1,490,019	2,166,706
Construction materials	1,387,671	1,525,135
Construction	1,373,628	1,862,810
Machinery	1,333,279	1,609,907
Mineral resources	1,055,088	1,322,898
Agriculture	909,899	346,373
Electric equipment	659,701	618,610
Pharmaceutical	298,148	10,682
Food processing	164,238	244,578
Paper and pulp	71,096	79,700
	25,760,420	**20,331,574**
Impairment allowance	(1,194,543)	(1,054,685)
	24,565,877	**19,276,889**

Lease maturities

The maturity of the lease portfolio is presented in Note 34, which shows the remaining period from the reporting date, to the contractual maturity of the finance lease receivables in the lease portfolio.

18 Available-for-sale assets

	2010 KZT'000	2009 KZT'000
Held by the Group		
Debt instruments		
Corporate bonds	211,788,248	206,215,043
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	43,120,388	38,630,894
Bonds of Kazakh banks	36,677,694	16,130,389
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC	28,282,315	1,816,992
Bonds of Kazakh credit institutions, other than banks	9,340,988	4,359,967
Bonds of OECD banks	5,981,680	1,676,925
Recovery notes of Kazakh banks	428,632	-
Treasury bills of the Treasury Department of the United States	83,487	-
	335,703,432	**268,830,210**
Pledged under foreign currency swap		
Debt instruments		
Treasury bills of the Treasury Department of the United States	2,931,290	-
	2,931,290	-

18 Available-for-sale assets, continued

The following table presents information on the credit quality of available-for-sale assets:

	2010 KZT'000	2009 KZT'000
Rated AAA	3,014,777	-
Rated A- to A+	5,981,680	1,676,925
Rated BBB	235,575,397	39,189,155
Rated from BB- to BB+	52,357,384	214,556,603
Rated from B- to B+	38,203,640	8,612,834
Rated D (default)	-	1,945,823
Not rated	3,501,844	2,848,870
	338,634,722	**268,830,210**

In October 2009 the Group acquired bonds of National Company "Kazmunaigaz" JSC and Kazakhtelecom JSC for a total cash consideration of KZT 165,500,000 thousand. The bonds bear coupon rate of six-months LIBOR plus 8.5% p.a and 9.0% p.a, respectively. Both bonds mature in 2019, are denominated in KZT and are indexed to changes in USD/KZT rates and are redeemable in 16 equal semi-annual instalments following a two years grace period.

At the date of transaction, the bonds were recognised at the amount of consideration paid, although there was other evidence of fair value, determined by using discounted cash flow techniques, which exceeded the amount of consideration paid by KZT 36,951,283, as not all the variables used in the discounted cash flow model were observable in the market. This difference was not considered as being implicit shareholder contribution. This amount was recognised in other comprehensive income as part of revaluation reserve for available-for-sale assets.

During the year ended 31 December 2009 the Group received bonds of the Parent company with a nominal value of of KZT 53,142,370 thousand. The bonds have a tenor of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 1,815,695 thousand applying appropriate market interest rate. The acquisition occurred simultaneously with sale of subordinated securities for the same consideration under terms discussed in Note 29.

Reclassifications out of available-for-sale assets

With effect from October 2010, the Group reclassified bonds of the Parent Company classified as available-for-sale to held-to-maturity investments following the lapse of tainting period. For reclassified available-for-sale assets that would have met the definition of held-to-maturity investments, the Group has the intention and ability to hold them for foreseeable future or until maturity. As at the date of reclassification, fair value of those assets amounted to KZT 2,175,533 thousand.

Non-quoted debt and equity securities

As at 31 Decmber 2010 included in available-for-sale assets are non-quoted debt securities with a fair value of KZT 210,790,358 thousand (31 December 2009: 204,421,724 thousand).

Analysis of movements in the impairment allowance:

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	(4,731,504)	-
Net charge	-	(4,807,960)
Write-offs	4,731,504	76,456
Balance at the end of the year	**-**	**(4,731,504)**

The entire amount of impairment loss in 2009 relates to defaulted bonds of Alliance Bank JSC and BTA Bank JSC.

18 Available-for-sale assets, continued

During the year ended 31 December 2009 the Group identified objective evidence of impairment in respect of these investments. As a result cumulative loss of KZT 2,193,109 thousand previously recognised in other comprehensive income was reclassified to profit or loss. Subsequent further declines in the fair value of these investments were recognised in profit or loss.

During the year ended 31 December 2010 the Group wrote-off impairment allowances in relation to defaulted bonds of BTA Bank JSC, which were disposed of or replaced with ordinary shares, bonds and recovery notes upon the completion of its restructuring program, and Alliance Bank JSC, which were replaced with bonds upon the completion of its restructuring program.

19 Held-to-maturity investments

	2010 KZT'000	2009 KZT'000
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC		
Rated BBB	2,707,099	-
	2,707,099	**-**

During the year ended 31 December 2010 the Group received bonds of the Parent Company with a nominal value of KZT 37,926,074 thousands. The bonds have a tenor of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 745,577 thousand by applying an appropriate market interest rate. The receipt occurred simultaneously with issue of subordinated securities for the same consideration under terms discussed in Note 29.

20 Equipment and intangible assets

KZT'000	Computers and equipment	Vehicles	Intangible assets	Other	Total
Cost					
At 1 January 2009	127,183	61,804	207,772	121,834	518,593
Additions	8,634	-	18,891	8,706	36,231
Disposals	(9,595)	-	(6,879)	(3,637)	(20,111)
Transfer	9	-	-	(9)	-
At 31 December 2009	126,231	61,804	219,784	126,894	534,713
Additions	16,522	20,828	50,400	10,574	98,324
Disposals	(4,821)	(10,511)	-	(158)	(15,490)
At 31 December 2010	**137,932**	**72,121**	**270,184**	**137,310**	**617,547**
Depreciation/amortisation					
At 1 January 2009	(94,523)	(35,189)	(154,330)	(59,254)	(343,296)
Depreciation and amortisation charge	(17,964)	(5,408)	(21,126)	(16,157)	(60,655)
Disposals	9,562	-	6,879	3,545	19,986
At 31 December 2009	(102,925)	(40,597)	(168,577)	(71,866)	(383,965)
Depreciation and amortisation charge	(12,223)	(7,231)	(24,151)	(15,310)	(58,915)
Disposals	4,821	10,511	-	158	15,490
At 31 December 2010	**(110,327)**	**(37,317)**	**(192,728)**	**(87,018)**	**(427,390)**
Net book value					
At 1 January 2009	32,660	26,615	53,442	62,580	175,297
At 31 December 2009	23,306	21,207	51,207	55,028	150,748
At 31 December 2010	**27,605**	**34,804**	**77,456**	**50,292**	**190,157**

21 Other assets

	2010 KZT'000	2009 KZT'000
Loan arrangement fee prepaid	4,883,763	5,285,847
Accrued commission income	1,306,056	393,613
Fines and penalties accrued	896,768	756,326
Taxes recoverable other than income tax	268,274	478,484
Prepayments	87,031	65,902
Trade and other receivables	85,758	26,500
Foreclosed assets	31,678	507,943
Materials and supplies	27,290	23,651
Equity investments	2,806	2,200
Custom duty prepaid	850	18,099
Apartments to be transferred to employees	-	645,402
Other	1,348	-
	7,591,622	**8,203,967**
Impairment allowance	(859,175)	(806,128)
	6,732,447	**7,397,839**

Loan arrangement fee is represented by a paid commitment charge attributable to undrawn part of credit facility provided by the Export-Import Bank of China (Note 26) deferred pending recognition as an adjustment to the effective interest rate of the loan at receipt.

Included in other assets are non-quoted ordinary equity shares of Kazakhstan Stock Exchange JSC, which are carried at cost of KZT 2,200 thousand (2009: KZT 2,200 thousand) and the global depository receipts on ordinary shares of Alliance Bank JSC with a carrying value of KZT 606 thousand (2009: nil), the fair value of which cannot be reliably determined. There is no market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

Analysis of movements in the impairment allowance

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	(806,128)	(107,928)
Net charge for the year	(657,685)	(895,408)
Write-offs	604,638	197,208
Balance at the end of the year	**(859,175)**	**(806,128)**

As at 31 December 2010, included in other assets are receivables overdue for less than 90 days of KZT 48,401 thousand (31 December 2009: KZT 85,140 thousand).

22 Deferred tax asset

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 asset as at 31 December 2010 and 2009. These deferred tax assets have been recognised in these consolidated financial statements except for temporary differences of KZT 9,498 thousand (2009: KZT 8,988 thousand) relating to the subsidiary that have not been recognised due to uncertainties concerning their realisation. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

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

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

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

KZT'000	Balance 1 January 2010	Recognised in income	Recognised in equity	Balance 31 December 2010
Equipment and intangible assets	9,316	269	-	9,585
Loans to customers	(2,963,877)	(11,273,941)	-	(14,237,818)
Other assets	-	169,903	-	169,903
Accrued interest written-off	-	492,957	-	492,957
Loans from banks and other financial institutions	(1,972,330)	(176,824)	-	(2,149,154)
Government grants	1,891,899	334,766	-	2,226,665
Loans from the Parent Company	-	(516,458)	-	(516,458)
Debt securities issued	(48,267)	6,999	-	(41,268)
Derivative financial instruments	179,815	(179,952)	(94,098)	(94,235)
Tax loss carry-forwards	10,729,739	9,304,868	-	20,034,607
Other liabilities	174,679	(11,022)	-	163,657
Net deferred tax assets	**8,000,974**	**(1,848,435)**	**(94,098)**	**6,058,441**

22 Deferred tax asset, continued

KZT'000	Balance 1 January 2009	Recognised in income	Recognised in equity	Balance 31 December 2009
Equipment and intangible assets	14,059	(4,743)	-	9,316
Loans to customers	-	(2,963,877)	-	(2,963,877)
Loans from banks and other financial institutions	191,349	(2,163,679)	-	(1,972,330)
Government grants	-	1,891,899	-	1,891,899
Debt securities issued	(52,519)	4,252	-	(48,267)
Derivative financial instruments	1,119,817	(342)	(939,660)	179,815
Tax loss carry-forwards	-	10,729,739	-	10,729,739
Other liabilities	178,449	(3,770)	-	174,679
Net deferred tax assets	**1,451,155**	**7,489,479**	**(939,660)**	**8,000,974**

23 Current accounts and deposits from customers

	2010 KZT'000	2009 KZT'000
Current accounts and demand deposits	340,209	44,182,114
Advances received as collateral on liabilities of customers	1,366,063	999,102
	1,706,272	**45,181,216**

On 29 December 2009 the Group opened an account for the Parent Company in the amount of KZT 43,784,231 thousand (295,499,970 USD), that relates to an agreement dated 22 June 2009 concluded between China Development Bank, the Parent Company and the Bank. On 11 January 2010 the entire balance was transferred to the Parent Company's account in the National Bank of the Republic of Kazakhstan.

The Group carries out functions of an agent of an authorised government body servicing state and municipal budget investment projects (programs) financed on a repayable basis and projects financed on behalf of loans, which are guaranteed by the government and included in the list of priority investment projects approved by the Government of the Republic of Kazakhstan.

24 Loans from the Government of the Republic Kazakhstan

	2010 KZT'000	2009 KZT'000
Loans from the Government of the Republic of Kazakhstan	24,023,328	24,038,334
Advances for project finance	-	6,847,759
	24,023,328	**30,886,093**

As at 31 December 2010 and 2009 the loans from the Government of the Republic of Kazakhstan consisted long-term loans granted from the state budget that were received as part of a Government program to support certain industries, including textile, gas processing and chemicals. The funds were used to provide loans to these entities at below market rates. Although these loans carry lower-than-market interest rate, upon initial recognition they were recognised at their nominal amount, as is allowed under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

24 Loans from the Government of the Republic Kazakhstan, continued

As at 31 December 2009 advances for project finance represent an unutilised part of the loan from the budget intended for financing of the Joint Kazakhstan-Russian Entity "Baiterek" JSC for construction of an air space complex. The loan will be repaid in equal parts from 2010 until 2023. The Group acts as an agent and is not liable for any misuse of the loan by the borrower or any other risks related to the loan.

As at 31 December 2010, included in loans from the Government of the Republic of Kazakhstan is accrued interest expense of KZT 12,522 thousand (31 December 2009: KZT 12,528 thousand).

25 Loans from the Parent Company

As at 31 December 2010 the loan from the Parent Company was represented by long-term loan of KZT 5,000,000 thousand granted by Sovereign Wealth Fund "Samruk-Kazyna" JSC in April 2010 with an interest rate of 0.2% per annum and maturing in November 2029. The loan was provided to finance restructuring of certain borrowers. At initial recognition the loan was recognised at fair value measured by applying a relevant market interest rate. The difference of KZT 2,694,615 thousand between the fair value and the consideration received was recognised as a government grant (Note 27).

In September 2009 the Group has early repaid the loan in amount of KZT 50,000,000 thousand.

26 Loans from banks and other financial institutions

	2010 KZT'000	2009 KZT'000
Loans with fixed interest rate		
Loans from OECD banks	97,264,859	89,831,178
Loans from non-OECD banks	69,347,355	9,028,391
Total loans with fixed interest rate	**166,612,214**	**98,859,569**
Loans with floating interest rate		
Loans from OECD banks	19,247,202	23,997,465
Loans from non-OECD banks and other financial institutions	295,162,566	269,320,296
Syndicated loan facility	44,505,976	44,851,737
Total loans with floating interest rate	**358,915,744**	**338,169,498**
Less unamortised portion of borrowing costs	(8,225,914)	(6,885,832)
	517,302,044	**430,143,235**

During the year ended 31 December 2010 the Group received two loans from the Export-Import Bank of China in the amounts of USD 400,000 thousand and USD 156,000 thousand. The Group also received loans from the Japan Bank for International Cooperation and the Bank of Tokyo Mitsubishi in the amounts of JPY 2,748,200 thousand and EUR 30,000 thousand, respectively. As at 31 December 2010 these loans bear interest rates ranging from 3% to 3.55% and mature between September 2013 and May 2025.

26 Loans from banks and other financial institutions, continued

In August 2009 the Group signed a Master facility agreement with the Export-Import Bank of China for USD 5,000,000 thousand. Out of this amount, USD 1,500,000 thousand (equivalent to KZT 226,255,051 thousand) was drawn in October-December 2009. This amount is repayable in eight years following two years of grace period and bears an interest rate of six months Libor + 5.5% p.a.

In November 2009 the Group received a loan of KZT 20,000,000 thousand from Fund of Distressed Assets JSC, a state-owned company, with a tenor of 15 years and interest rate of 1% p.a. The loan was provided to finance restructuring of loans of troubled borrowers under certain conditions. At initial recognition the loan was recognised at fair value measured by applying an interest rate of 7% p.a.. The difference of KZT 11,035,227 thousand between the fair value and the consideration received was recognised as a government grant (Note 27).

As of 31 December 2010, included in loans from banks and other financial institutions is accrued interest expense of KZT 10,266,417 thousand (31 December 2009: KZT 4,848,006 thousand).

27 Government grants

The Group recorded as government grants the benefits provided by means of a low interest rate on the loan from Fund of Distressed Assets JSC in the amount of KZT 11,035,227 thousand (Note 26) and on the loan from the Parent Company in the amount of KZT 2,694,615 thousand (Note 25).

Subsequent to initial recognition the Group allocates to profit or loss an amount corresponding to the debt relief provided to the borrowers. During the year ended 31 December 2010 the amount of government grants transferred to profit or loss was KZT 1,020,786 thousand (31 December 2009: KZT 1,575,730 thousand) and is included in "interest expense".

28 Debt securities issued

	2010 KZT'000	2009 KZT'000
Debt securities with fixed interest rate		
Eurobonds denominated in USD	118,983,235	51,961,000
	118,983,235	**51,961,000**
Unamortised discount, net	(1,860,272)	(1,166,972)
	117,122,963	**50,794,028**
Accrued interest	583,975	578,375
	117,706,938	**51,372,403**

On 20 December 2010 the Group issued USD 500,000 thousand medium-term notes, which bear a coupon rate of 5.5% p. a. and mature in December 2015.

29 Subordinated debt

	2010 KZT'000	2009 KZT'000
Subordinated debt with fixed coupon		
Nominal in KZT	91,068,444	53,142,370
	91,068,444	**53,142,370**
Unamortised discount, net	(88,363,971)	(51,326,675)
	2,704,473	**1,815,695**
Accrued interest	1,838,288	908,135
	4,542,761	**2,723,830**

29 Subordinated debt, continued

The entire amount of the subordinated debt is represented by subordinated bonds issued to the Parent Company. The bonds are denominated in KZT, mature in September 2059 and bear a fixed interest rate of 0.01% per annum. In addition, the bonds have a discretionary coupon of 6.99% per annum which the Group can unilaterally and unconditionally waive with no further obligation. The discretionary coupon for the year ended 31 December 2010 of KZT 4,496,038 thousand (31 December 2009: KZT 906,838 thousand) was recognised as "other distributions" in equity.

During the year ended 31 December 2010 the Group issued additional subordinated bonds with the same characteristics as above to the Parent Company with a nominal value of KZT 37,926,074 thousand. At initial recognition these bonds were measured at fair value of KZT 745,577 thousand by applying an appropriate market interest rates ranging between 7.00% and 9.17% p.a. In case of bankruptcy, the repayment of the subordinated debt will be made after repayment in full of all other liabilities of the Group.

30 Other liabilities

	2010 KZT'000	2009 KZT'000
Prepayments	1,129,148	52,927
Accrued commission expenses	970,481	48,638
Advances received for finance lease	807,078	892,977
Payables to employees	774,570	833,801
Advances on letters of credit	408,005	411,115
Payables to suppliers	100,769	293,682
Vacation reserve	89,003	79,611
Tax liabilities other than income tax	31,050	20,172
Deferred income	10,855	7,616
Other accrued expenses and accounts payable	107,242	32,801
	4,428,201	**2,673,340**

31 Derivative financial instruments

The Group had the following derivative financial instruments as at 31 December 2010 and 2009. Embedded derivatives are described in Note 17.

Type of instrument	Notional amount	Maturity	Payments made by Group	Payments received by Group	Fair value Asset	Fair value Liability
31 December 2010						
Foreign currency swap	USD 160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	-	(3,862,600)
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	-	(3,199,220)
Non-deliverable foreign currency forward	USD 150,000,000	10/01/11	USD 150,000,000 at maturity	KZT'000 21,690,000 at maturity	-	(405,000)
Non-deliverable foreign currency forward	KZT'000 21,652,500	10/01/11	KZT'000 21,652,500 at maturity	USD 150,000,000 at maturity	442,500	-
					442,500	**(7,466,820)**

Type of instrument	Notional amount	Maturity	Payments made by Group	Payments received by Group	Fair value Liability KZT'000
31 December 2009					
Amortising interest rate swap	USD 472,027	31/07/10	Fixed 3.987% in USD	6 month LIBOR in USD	(786)
Foreign currency swap	USD 160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	(4,547,518)
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	(3,635,602)
					(8,183,906)

31 Derivative financial instruments, continued

(a) Group's approach to derivative transactions

The Group may enter into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions for hedging purposes. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long- or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the Group's swap positions would increase or decrease depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Group's investments.

The Group's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of a counterparty's insolvency.

(b) Significant foreign currency transactions

On 16 February 2007 the Group entered into a foreign currency swap agreement to exchange KZT for USD 160,000,000 and exchange back on 16 February 2014, the transaction closure date. On 22 June 2007 the Group entered into another foreign currency swap agreement to exchange KZT for USD 122,349,103 and exchange back USD on 27 June 2014, the transaction closure date.

Those swap agreements were designed as cash flow hedges principally to minimise the exchange rate risk associated with the future cash inflows from loans to customers in US dollars financed out of tenge funds borrowed by the Group. The length of the swap agreements was chosen as seven years since the average duration of a pool of loans being hedged was seven years.

The designated hedged risk is the forward exchange rate risk and, therefore, the changes in fair value of the swaps was recorded initially in the hedging reserve to the extent the hedge is effective. During the year ended 31 December 2010 a spot element of the foreign currency swaps has been recognised in profit or loss in the amount of KZT 271,055 thousand (31 December 2009: KZT 7,812,600 thousand). For cash flow hedging relationships, the initial and ongoing prospective effectiveness is assessed by comparing movements in the fair value of a hypothetical derivative with movements in the fair value of the hedging foreign currency swaps (the "hypothetical derivative method"). Prospective effectiveness is measured on a cumulative basis i.e. over the entire life of the hedge relationship. The hypothetical derivative method assumes there will be one forecasted cash inflow based on the weighted average duration of the pool of loans to be received on the date of maturity of the hedging instruments, whereas the actual cash inflows from the loans are expected during 2013 and 2014. Retrospective effectiveness is assessed by comparing the movements in the fair value of the cash flows of hypothetical derivative and actual movements in the fair value of the foreign currency swaps over the life to date of the hedging relationship.

During 2010 management revised the assumptions used to value the foreign currency swaps following the changes in underlying market conditions. In determining the fair value of the swaps management assumed the following rates appropriate for the Group: 3.82% in KZT and 2.00% in USD (2009: 5.05% and 2.6%, respectively).

31 Derivative financial instruments, continued

(c) Hedge accounting of significant transactions

On 9 October 2007 the Group applied cash flow hedge accounting to its two significant foreign currency swap agreements. Management relied on prospective effectiveness testing prepared prior to implementing hedge accounting as required by IAS 39 *Financial Instruments: Recognition and Measurement*. The prospective effectiveness testing that was performed has been re-documented on 26 August 2008, as the original documentation was not retained. The affect of cash flow hedge accounting is to record any fair value gains or losses on the designated derivative financial instruments in a hedging reserve within equity. These gains or losses are subsequently recycled to the statement of comprehensive income as the transactions occur.

32 Share capital

(a) Issued capital

As at 31 December 2010 the authorised, issued and outstanding share capital comprised 1,819,519 ordinary shares with a nominal value of KZT 50,000 and 247,006 ordinary shares with a nominal value of KZT 668,000.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to legislation of the Republic of Kazakhstan. No dividends were declared during the year ended 31 December 2010 and 2009.

33 Reserve capital

Reserve capital is formed in accordance with the Bank's charter out of the net profit for the year following the approval of the consolidated financial statements at the shareholder's general meeting.

34 Risk management

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

(a) Risk management policies and procedures

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

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

34 Risk management, continued

(a) Risk management policies and procedures, continued

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 Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit and Investment Committees and Assets and Liabilities management committee.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain judgments in their areas of expertise.

(b) Market risk

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

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

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

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

(i) Interest rate risk

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

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Overdue	Carrying amount
31 December 2010							
ASSETS							
Cash and cash equivalents	198,229,869	-	-	-	-	-	198,229,869
Placements with banks and other financial institutions	9,982,112	-	10,668,889	4,379,900	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	3,189,127	-	-	30,005,580	-	-	33,194,707
Loans to customers	33,516,511	9,962,682	9,026,357	47,638,136	188,415,952	32,331,257	320,890,895
Finance lease receivables	1,327,462	1,029,441	2,243,806	11,274,931	4,599,772	4,090,465	24,565,877
Available-for-sale assets	220,130,108	15,674,123	11,303,504	38,839,420	52,687,567	-	338,634,722
Held-to-maturity investments	-	-	-	-	2,707,099	-	2,707,099
	466,375,189	**26,666,246**	**33,242,556**	**132,137,967**	**248,410,390**	**36,421,722**	**943,254,070**
LIABILITIES							
Current accounts and deposits from customers	340,168	-	-	52,577	1,313,527	-	1,706,272
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	24,023,328	-	24,023,328
Loans from the Parent Company	-	-	-	-	2,420,070	-	2,420,070
Loans from banks and other financial institutions	98,192,366	30,947,678	-	89,821,371	298,340,629	-	517,302,044
Debt securities issued	-	-	-	87,632,671	30,074,267	-	117,706,938
Subordinated debt	-	-	-	-	4,542,761	-	4,542,761
	98,532,534	**30,947,678**	**-**	**177,506,619**	**360,714,582**	**-**	**667,701,413**
	367,842,655	**(4,281,432)**	**33,242,556**	**(45,368,652)**	**(112,304,192)**	**36,421,722**	**275,552,657**

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Overdue	Carrying amount
31 December 2009							
ASSETS							
Cash and cash equivalents	293,316,214	-	-	-	-	-	293,316,214
Placements with banks and other financial institutions	-	-	40,224,257	4,257,419	-	-	44,481,676
Loans to customers	8,087,263	11,821,827	14,838,457	45,126,855	118,269,285	3,268,598	201,412,285
Finance lease receivables	1,573,459	-	3,026,183	10,184,948	2,991,391	1,500,908	19,276,889
Available-for-sale assets	218,696,312	6,956,780	20,232,483	16,045,722	6,440,027	458,886	268,830,210
	521,673,248	**18,778,607**	**78,321,380**	**75,614,944**	**127,700,703**	**5,228,392**	**827,317,274**
LIABILITIES							
Current accounts and deposits from customers	44,182,078	-	-	-	999,138	-	45,181,216
Loans from the Government of the Republic of Kazakhstan	-	-	6,847,759	-	24,038,334	-	30,886,093
Loans from banks and other financial institutions	83,112,024	29,750,833	96,081	23,299,190	293,885,107	-	430,143,235
Debt securities issued	-	-	-	14,773,729	36,598,674	-	51,372,403
Subordinated debt	-	-	-	-	2,723,830	-	2,723,830
	127,294,102	**29,750,833**	**6,943,840**	**38,072,919**	**358,245,083**	**-**	**560,306,777**
	394,379,146	**(10,972,226)**	**71,377,540**	**37,542,025**	**(230,544,380)**	**5,228,392**	**267,010,497**

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

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

	2010 Average effective interest rate			2009 Average effective interest rate		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	1.48%	0.93%	0.69%	2.51%	2.00%	1.01%
Placements with banks and other financial institutions	8.37%	6.86%	-	11.00%	6.71%	-
Amounts receivable under reverse repo agreements	6.85%	-	-	-	-	-
Available-for-sale assets	6.78%	9.16%	5.90%	6.45%	7.32%	7.28%
Held-to-maturity investments	7.00%	-	-	-	-	-
Loans to customers	8.46%	9.46%	6.76%	6.96%	10.91%	8.27%
Finance lease receivables	9.22%	-	-	8.47%	-	-
Interest bearing liabilities						
Current accounts and deposits from customers	-	0.02%	-	-	0.65%	-
Loans from the Government of the Republic of Kazakhstan	0.33%	-	-	0.33%	-	-
Loans from the Parent company	7.00%	-	-	-	-	-
Loans from banks and other financial institutions	7.00%	5.12%	3.38%	7.00%	5.48%	3.67%
Dent securities issued	-	5.92%	-	-	6.78%	-
Suboridnated debt	7.00%	-	-	7.00%	-	-

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

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

34 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Cash flow interest rate sensitivity analysis

An analysis of sensitivity of profit or loss for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		2009	
KZT'000	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
100 bp parallel increase	1,323,421	1,323,421	992,350	992,350
100 bp parallel decrease	(1,323,421)	(1,323,421)	(992,350)	(992,350)

Fair value interest rate sensitivity analysis

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

	2010		2009	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel increase	-	(12,844,675)	-	(9,769,564)
100 bp parallel decrease	-	13,153,540	-	10,683,839

The above analysis assumes all available for sale assets are held one year from the statement of financial position date.

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

34 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	Other KZT'000	Total KZT'000
Assets					
Cash and cash equivalents	111,702,900	84,007,092	2,290,696	229,181	198,229,869
Placements with banks and other financial institutions	16,394,993	8,635,908	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	33,194,707	-	-	-	33,194,707
Loans to customers	66,017,737	247,169,138	3,570,754	4,133,266	320,890,895
Finance lease receivables*	24,565,877	-	-	-	24,565,877
Available-for-sale assets	116,941,933	215,711,109	-	5,981,680	338,634,722
Held-to-maturity investments	2,707,099	-	-	-	2,707,099
Equipment and intangible assets	190,157	-	-	-	190,157
Advances for finance leases	333,124	-	-	-	333,124
Assets to be transferred under finance lease agreements	1,411,789	-	-	-	1,411,789
Other assets	4,635,126	2,090,043	7,107	171	6,732,447
Current tax asset	188,248	-	-	-	188,248
Deferred tax assets	6,058,441	-	-	-	6,058,441
Derivative financial instruments	-	442,500	-	-	442,500
Total assets	**384,342,131**	**558,055,790**	**5,868,557**	**10,344,298**	**958,610,776**
Liabilities					
Current accounts and deposits from customers	40,832	1,627,560	34,114	3,766	1,706,272
Loans from the Government of the Republic of Kazakhstan	24,023,328	-	-	-	24,023,328
Loans from banks and other financial institutions	9,545,938	494,579,653	8,300,315	4,876,138	517,302,044
Loans from the Parent Company	2,420,070	-	-	-	2,420,070
Government grants	11,133,326	-	-	-	11,133,326
Debt securities issued	-	117,706,938	-	-	117,706,938
Subordinated debt	4,542,761	-	-	-	4,542,761
Other liabilities	1,859,774	2,146,183	417,782	4,462	4,428,201
Derrivative financial instruments	-	7,466,820	-	-	7,466,820
Total liabilities	**53,566,029**	**623,527,154**	**8,752,211**	**4,884,366**	**690,729,760**
Net on balance sheet positions as at 31 December 2010	**330,776,102**	**(65,471,364)**	**(2,883,654)**	**5,459,932**	**267,881,016**
Notional amount of derivative liabilities as at 31 December 2010	36,240,212	(41,646,493)	-	-	(5,406,281)
Net on and off balance sheet position positions as at 31 December 2010	**367,016,314**	**(107,117,857)**	**(2,883,654)**	**5,459,932**	**262,474,735**

* These assets contain embedded derivatives which become effective if the USD or EUR appreciates against KZT.

34 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	Other KZT'000	Total KZT'000
Assets					
Cash and cash equivalents	247,395,932	45,001,641	909,097	9,544	293,316,214
Placements with banks and other financial institutions	5,723,514	38,758,162	-	-	44,481,676
Loans to customers	9,080,587	189,949,318	2,382,380	-	201,412,285
Finance lease receivables *	19,276,889	-	-	-	19,276,889
Available-for-sale assets	57,490,399	211,212,520	-	127,291	268,830,210
Equipment and intangible assets	150,748	-	-	-	150,748
Advances for finance leases	483,951	-	-	-	483,951
Assets to be transferred under finance lease agreements	5,782,190	-	-	-	5,782,190
Other assets	6,692,153	703,882	1,718	86	7,397,839
Current tax asset	532,481				532,481
Deferred tax asset	8,000,974	-	-	-	8,000,974
Total assets	**360,609,818**	**485,625,523**	**3,293,195**	**136,921**	**849,665,457**
Liabilities					
Current accounts and deposits from customers	61,046	45,119,379	4	787	45,181,216
Loans from the Government of the Republic of Kazakhstan	30,886,093	-	-	-	30,886,093
Loans from banks and other financial institutions	9,028,391	419,523,816	1,591,028	-	430,143,235
Government grants	9,459,497	-	-	-	9,459,497
Debt securities issued	-	51,372,403	-	-	51,372,403
Subordinated debt	2,723,830	-	-	-	2,723,830
Other liabilities	1,901,860	77,477	691,336	2,667	2,673,340
Derrivative financial instruments	-	8,183,906	-	-	8,183,906
Total liabilities	**54,060,717**	**524,276,981**	**2,282,368**	**3,454**	**580,623,520**
Net on balance sheet positions as at 31 December 2009	**306,549,101**	**(38,651,458)**	**1,010,827**	**133,467**	**269,041,937**
Notional amount of derivative liabilities as at 31 December 2009	36,202,712	(41,968,371)	-	-	(5,765,659)
Net on and off balance sheet position positions as at 31 December 2009	**342,751,813**	**(80,619,829)**	**1,010,827**	**133,467**	**263,276,278**

*These assets contain embedded derivatives which become effective if the USD or EUR appreciates against KZT.

34 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

An analysis of sensitivity of profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions, and embeded derivatives, existing as at 31 December 2010 and 2009 and a simplified scenario of a 5% change in USD, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2010		2009	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
5% appreciation of USD against KZT	(4,284,714)	(4,284,714)	(3,224,793)	(3,224,793)
5% depreciation of USD against KZT	4,284,714	4,284,714	3,224,793	3,224,793
5% appreciation of EUR against KZT	(115,346)	(115,346)	100,523	100,523
5% depreciation of EUR against KZT	115,346	115,346	(100,523)	(100,523)
5% appreciation of Other currencies against KZT	218,397	218,397	5,430	5,430
5% depreciation of Other currencies against KZT	(218,397)	(218,397)	(5,430)	(5,430)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance position and off balance position exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. Loans to customers, finance lease receivable, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, available-for-sale assets and accounts receivable are subject to credit risk. The Group's exposure is monitored on an ongoing basis.

34 Risk management, continued

(c) Credit risk, continued

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

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

	2010 KZT'000	2009 KZT'000
ASSETS		
Cash and cash equivalents	198,229,869	293,316,214
Placements with banks and other financial institutions	25,030,901	44,481,676
Amounts receivable under reverse repurchase agreements	33,194,707	-
Loans to customers	320,890,895	201,412,285
Finance lease receivable	24,565,877	19,276,889
Available-for-sale assets	338,634,722	268,830,210
Held-to-maturity investments	2,707,099	-
Other assets	6,732,447	7,397,839
Derivative financial instruments	442,500	-
Total maximum exposure	**950,429,017**	**834,715,113**

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

34 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The Risk Department mitigates this risk by analysing liquidity gaps and maturity on an ongoing basis.

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2010. Unrecognised commitments are discussed in the Note 36.

	On demand and less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 6 months KZT'000	6 months to 12 months KZT'000	More than 1 year KZT'000	Total KZT'000	Book value KZT'000
Non-derivative liabilities							
Current accounts and deposits from customers	340,168	-	-	-	1,366,104	1,706,272	1,706,272
Loans from the Government of the Republic of Kazakhstan	2,300	10,160	2,150	64,769	24,726,552	24,805,931	24,023,328
Loans from the Parent	-	-	5,000	5,000	5,105,000	5,115,000	2,420,070
Loans from banks and other financial institutions	82,440,356	69,029,778	4,664,356	20,812,202	476,330,912	653,277,604	517,302,044
Debt securities issued	-	471,997	3,051,480	3,523,477	171,174,045	178,220,999	117,706,938
Subordinated debt	-	3,990,244	-	3,187,396	401,520,769	408,698,409	4,542,761
Other liabilities	403,100	531,953	692,818	1,457,723	1,342,607	4,428,201	4,428,201
Derivative financial instruments							
– Inflow	(37,500)	-	-	-	(36,202,712)	(36,240,212)	(442,500)
– Outflow	-	-	-	-	41,646,493	41,646,493	7,466,820
Total liabilities	**83,148,424**	**74,034,132**	**8,415,804**	**29,050,567**	**1,087,009,770**	**1,281,658,697**	**679,153,934**
Loan and credit line commitments	**154,182,507**	-	-	-	-	**154,182,507**	**154,182,507**

34 Risk management, continued

(d) Liquidity risk, continued

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2009. Unrecognised commitments are discussed in the Note 36.

	On demand and less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 6 months KZT'000	6 months to 12 months KZT'000	More than 1 year KZT'000	Total KZT'000	Book value KZT'000
Non-derivative liabilities							
Current accounts and deposits from customers	44,182,078	-	-	-	999,138	45,181,216	45,181,216
Loans from the Government of the Republic of Kazakhstan	2,300	10,160	2,150	64,844	31,775,684	31,855,138	30,886,093
Loans from banks and other financial institutions	2,897,102	3,186,536	1,808,046	24,421,254	576,076,653	608,389,591	430,143,235
Debt securities issued	-	668,070	1,030,015	1,698,085	85,123,698	88,519,868	51,372,403
Subordinated debt	-	-	1,325	2,657	53,402,768	53,406,750	2,723,830
Other liabilities	535,561	690,827	308,445	1,114,822	23,685	2,673,340	2,673,340
Derivative financial instruments							
– Inflow	-	-	-	-	(36,202,712)	(36,202,712)	-
– Outflow	916	-	-	786	41,968,371	41,970,073	8,183,906
Total liabilities	**47,617,957**	**4,555,593**	**3,149,981**	**27,302,448**	**753,167,285**	**835,793,264**	**571,164,023**
Loan and credit line commitments	**97,128,823**	-	-	-	-	**97,128,823**	**97,128,823**

34 Risk management, continued

(e) Maturity

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2010.

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Assets									
Cash and cash equivalents	85,932,716	112,297,153	-	-	-	-	-	-	198,229,869
Placements with banks and other financial institutions	-	-	1,643,938	19,007,063	4,379,900	-	-	-	25,030,901
Amounts receivable under reverse repurchase agreements	-	3,189,127	-	-	30,005,580	-	-	-	33,194,707
Loans to customers	-	1,201,137	2,698,639	9,780,454	47,638,135	227,241,273	-	32,331,257	320,890,895
Finance lease receivables	-	300,418	1,027,044	3,273,247	11,274,931	4,599,772	-	4,090,465	24,565,877
Available-for-sale assets	-	822,356	4,303,520	5,820,236	58,665,170	269,023,440	-	-	338,634,722
Held-to-maturity investments	-	-	-	-	-	2,707,099	-	-	2,707,099
Equipment and intangible assets	-	-	-	-	-	-	190,157	-	190,157
Advances for finance leases	-	378	2,392	330,354	-	-	-	-	333,124
Assets to be transferred under finance lease	-	-	144,489	1,267,300	-	-	-	-	1,411,789
Other assets	144,720	10,417	1,070,926	4,354,262	56,208	1,044,745	2,806	48,363	6,732,447
Current tax asset	188,248	-	-	-	-	-	-	-	188,248
Deferred tax asset	-	-	-	-	-	6,058,441	-	-	6,058,441
Derivative financial instruments	-	442,500	-	-	-	-	-	-	442,500
Total assets	**86,265,684**	**118,263,486**	**10,890,948**	**43,832,916**	**152,019,924**	**510,674,770**	**192,963**	**36,470,085**	**958,610,776**

34 Risk management, continued

(e) Maturity, continued

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Liabilities									
Current accounts and deposits from customers	340,168	-	-	-	52,577	1,313,527	-	-	1,706,272
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	24,023,328	-	-	24,023,328
Loans from banks and other financial institutions	-	-	59,292,311	-	89,821,372	368,188,361	-	-	517,302,044
Loans from the Parent	-	-	-	-	-	2,420,070	-	-	2,420,070
Government grants	-	-	-	-	-	11,133,326	-	-	11,133,326
Debt securities issued	-	-	-	-	87,632,671	30,074,267	-	-	117,706,938
Subordinated debt	-	-	-	-	-	4,542,761	-	-	4,542,761
Other liabilities	256,713	138,141	531,954	2,144,486	417,601	939,306	-	-	4,428,201
Derivative financial instruments	-	405,000	-	-	7,061,820	-	-	-	7,466,820
Total liabilities	**596,881**	**543,141**	**59,824,265**	**2,144,486**	**184,986,041**	**442,634,946**	**-**	**-**	**690,729,760**
Net position as at 31 December 2010	**85,668,803**	**117,720,345**	**(48,933,317)**	**41,688,430**	**(32,966,117)**	**68,039,824**	**192,963**	**36,470,085**	**267,881,016**

34 Risk management, continued

(e) Maturity, continued

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

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Assets									
Cash and cash equivalents	197,035,757	96,280,457	-	-	-	-	-	-	293,316,214
Placements with banks and other financial institutions	-	-	-	40,224,257	4,257,419	-	-	-	44,481,676
Loans to customers	-	-	587,551	19,093,170	45,126,855	133,336,111	-	3,268,598	201,412,285
Finance lease receivables	-	280,374	1,293,084	3,026,183	10,184,948	2,991,392	-	1,500,908	19,276,889
Available-for-sale assets	-	-	8,040,725	22,768,213	23,102,938	214,459,448	-	458,886	268,830,210
Equipment and intangible assets	-	-	-	-	-	-	150,748	-	150,748
Advances for finance leases	-	621	478,465	4,865	-	-	-	-	483,951
Assets to be transferred under finance lease	-	-	4,822,839	959,351	-	-	-	-	5,782,190
Other assets	5,521,639	61,904	155,258	982,483	674,355	-	2,200	-	7,397,839
Current tax asset	532,481	-	-	-	-	-	-	-	532,481
Deferred tax asset	-	-	-	-	-	8,000,974	-	-	8,000,974
Total assets	**203,089,877**	**96,623,356**	**15,377,922**	**87,058,522**	**83,346,515**	**358,787,925**	**152,948**	**5,228,392**	**849,665,457**

34 Risk management, continued

(e) Maturity, continued

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Liabilities									
Current accounts and deposits from customers	312,152	43,869,926	-	-	-	999,138	-	-	45,181,216
Loans from the Government of the Republic of Kazakhstan	-	-	-	6,847,759	-	24,038,334	-	-	30,886,093
Loans from banks and other financial institutions	-	-	-	6,125,926	82,764,212	341,253,097	-	-	430,143,235
Government grants	-	-	-	-	-	9,459,497	-	-	9,459,497
Debt securities issued	-	-	-	-	14,773,729	36,598,674	-	-	51,372,403
Subordinated debt	-	-	-	-	-	2,723,830	-	-	2,723,830
Other liabilities	52,150	501,770	690,827	1,423,267	5,326	-	-	-	2,673,340
Derivative financial instruments	-	916	-	786	8,182,204	-	-	-	8,183,906
Total liabilities	**364,302**	**44,372,612**	**690,827**	**14,397,738**	**105,725,471**	**415,072,570**	**-**	**-**	**580,623,520**
Net position as at 31 December 2009	**202,725,575**	**52,250,744**	**14,687,095**	**72,660,784**	**(22,378,956)**	**(56,284,645)**	**152,948**	**5,228,392**	**269,041,937**

35 Capital management

The National Bank of Republic of Kazakhstan sets and 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 National Bank of Republic of Kazakhstan the Bank has to maintain a statutory capital ratio (ratio of capital to total assets and commitments, less equity investments) above the prescribed minimum level. As at 31 December 2010, this minimum level is 8%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2010 and 2009.

The following table shows the composition of statutory capital ratio calculated in accordance with the requirements of the National Bank of the Republic of Kazakhstan, as at 31 December:

	2010 KZT'000	2009 KZT'000
Share capital	255,975,958	255,975,958
Unconsolidated reserve capital	17,712,311	17,666,734
Unconsolidated statutory (accumulated losses)/retained earnings (unaudited) of previous years	(67,846,671)	45,578
Unconsolidated equity investments	(8,002,806)	(8,002,200)
Total statutory capital (unaudited)	**197,838,792**	**265,686,070**
Total unconsolidated statutoty assets (unaudited)	871,463,805	812,715,394
Total unconsolidated statutory commitments (unaudited)	594,148,727	268,770,617
Less unconsolidated equity investments	(8,002,806)	(8,002,200)
	1,457,609,726	**1,073,483,811**
Statutory capital ratio (unaudited)	**13.6%**	**24.7%**

36 Commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities and are cancellable on certain conditions. The Group plans to fund these commitments with issue of debt securities, loans from the Parent Company and a number of foreign counterparties in 2010.

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

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

	2010 KZT'000	2009 KZT'000
Contracted amount		
Loan, credit line and finance lease commitments	154,182,507	97,128,823
Letters of credit and other commitments related to settlement operations	108,864,530	411,115

36 Commitments, continued

The Group uses the same credit control and management policies in undertaking unrecognised commitments as it does for recognised operations.

Included in letters of credit and other commitments related to settlement operations is the amount of KZT 107,380,000 thousand related to a single borrower, which, if aggregated with current amount of loans in the amount of KZT 46,959,518 thousand, will comprise a significant credit exposure.

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

37 Operating leases

Leases as lessee

As at 31 December 2010 and 2009 the Group did not have significant non-cancelable operating lease rentals payable.

During the current year KZT 287,096 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: KZT 333,423 thousand).

38 Contingencies

(a) Insurance

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

(b) Litigation

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

39 Related party transactions

(a) Control relationships

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

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

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

Total remuneration included in payroll and related taxes (refer Note 11):

	2010 KZT'000	2009 KZT'000
Members of the Board of Directors and the Management Board	286,156	266,612

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

(c) Transactions with other related parties

Other related parties comprise the State, national companies and organizations, including the National Bank of the Republic of Kazakhstan, the Ministry of Finance of the Republic of Kazakhstan and Fund of Distressed Assets JSC.

The outstanding balances and the related average interest rates as at 31 December 2010 and 31 December 2009 and related profit or loss amounts of transactions for the years ended 31 December 2010 and 31 December 2009 with other related parties are as follows.

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2010	The Parent Company		Other subsidiaries of the Parent Company		Associates of the Parent Company		Other state companies and organisations		Total
	KZT'000	Average interest rate, %	KZT'000	Average interest rate,%	KZT'000	Average interest rate,%	KZT'000	Average interest rate, %	KZT'000
Statement of Financial Position									
ASSETS									
Cash and cash equivalents	-	-	-	-	44,266,594	1.50%	106,138,092	1.00%	150,404,686
Loans to customers	-	-	67,953,878	8.29%	-	-	25,476,872	9.17%	93,430,750
Finance lease receivables	-	-	2,967,414	9.83%	-	-	-	-	2,967,414
Amounts receivable under reverse repurchase agreements	-	-	30,005,580	7.50%	-	-	-	-	30,005,580
Available-for-sale assets	28,282,315	5.93%	210,270,581	7.28%	5,242,826	7.34%	52,461,372	7.49%	296,257,094
Held-to-maturity investments	2,707,099	0.01%	-	-	-	-	-	-	2,707,099
Other assets	-	-	1,105,293	-	-	-	522,271	-	1,627,564
Current tax asset	-	-	-	-	-	-	188,248	-	188,248
Deferred tax asset	-	-	-	-	-	-	6,058,441	-	6,058,441
LIABILITIES									
Current accounts and deposits from customers	-	-	316,802	-	-	-	1,339,957	-	1,656,759
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	-	24,023,328	0.28%	24,023,328
Loans from banks and other financial institutions	-	-	-	-	-	-	9,545,939	1.00%	9,545,939
Government grants	1,807,306	-	-	-	-		9,326,020	-	11,133,326
Loan from parent company	2,420,070	0.20%	-	-	-	-	-	-	2,420,070
Subordinated debt	4,542,761	0.10%	-	-	-	-	-	-	4,542,761
Other liabilities	-	-	934,331	-	-	-	27,375	-	961,706

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2010	The Parent Company	Other subsidiaries of the Parent Company	Associates of the Parent Company	Other state companies and organisations	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Profit /(loss)					
Interest income	581,049	19,498,918	2,477,946	3,961,469	26,519,382
Interest expense	(4,765,359)	(1,088)	-	(530,780)	(5,297,227)
Fee and commission income	828	49,217	-	63,241	113,286
Fee and commission expense	-	-	(3,037)	(8)	(3,045)
Net realised gain on available-for-sale assets	535	171,260	-	317,951	489,746
Net loss on derivative financial instruments	-	(65,794)	-	-	(65,794)
Income/(loss) on purchase/sale of foreign currency	54,997	107,270	-	(131,777)	30,490
Impairment losses	-	(1,412)	-	(155,599)	(157,011)
General administrative expenses	(198,200)	(18,606)	-	-	(216,806)
Other income	-	35,854	-	-	35,854
Income tax expense	-	-	-	(1,790,845)	(1,790,845)

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2009	The Parent Company		Other subsidiaries of the Parent Company		Associates of the Parent Company		Other state companies and organisations		Total
Statement of Financial Position	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate,%**	**KZT'000**	**Average interest rate,%**	**KZT'000**	**Average interest rate, %**	**KZT'000**
ASSETS									
Cash and cash equivalents	-	-	-	-	2,012,315	7.00%	202,166,429	0.50%	204,178,744
Loans to customers	-	-	20,458,433	8.03%	-	-	15,580,646	9.10%	36,039,079
Finance lease receivables	-	-	3,434,182	9.84%	-	-	-	-	3,434,182
Available-for-sale assets	1,816,992	0.01%	207,128,989	8.60%	1,879,045	10.00%	42,990,861	6.12%	253,815,887
Other assets	-	-	14,082	-	-	-	882,105	-	896,187
Current tax asset	-	-	-	-	-	-	532,481	-	532,481
Deferred tax asset	-	-	-	-	-	-	8,000,974	-	8,000,974
LIABILITIES									
Current accounts and deposits from customers	43,869,926	-	305,400	-	-	-	991,129	-	45,166,455
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	-	-	30,886,094	0.28%	30,886,094
Loans from banks and other financial institutions	-	-	-	-	-	-	9,028,391	1.00%	9,028,391
Government grants	-	-	-	-	-	-	9,459,497		9,459,497
Subordinated debt	2,723,830	0.01%	-	-	-	-	-	-	2,723,830
Other liabilities	-	-	503	-	-	-	16,610	-	17,113

39 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2009	The Parent Company	Other subsidiaries of the Parent Company	Associates of the Parent Company	Other state companies and organisations	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Profit /(loss)					
Interest income	30,268	4,913,038	290,937	3,647,098	8,881,341
Interest expense	(2,658,998)	(2,364)	(3,611)	(933,580)	(3,598,553)
Fee and commission income	-	26,822	-	85,759	112,581
Fee and commission expense	-	-	(1,163)	-	(1,163)
Net gain on available-for-sale assets	-	259,405 -	7	191,695	451,107
Net gain on derivative financial instruments	-	1,053,297	-	-	1,053,297
Impairment losses	-	(4,400,267)	-	(2,873,848)	(7,274,115)
Other income	-	15,437	-	-	15,437
General administrative expenses	(229,797)	(14,689)	(3,252)	-	(247,738)
Income tax benefit	-	-	-	7,365,391	7,365,391

40 Analysis by segment

The Group's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 Segment Reporting. The Group's assets are concentrated in the Republic of Kazakhstan, and revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Group, the Chairman, only receives and reviews the information on the Group as a whole.

41 Fair value of financial instruments

(a) Determining fair values

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

The estimated fair values of all financial instruments except for held-to-maturity investments, loans from the Government of the Republic of Kazakhstan and debt securities issued approximates their carrying values.

	2010 KZT'000 Fair value	2010 KZT'000 Carrying value	2009 KZT'000 Fair value	2009 KZT'000 Carrying value
ASSETS				
Finance lease receivables	22,787,922	24,565,877	18,221,342	19,276,890
Held-to-maturity investments	1,633,373	2,707,099	-	-
LIABILITIES				
Loans from the Government of the Republic of Kazakhstan	20,258,093	24,023,328	26,789,816	30,886,093
Debt securities issued	119,327,101	117,706,938	48,659,725	51,372,403

(b) Valuation of financial instruments

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

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

41 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

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

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

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

Instruments involving significant unobservable inputs are presented by certain securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

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

	Note	Level 1 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
Assets					
Available-for-sale assets	18	3,745,986	279,827,113	55,061,623	338,634,722
Embedded derivative	17	-	-	4,025,336	4,025,336
Derivative financial instruments	31	-	442,500	-	442,500
		3,745,986	**280,269,613**	**59,086,959**	**343,102,558**
Liabilities					
Derivative financial instruments	31	-	7,466,820	-	7,466,820
		-	**7,466,820**	**-**	**7,466,820**

41 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

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 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
Assets					
Available-for-sale assets	18	1,676,925	209,952,086	57,201,199	268,830,210
Embedded derivative	17	-	-	4,331,208	4,331,208
		1,676,925	**209,952,086**	**61,532,407**	**273,161,418**
Liabilities					
Derivative financial instruments	31	-	8,183,906	-	8,183,906
		-	**8,183,906**	-	**8,183,906**

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

The Group applies discounted cash flow methodology in respect of valuation of impaired available-for-sale 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 security. Assumptions on discount rates were made based on issuers' credit risk premiums implied by market quotes of the issues on which the trades were not suspended.

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

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2010:

	Available-for-sale assets	Embedded derivative
Balance as at 1 January	**57,201,199**	**4,331,208**
Total gains or losses:		
in profit or loss	4,247,170	81,563
in other comprehensive income	(1,416,104)	-
Settlements	(3,024,818)	(387,435)
Disposed of	(1,945,824)	-
Balance at 31 December	**55,061,623**	**4,025,336**

41 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2009:

	Available-for-sale assets	Embedded derivative
Balance as at 1 January	-	**29,108**
Total gains or losses:		
in profit or loss	(4,705,380)	4,703,570
in other comprehensive income	9,729,252	-
Purchases	45,500,000	-
Settlements	-	(401,470)
Transfer from Level 2	6,677,327	-
Balance at 31 December	**57,201,199**	**4,331,208**

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2010:

KZT'000	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
Available-for-sale assets				
- Debt and other fixed income instruments	-	-	2,016,969	(1,903,041)
Total	-	-	**2,016,969**	**(1,903,041)**

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2009:

KZT'000	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
Available-for-sale assets				
- Debt and other fixed income instruments	-	-	2,360,541	(2,216,305)
Total	-	-	**2,360,541**	**(2,216,305)**

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values. Key inputs and assumptions used to calculate favourable and unfavourable changes include changing the estimated discount rate by 100 basis points.

42 Events after the reporting date

On 20 January 2011 the Group prepaid the loan received from the Export-Import Bank of China in the amount of USD 500,000 thousand.

On 1 February 2011 the Group issued USD 277,000 thousand medium-term notes, which bear a coupon rate of 5.5% p. a. and mature in December 2015.